

The Cashless Economy: Challenges And Prospects

Dr. Imran Ahmad Khan

Assistant Professor, College of Administrative and Financial Sciences
Saudi Electronic University, Dammam, Saudi Arabia

Abstract: *The research examined development and challenges of cashless policy in Indian economy and determined its effect on business transactions and financial reporting. Questionnaire and oral interview were main research instruments; analysis of data and test of hypotheses were carried out using Z – test statistics and Chi-square. Main findings of the study include; Stakeholders in the financial statements of corporate entities place more credence on financial statements emanating from cashless-based economies because of its effect on reduced tax evasion, inflation and revenue leakages, easier to comply with auditing standards and effective performance of business transactions. Challenges on adequate and standard infrastructure, low level of literacy and poor banking habits were revealed. There was also this perceived increased cost on the part of vendors while disposing of their wares which would have been avoided if the transaction was by cash.*

Keywords: *Cashless, Financial system, Financial Reporting, Economy, Business Transaction*

I. INTRODUCTION

The Indian economy just like every other modern economy is experiencing some revolutions in its developmental process, starting from the exchange of goods for goods and services (Trade by Barter) to the emergence of the use of the Goldsmith receipt in exchange for goods and services, the use of commodity money and subsequently paper money. The payment system has also witnessed a considerable level of sophistication. However, Indian economy is heavily cash-oriented in transactions of goods and services which are not in line with the global trend, considering the country's ambition to be one of the top economies of the world by the year 2020. India has cash-based economy with retail and commercial payments primarily based on cash. Transactions, cash related transactions represent over 90 percent of customer activity in banks. It has been estimated that about 65 per cent of the cash-in-circulation in the economy is outside the banking system, thus posing a great threat to the objectives of the monetary authority's effort in price and economic stabilization.

It cannot be controverted that central banks in the world are usually at the centre of the development of payment and settlement systems, because of their role in not only overseeing the national payments system but also as a catalyst

for its development. Most importantly, an efficient payment system enhances financial inclusion, availability, reliability and cost effectiveness of payments services. It also facilitates effective transmission mechanism of monetary policy as well as ensuring overall financial stability of the economy. In this wise, the RBI is not different and has since its inception, vigorously promoted and emphasized the development of a sound, effective, efficient and safe service delivery to the banking populace in the country. The Payment System is an important component of services that banks render, hence its enhancement is crucial to the enthronement of good banking practices.

Reducing Indian economy's dependence on cash is desirable for a variety of reasons. India has one of the highest cash to gross domestic product ratios in the world, and lubricating economic activity with paper has costs. According to a 2014 study by Tufts University, *The Cost Of Cash In India*, cash operations cost the Reserve Bank of India (RBI) and commercial banks about Rs. 21,000 crore annually. Also, a shift away from cash will make it more difficult for tax evaders to hide their income, a substantial benefit in a country that is fiscally constrained.

Cashless economy is an utopian concept. No true Cashless economy exists in the world. Though there are no deliberate

policies that focus on this around the world, However, the resemblance of the concept can be seen in several countries like Denmark, Norway, Sweden, United Kingdom, United States of America, France, Switzerland, Philippines, Italy etc.

Cash-less society is therefore a culture where non use of cash prevails and all purchases are made by means of credit cards, charge cards, cheques, or direct transfers from one account to another through mobile banking. The cashless society envisioned here refers to the widespread application of computer technology in the financial system. It is an economy wherein cash transactions are restricted or reduced to the lowest minimum in the payment system in favour of computer aided payments (credit cards, cheques, charge cards).

The Cash-less economy policy was designed to provide mobile payment services, breakdown the traditional barriers hindering financial inclusion of billions of people and bring in low-cost, secure and convenient financial services to both urban, semi-urban and rural areas across the country. Though, it has however, become albatross to some elites, the poor, uneducated and traders.

