

The Economic Importance of Cashless Society

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ABSTRACT

This paper examines the cashless policy in Nigeria and its socio-economic impact on small scale businesses. In Nigeria as in many developing countries, cash is the main mode of payment thus making the economy heavily cash - based. The policy was introduced in Nigeria by the Central Bank of Nigeria (CBN) in December 2011 and was kick-started in Lagos in January 2012. The objective of the study is to determine the possible implication of a cashless economy on small scale businesses in Nigeria. It will also proffer solution to the impending challenges that small scale businesses will face in a cashless society. With a review of existing literature on the concept of cashless economy and its effect on small scale business. Recommendation on how to effectively implement the cashless policy in order to encourage small scale business owners to be part of it were highlighted. It was concluded that if necessary measure are not put in place and the necessary stakeholders to the policy carried along with consideration on how the policy may affect them, the cashless policy will adversely affect small scale business and may engineer their failure.

Keywords: Economic, Cashless, Cash, Economy and small scale

INTRODUCTION

Over the course of history, there have been many different forms of payment systems. Originally, barter was quite common. Eventually, various forms of money were introduced. In the mid-twentieth century, charge cards debuted [1,2]. Ever since then, pundits have been predicting the demise of paper instruments and the emergence of a "cashless society." Today, we still pay with cash and checks, but several other payment instruments, such as credit and debit cards, are widely used [3,4]. The use of paper money is declining, but at a slow pace. In this paper, we analyze the costs and benefits of using different payment instruments that have affected the shift towards a cashless society. As more payment systems have been introduced, researchers have begun to critically examine their costs from both a private and social perspective [5]. From a private perspective, researchers have examined the incentives payers have for choosing a given type of payment instrument, the incentives retailers may have for accepting such instruments, and why various payment methods are used in different settings. From a social perspective, researchers

have examined whether economic welfare would increase if certain payment instruments displaced others such as, if electronic instruments displaced paper-based instruments. Our study is the first to examine empirically the move towards a cashless society using a framework that includes benefits as well as costs [6,7,8]. The interest in the economics of payment instruments has been more than academic. For example, two recent cases centered on whether payment cards are "overused" in a social welfare sense: the investigation of MasterCard by the Office of Fair Trading in the United Kingdom, and the Australian central bank investigation of MasterCard and Visa [9]. In brief, the regulators claim that payment card systems charge "unjustifiably high" fees to merchants for payment cards while the banks issuing payment cards provide consumers with below-cost services and loyalty rewards [10]. Thus, by not charging consumers the full marginal cost imposed by their card use, the regulators assert that payment card systems encourage consumers to overuse payment cards, which they can afford to do profitably because merchants shoulder the cost. In the United States,

the scrutiny has been no less intense, but has emphasized different pricing aspects of the payment card systems. In the widely publicized Wal-Mart case, for example, the plaintiffs argued that debit cards were illegally tied to credit cards-- that is, merchants accepting credit cards also had to accept debit cards. They claimed that this tie enabled the payment card systems to charge "exorbitant" fees

to merchants, although they did not argue that the end result was debit card overuse.⁷ At the other extreme in terms of policy implications, New York Attorney General Eliot Spitzer is considering opening an investigation on the commercial bank practice of charging consumers per-transaction fees for PIN debit [11].

Moving towards a Cashless society: Types and major benefits

Cash is king! This quote is facing a serious threat as the world is marching towards becoming a cashless society. The recent trends suggest that digital money will soon replace physical cash. Many countries are making active efforts to remove cash in circulation - Sweden is its prime example. In Sweden, Cash is no longer a king! That's why it's also known as the pioneer of the cashless society. In Sweden, buses haven't taken cash for years. 900 out of Sweden's 1600 bank branches don't accept cash deposits. The impact of cashless payments is not only

limited to Sweden. The graph below shows an increase in cashless transactions over the years in different regions. The upward trend clearly suggests that the world will soon become a cashless society. However, people have many questions in their mind like what exactly is a cashless society? What are the different types of cashless payments that drive the cashless society? And what are the major benefits of a cashless society? In this article, we will answer all those questions in great detail. So, without a further ado, let's begin [12].

What is a cashless society?

Cashless society can be simply defined as an economic concept or state where all the financial transactions take place through transfer of digital information instead of physical banknotes or coins. If we look into the history then we'll find that cashless societies existed since the time when human societies were in their

nascent stage. Many exchange methods were prominent namely the well-known barter system. In today's time too cashless payments are possible due to debit cards, credit cards, mobile wallet apps, point of sales (POS), mobile banking, internet banking, etc [13].

Types of cashless payments

There are many different ways by which a user can make payments

without cash. Let's have a look at them one by one.

