



MERITS AND DEMERITS OF CASHLESS TRANSACTIONS



<https://orcid.org/0009-0003-9900-0085>

DR. PRADIP VITTHALRAO TAKTODE

Head, Department of Economics
Arts College, Malkapur, Akola
taktodepradip@gmail.com

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ABSTRACT

Cashless transactions have revolutionized the way individuals, businesses, and governments engage in financial exchanges. They have brought significant advantages such as increased convenience, enhanced security, and improved financial inclusion, contributing to the global push toward digital economies. However, the move toward a cashless society also raises concerns regarding cybersecurity, financial exclusion of certain demographics, and the risk of privacy violations. This essay discusses the merits and demerits of cashless transactions, focusing on how they affect individuals, businesses, and economies, and offers a balanced perspective on the future of cashless transactions.

KEY WORDS: *Cashless transactions, digital payments, financial inclusion, cybersecurity, privacy, technology, security risks, financial exclusion.*

Introduction

The shift towards cashless transactions is an inevitable outcome of technological advancements in the financial sector. With the proliferation of smartphones, digital wallets, and online banking, cashless transactions have become the preferred mode of payment in many parts of the world. The COVID-19 pandemic further accelerated the adoption of digital payments as people sought contactless ways to complete financial transactions. While cashless payments offer numerous advantages, they also present certain challenges that need to be addressed for a smoother transition to a cashless economy. This essay will explore both the merits and demerits of cashless transactions, examining the implications for individuals, businesses, and society as a whole.

Merits of Cashless Transactions

1. Convenience and Accessibility

Cashless transactions allow for quick and easy payments, eliminating the need for physical money. Consumers can make purchases at any time, whether online or offline, and transfer funds instantly without the constraints of location or

business hours. With mobile wallets and digital payment platforms, users can also access a variety of financial services, such as bill payments, money transfers, and online shopping, all from their smartphones. This level of convenience and accessibility is particularly beneficial in busy urban environments where time is of the essence.

2. Enhanced Security

Cashless transactions are often considered more secure than carrying physical cash. If a card or mobile wallet is lost or stolen, it can be blocked quickly to prevent unauthorized transactions. Additionally, digital payments are typically encrypted, making them harder to hack than traditional forms of payment. Unlike cash, which can be stolen and used immediately, digital transactions leave a traceable record, which increases accountability and reduces the likelihood of fraud.

3. Improved Record-Keeping

Every digital transaction is automatically recorded, making it easier for individuals to track their spending, manage budgets, and maintain accurate financial records. For businesses, digital

payments streamline the accounting process, reducing human errors and the possibility of fraud. Furthermore, electronic payment systems allow businesses to provide receipts and invoices automatically, making financial management and tax reporting simpler and more transparent.

4. Promotion of Financial Inclusion

Digital payments can promote financial inclusion by providing underserved populations access to banking services. In rural and remote areas, people without bank accounts or access to traditional banking infrastructure can use mobile money platforms to perform financial transactions. This increased access to digital payment systems has been particularly impactful in countries like Kenya, where services like M-Pesa have enabled millions to gain financial autonomy, even without formal banking institutions.

5. Reduction in Black Money and Corruption

Cashless transactions help curb the flow of black money (unreported income) and corruption by creating an electronic trail of transactions. This transparency makes it more difficult for individuals or businesses to conceal income or engage in illegal financial practices. In India, for instance, the demonetization drive in 2016 was partly aimed at reducing the prevalence of black money, as digital transactions leave a clear audit trail that cannot easily be manipulated.

Demerits of Cashless Transactions

1. Cybersecurity Risks

Although cashless transactions are generally secure, they are not immune to cyber threats. Fraudsters can target digital payment systems, leading to financial theft or data breaches. For instance, phishing attacks, identity theft, and hacking of payment platforms have become increasingly common as more individuals and businesses shift to cashless transactions. In 2023, there was a surge in attacks on online payment systems, with some platforms reporting significant financial losses due to fraudulent activities (Cybersecurity and Infrastructure Security Agency, 2023).

2. Exclusion of the Unbanked

While digital payments promote financial inclusion, they can also exclude certain populations that do not have access to banking services. According to the *World Bank* (2022), around 1.7 billion people globally remain unbanked, and a large portion of them lack access to digital payment systems. The elderly, those living in rural areas with limited internet access, and individuals in lower-income brackets often face difficulties in adopting cashless systems. This digital divide can lead to greater inequality and social exclusion for those unable to participate in the digital economy.

3. Technical Failures and Dependence on Technology

Cashless transactions depend on technology and internet connectivity, which can be a significant limitation in areas with unreliable infrastructure. Power outages, poor internet connections, or system glitches can disrupt the ability to make or receive payments, causing inconvenience and frustration. Furthermore, excessive reliance on technology increases vulnerability to service outages or disruptions, which can have cascading effects on the economy.

4. Privacy Concerns

One of the most critical drawbacks of cashless transactions is the issue of privacy. Unlike cash, which is anonymous, digital payments leave an electronic footprint that can be tracked by governments, financial institutions, or third-party providers. This data collection raises concerns about surveillance, as personal spending habits and financial behavior are recorded and potentially exploited. Though many platforms claim to protect user privacy, the risks of data breaches and unauthorized access remain significant.

5. Costs for Small Businesses

For small businesses, adopting cashless transactions often involves paying transaction fees, purchasing point-of-sale (POS) systems, and adhering to the regulatory requirements associated with digital payments. These costs can be prohibitive for micro-businesses or informal sectors

that typically rely on cash transactions. In addition, some consumers may also feel uncomfortable with digital payments, preferring to use cash for smaller or informal transactions.

Conclusion

Cashless transactions offer numerous benefits, including convenience, enhanced security, financial inclusion, and the reduction of black money. However, the shift towards a cashless economy also brings about challenges such as cybersecurity risks, privacy concerns, and exclusion of certain groups from the digital financial system. To ensure that the benefits of cashless transactions outweigh the risks, it is crucial to address these challenges through robust cybersecurity measures, inclusive policies, and widespread digital literacy initiatives. The future of a cashless economy depends on balancing innovation with fairness, ensuring that all individuals, regardless of location or economic status, can benefit from the convenience and security of digital payments.

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