The huge volume of cash transactions carried out in the economy impose tremendous costs to both the banking sector and the customer, in terms of cash management, frequent printing of currency notes, currency sorting and cash movements. As the volume of cash-in-circulation grows, so does the cost of cash management to the financial system. There are also the risks involved in keeping or moving large amounts of cash, namely the high incidences of robberies and burglaries and the public's propensity to abuse and mishandle currency notes. There are also other incidences of revenue leakages arising from significant handling of cash, inefficient treasury management due to nature of cash outside the formal economy, terrorist funding, election rigging, corruption, kidnapping and so on. Other specific issues that are challenging to the growth of Cashless economy include infrastructural challenges, low level of consumer enlightenment on product stability, porous information technology platforms, cost of electronic banking services etc. The gap in this study relates to the issue of effect of cashless policy on flow of business transactions and financial statement reporting. Therefore, the study seeks:

- ✓ To examine the effect of policy of cashless economy on the flow of business transactions and economic growth.
- ✓ To examine whether the development of cashless economy will affect the effectiveness of the financial statement reporting.

The following hypotheses and research questions were formulated for better understanding of the data and analysis of the study;

- ✓ There is no significant relationship between cashless economy and the effectiveness and efficiency of financial statement reporting.
- ✓ There is no significant effect on the effective performance of business transactions of Cash-less economy.

II. THEORITICAL FRAMEWORK

HISTORY OF BANKNOTES

Banknote first emerged in China, when paper was invented, during the Tang Dynasty (618 A.D. –907 A.D.) in form of merchant receipts of deposit. That development allowed merchants to avoid heavy bulk of copper coinage in large commercial transactions. By 960 A.D. – 1279 A.D, the Song Dynasty, short of copper for striking coins, issued the first generally circulating notes used concurrently with coins. Paper banknotes were limited to regional zones of the empire and did not become a nationwide standard currency until the late Southern Song era (1265 A.D. - 1279 A.D.).

The successive Yuan Dynasty (1276 A.D. - 1368 A.D.) of the Mongol Empire was the first dynasty in China to use paper currency as the predominant circulating medium. During the Mongol invasion in Europe in the 13th century and the international trading through the Middle East; four ancient Chinese inventions were introduced to the Europeans in form of Gunpowder, Compass, paper and printing technology which created books to facilitate widespread of knowledge that eventually led to the Renaissance from the 14th to the 17th century and turned the concept of paper banknotes into reality. These Chinese inventions enabled some European nations to ascend to superpowers and built a hegemony that lasted for a few centuries (Taxwiz Accounting and consulting Inc., 2013). Since the 17th century, European countries began to use paper money and metal coins until now. Paper money and coins are costly to make and maintain due to wear and tear. In Canada for instance, each Canadian penny costs Mint 1.6 cents to make. The production cost exceeds the nominal value of the penny. That is why the penny was dumped. Furthermore, counterfeiting has always been a problem since the inception of paper bills.

SECURITY AND PRIVACY ISSUES

Security and privacy are challenges to the cashless economy just as it is in paper money. Privacy connotes some aspects of philosophical beliefs which may aid or hinder public acceptance of means of cashless economy.

In 2012, the Royal Canadian Mint introduced the MintChip – a form of electronic money after her 2012 Canadian federal budget. MintChip is a digital currency. It allows anonymous transactions backed by the Government of Canada and denominated in a variety of currencies. It is a secure smart card chip, which may be integrated with a SD card for easier connection to computers and mobile devices.

Also, in January 2012, India launched a nationwide program allocating a Unique Identification Number (UID) to its 1.2 billion citizens to build a new cashless biometric system. The alleged purpose is to prevent identity theft and social welfare fraud. This is a reduced version of a full scale cashless economy. If all things are perfect, there are still a few down sides to a cashless economy. Money by its nature is abstract. The less cash that flows through our hands, the more intangible it becomes and the more we lose our sense of its real value. Our banked assets are now an electronic apparition and the fear of not having cash on hand is in a downturn.

CHALLENGES TO CASHLESS ECONOMY

There is no doubt on the capability of the cashless economy in transforming the lives of people and the economy if well implemented. But this development in the history of our economy has brought with it a mirage of challenges for its sustenance. Availability of infrastructural facilities like electricity supply and internet facilities in the rural areas are some of these challenges that needed to be addressed adequately. Even in the urban areas, constant power failures are still inherent even though the government is promising seriously that it will soon be a thing of the past.

A report prepared by PricewaterhouseCoopers India in 2016 pointed out that India's unbanked population that year was 165 million. In fact the data show that the number of banks per lakh persons in India is only 0.01 which is the lowest among Bric nations. The largest Bric country China has twice these numbers with the ratio of banks per lakh population being 0.02. Other Bric countries like South Africa and Brazil are much better off with the ratio of banks per lakh population being 0.1. The number of Russian banks is the most extensive among Bric countries with ratio being 0.7 banks per lakh population.