Banking cards

Banking cards like Debit and credit cards are one of the most used cashless payment methods across the world. Banking cards come with various benefits like secure payments, convenience, and many more. One of the biggest advantages of banking cards is that it can also be used for making other types of digital payments. For example, a user can

store his card information in the mobile wallets or digital payment apps to make cashless payment. Moreover, banking cards can be also used in online purchases, PoS machines, online transactions, etc. There are many reputed names like MasterCard, Visa, and Rupay when it comes to banking cards [3].

USD

Unstructured Supplementary Service Data (USSD) is a cashless payment option for those who don't have a smartphone. The USP of this method is that the user can make payments without a smartphone device or internet facility. In this method,

the user must dial *99# to interact with an interactive voice menu via a mobile screen. However, to use this service, the customer must ensure that his mobile number is the same as that of the one linked with the bank account. This service

www.idosr.org

is pretty similar to the IMPS and it uses the MMID and MPIN with mobile number

Mobile wallet applications are quickly gaining traction due to its fast, secure, and convenient payment methods. These are mobile applications which allow the user to send, receive, and store money. A user can add or store money in his wallet by simply linking his bank account. Similarly, a user can also send money to

Mobile wallet apps

QR Codes

QR stands for Quick Response. It's a two-dimensional code that has a pattern of black squares which are arranged on a square grid. QR codes are read by imaging devices such as smartphone cameras. QR

Contactless payments

Contactless payment is a convenient and secure method which enables the users to purchase products by simply tapping a card near a point of sale terminal. The card can be simply a debit, credit, or smart card which is also known as the chip card that is based on NFC (near field communication) or RFID technology. Contactless payments are extremely

Fuel stations

Toll booths

Parking garages

ECS

Electronic clearance service is widely used for making bulk payments, equated monthly instalments, paying off for utility services, and to disburse payments like dividend interests, pensions, and salaries. ECS can be used for both credit and debit services. To initiate the ECS, an

Gift Cards or vouchers

Gift vouchers are a great gift idea apart from being a handy way to go cashless. It enables the receiver to buy anything with

Cashless society CTA-2

PoS terminals

Traditionally, PoS terminals are nothing but a handheld device present at the stores. These devices are used to read banking cards of the customers. However, the scope of PoS is expanding as these services are now available on various mobile platforms via the internet. Nowadays, PoS can be bifurcated into different types like Physical PoS, virtual PoS, Mobile PoS, etc. Mobile PoS is

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or account number with IFSC code for a successful transaction [6].

his friends, relatives, or any other person by entering phone number, email ID, unique ID, or scanning QR code. Moreover, a user can also make payments to merchants and pay various utility bills like water bill, electricity bill, mobile recharge, and many more directly from the mobile wallet app [8].

codes are widely used for making cashless payments in which a user just has to scan the QR code of the merchant service to complete the transaction.

convenient as it doesn't require any signature or PIN. Moreover, you can also make contactless payments via NFC enabled phones that are directly linked with mobile wallet. In this, the user has to simply keep his NFC-enabled phone near the reader to make the payment. User can make payments via NFC-enabled phone at various places such as:

authorization has to be provided by the bank for making periodic credits and debits. ECS is a safe method as you can provide instructions for maximum sum of debit, validity period, and the purpose of transaction [8].

the help of a voucher. There are also various stores that give discounts on gift vouchers [8].

beneficial for small businesses as they don't need to invest in expensive electronic registers, since the Mobile PoS operates through the smartphones and tablets. Similarly, virtual PoS systems use web-based applications for its operation. We saw different types of cashless payments now let's have a look at its benefits.

Major benefits of a cashless society

Reduced costs and business risks

Cashless payments eliminate several business risks at a time such as theft of cash by employees, counterfeit money, and robbery of cash. Moreover, it also

reduces costs of security, withdrawing cash from bank, transporting, and counting.

Transaction speed

Making cash payments is time consuming for customers as well as the merchant or employee. That's the reason why many businesses have decided to go cashless so that they can leverage faster transactions and increased efficiency. Atlanta's Mercedes-Benz Stadium is one such company that decided to go cashless and found out that it resulted in faster transactions, lower waiting times, and reduced end-of-day reconciliation time.

Sweetgreen and Salad chains also found similar benefits. Sweetgreen found out that they were able to process 5-15% more transactions per hour at their cashless locations. Similarly, Tender Greens found out that cash transactions were 4-5 times slower than that of card transactions. Faster transactions also lead to enhanced customer satisfaction, increased revenue, and fewer errors [7].

Seamless international payments

Whenever someone visits a foreign country, they need to buy the foreign currency. However, with cashless payment solutions, they don't need to do

it any longer as they can make transactions directly from their cashless payment apps in accordance with the currency exchange rate.