Gathering public support and user acceptance are vital to replace paper money. Other challenging needs in this process include; reducing illiteracy, lack of understanding of security implications of divulging personal information, access to customers' information by fraudsters, reversal of POS and ATM errors etc.

PROSPECTS OF CASHLESS ECONOMY

The call for cashless economy shows that India is poised to reduce the above challenges to the barest minimum in a very short period. Due to the nature of economy which is characterised with larger population of the populace in the farming sector and trading including low level of education, government decided to carry out its cashless economy. The government in collaboration with other stakeholders have been driving the implementation of the cash-less Project and had put in place, measures for making the cash-less economy a success.

FINANCIAL STATEMENT REPORTING

The cashless economy will fundamentally have little impact on accounting practices and procedures. However, it will significantly reduce the importance of tax audit as tax evasion will be almost impossible, except when taxpayers evade tax by exchange of barter. Auditing of business and government entities will equally be highly facilitated since accuracy, efficiency and quality will be enhanced.

The financial statement of companies in a cashless economy will tend to receive more credibility since exchange rate fluctuations (including inflation) which cause distortions in financial statements will be lower. Finally, valuable socio-economic data used in marketing, financial, economic, social studies and policy analysis for reporting will be available conveniently and accurately at the press of a

button, rendering the operations of Statisticians and Accountants much more efficient and economical.

METHODOLOGY

This paper is descriptive in nature and examines the development, challenges and implications of cashless economy. Both secondary and primary data were made use of in the study in form of questionnaire, interview, books and journal materials including download of materials from internet. The universe of this study constitutes of all elements in the economy which the cashless policy impacts upon. In determining the sample size for an infinite population of this nature, the researcher used the Freud and Williams (1992) formula which is stated below:

$$n = \frac{z^2(pq)}{e^2}$$

Where;

n = required sample size

z = standard deviation for the desired confidence level (1.65)

p = probability (estimated proportion) of the attribute that is present in the population (0.95)

q = (1-P) = probability of negative response

e = limit of standard error /sampling error permitted (0.05)

In the application of the formula, we have assumed 'e' to be 5%, level of confidence desired = (1.65) and P is 0.95

$$n = \frac{z^2(pq)}{e^2} = \frac{1.65^2(0.95 \times 1 - 0.95)}{(0.05)^2}$$

$$n = \frac{2.7225 \times 0.0475}{0.0025}$$

$$n = 51.72 \approx 52$$

III. RESULTS OF DATA ANALYSIS

TEST OF HYPOTHESIS 1

There is no significant relationship between cashless economy and the effectiveness and efficiency of financial statement reporting. In testing this hypothesis, Friedman chi-square was used in testing the responses to question 11 of the research instrument (To what extent would you agree that the policy of cashless economy impacts positively on accuracy, effectiveness and efficiency of the financial statement reporting by controlling; Money laundering, Tax evasion, Inflation, Balance of payment problems and Revenue leakages?). The results are presented below.

TEST RANKS RESULT

	Mean Rank
money laundering	2.16
tax evasion	3.64
Inflation	3.39
balance of payment problems	2.24

other revenue leakages	3.56
------------------------	------

Table 1

FRIEDMAN TEST RESULT

N	52
Chi-Square	99.761
Df	4
Asymp. Sig.	.000

a. Friedman Test

Table 2

With a Friedman test result of 99.761, which is greater than the critical chi-square result of 9.488, the null hypothesis is rejected. This indicates that there is a significant relationship between cashless economy and the effectiveness and efficiency of financial statement reporting. Based on the mean rank, the results reveals that the cashless economy will have the most effect on tax evasion, followed by other revenue leakages, then inflation, balance of payment problems and finally money laundering.

TEST OF HYPOTHESIS 2

There is no significant effect on the effective performance of business transactions and policy of cashless economy. In testing this hypothesis, the responses to question 6 of the questionnaire were tested using the Z-test statistics. The results are presented below.

ONE-SAMPLE KOLMOGOROV-SMIRNOV (Z) TEST RESULT FOR HYPOTHESIS 2

		cashless economy policy has effect on effective performance of business transactions	
N		52	
Normal Parameters ^{a, b}	Mean	3.8462	
	Std. Deviation	1.24278	
Most Extreme Differences	Absolute Positive	.242	
	Negative	.177	
		-.242	
Kolmogorov-Smi		1.742	
Asymp. Sig. (2-tailed)		.005	

a. Test distribution is Normal.

b. Calculated from data.

Table 3

Based on the Z-test result of 1.742 which is greater than the critical Z-value of 1.64 (95% significance level for 2-tailed test), the null hypothesis is rejected. This indicates that the policy of cashless economy has significant effect on the effective performance of business transactions.

IV. FINDINGS

From the results of data analysis and test of hypotheses, we find out that stakeholders in the financial statements of

corporate entities place more credence on financial statement reporting emanating from cashless-based economies because of its effect on reduced tax evasion, inflation and revenue leakages. Our findings revealed also an effective performance of business transactions in a state of cashless economy. Other findings include more accurate and timely preparation of financial statements even at the press of a button on the computer; auditing and complying with auditing standards made easier. Apart from these, there were challenges on adequate and standard infrastructure, low level of literacy and poor banking habits, there was also this perceived increased cost on the part of vendors while disposing of their wares which would have been avoided if the transaction was by cash.

V. CONCLUSION

Being cashless is an emerging trend prevailing in most modern economies in the world although that does not necessarily mean that one would be without cash at all. But it is the extensive use of computer technology in carrying out transactions in the financial system. The cashless policy is in line with vision goal of being one of the top economies. Despite the challenges, the cashless economy is a veritable tool in subverting money laundering, tax evasion, inflation, poor balance of payments and also increases efficiency and effectiveness in financial statement reporting.

The cashless economy has the capacity to heighten the level of transparency and visibility of transactions in the financial system in an economy. India has adopted the International Financial Reporting Standards (IFRS) and International Auditing Standards (IAS) and compliance to these Standards will be more enhanced in a cashless economy.

The burden ortension on auditors/audit work will be less; even demand for external auditors in a 'routine work' will be less. This is because there will be more visibility in accounting information in such a way that audit trail and minor verifications of accounting data can be achieved without involving external auditors. Furthermore, cost minimization is very strategic in cost management strategies for any product or transaction.

REFERENCES

- [1] Abiodun, E.and Chima, O. (2012), "Cash-less Policy: A Burden or Relief?"
- [2] Ajayi, M. (2014). Banking Sector Reforms and Banking Consolidation: Conceptual Framework. Bullion, Vol. 29, No. 2, 45-51.
- [3] Alvares, Clifford, (2009) —The problem regarding fake currency in India.l Business Today; 3/8/2009, Vol. 18 Issue 5, p24-24.
- [4] Babalola, R. (2008). E-payment: Towards a Cashless Economy. A keynote address of the Finance Minister of State at Card Expo Africa Conference.
- [5] Daniel, D., et al. (2006). A Move toward a Cashless Society: A Closer Look at Payment Instrument

- Economics. Review of Network Economics 5(2): 175-198.
- [6] Humphrey, D. B. (2004): —Replacement of cash by cards in U.S. Consumer Payments, Journal of Economics and Business, 56, 211–225.
- [7] Humphrey, D. et al. (2006). Benefits from a Changing Payment Technology in European Banking. Journal of Banking and Finance, 30(6): 1631-1652.
- [8] Hunt, R.M. (2013). An Introduction to the Economics of Payment Card Networks. Review of Network Economics. Vol. 2, Issue 2, 80-96.
- [9] Jain, P. M. (2006). E.-payments and E- Banking. Indian Banker, March. pp.108-113.
- [10] Lee, Jinkook, Fahzy Abdul-Rahman, and Hyungsoo Kim. "Debit card usage: an examination of its impact on household debt." Financial Services Review.16.1 (2007): 73.
- [11] Marco, A. & L.Bandiera (2004): - Monetary Policy, Monetary Areas and Financial Development with Electronic Money, IMF Working Study, IMF.
- [12] Moses-Ashike, H. (2011), —Cashless Economic can Reduce Risk of Carrying Huge Cash.
- [13] Roth, B. L. (2010).—The Future of Money: The Cashless Economy.
- [14] Srinivas, N. (2006). An Analysis of the Defaults in Credit Card Payments, Southern Economics. July. pp. 19 -21.
- [15] Trend and Progress of Banking in India. RBI Publication, October 2015.
- [16] Wright, J. (2012). Optimal Card Payment Systems. European Economic Review, 47(4): 587-612.

IJIRAS