Better compilation of economic data

Government and other organizations spend a lot of money to conduct periodic samplings and surveys to gather data of real-world transactions of the citizens. These data help them in devising various policies. However, the process is costly, time consuming, and less efficient [8].

Whereas, all the cashless payments made are recorded financial transactions, which makes it easy for the government to track the movement of money through these records. These records also help them to track black money and other illegal transactions.

An efficient tool to fight corruption

There are estimated 1.4 billion people in the world who make less than a meagre \$1.25 a day. On the other hand, around estimated \$1.26 trillion is stolen from the developing countries through corruption, taxi evasion, and bribery. We can easily uplift those 1.4 billion people if we can somehow reclaim that amount. This is where cashless payments play a crucial

role. Cashless payments can become one of the greatest means to fight corruption and organized crime throughout the world. If all the people were connected via end-to-end payment infrastructure that makes a cashless environment, then there would be complete transparency in the flow of money [5].

Problems of a cashless society

Difficult for those without bank account. In 2015, the Financial Inclusion Commission estimated nearly two million adults do not have a bank account in the UK. In the US in 2017, it is 14.7 million adults (6.5%) (2017) If shops only accept cashless payments, it is difficult for those without bank cards to pay. Many low-income households rely heavily on cash and can be left behind if some and services are not available via cash. Some

people with very poor credit history may be prevented from getting a bank card. The great thing about cash is that it doesn't discriminate on things like credit history. A report into a cashless society found 17% of adults or 8 million would struggle in a cashless society. (Access to cash - PDF)

Privacy. China is leading the way with a move towards a cashless society. In 2020, over 50% of consumers have made a

transaction with mobile payment. The government is now pioneering a government digital currency. The motive is for the government to be able to access all data on households, pressure groups, business and organizations. It gives the government tremendous power over its citizens and raises fears of technodystopia. A political dictatorship with the ability to monitor any economic activity will have more powers to clamp down on dissent. Even in the west, some households may dislike the way firms can track spending patterns and send targeted marketing. The privacy issues of electronic money are a major concern to civil liberties [7].

Cash helps ration spending. People with a tendency to get into debt may purposefully decide to cut up their cards and restrict themselves to cash payments. The reason is that with a card, it is easier to spend money without feeling you are overspending. Psychologically, there is little barrier to buying on plastic. But, when you pay in cash, you have a greater emotional attachment to money and it makes you more conscious of what you are spending. Having to part with cash can help prevent impulsive purchases. In one study, 16% of households say they use cash because it is easier to manage their household budget when using cash.

Business costs. Although cashless payments have advantages (e.g. no need to take money to the bank), firms also become reliant on credit card and bank companies, who charge a commission for processing accounts. For some cards, it may account for 2% of the transaction, and with some credit card companies even more. This means business are losing out to card companies who will have increased market power in the absence of cash.

Freedom to choose. There is a big difference between an increased use of electronic payments to making it compulsory. If shops refuse cash, it is in

A fully cashless society appears to be many years away. But a major FinTech advancement could very well shorten this period. With the introduction of cutting-

effect a form of discrimination against those without bank accounts. Individuals may also have reasons to want to pay cash.

Hard to revert. Sweden made plans to shift to a cashless society but found that some groups were getting left behind - as a result, they agreed to 'put the brakes on'. One important thing is that when cash infrastructure has disappeared, it is very hard to put it back.

The emotional value of money. As a kid - getting a five-pound note from my uncle for my birthday gave great joy. Getting five pounds into your bank account doesn't have the same value. There is a certain psychological value in giving cash to charity rather than just a bank transfer, you feel more connected to the gift of giving.

Potential technological failures. There is always the risk that a digital economy is dependent on technology. If there was a power outage or internet breakdown, the economy would be brought to a halt. Cash is much more adaptable in difficult times. Developing countries are just improving their payments infrastructures, enabling wider adoption and greater usage of non - cash means and channels.

They also tend to open to innovations that can broaden their still-nascent base of users [5].

However, the global use of cash payment is still endemic, especially for low-value transactions. But while cash may be convenient, it makes taxation less transparent, and it is costly to distribute, manage, handle and process.

As a result, many governments are seeking to reduce these costs and encourage the use of non - cash payment means.

The Nigeria economy is too heavily cash oriented in its transaction of goods and services and this is not in line with global trend, considering Nigeria's ambition to be amongst the top 20 economies of the world by the year 2020.

CONCLUSION

edge technology and constant improvement of existing technologies, we might see faster, more transparent and more secure cashless payments than ever.

But only time will tell when we will truly

become a cashless society.

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