

Problems and prospects of the development of cashless payments: the role of the banking system and the state

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Abstract: Cashless payments have become increasingly popular in recent years, with many countries adopting digital payment systems to improve efficiency and reduce the need for physical cash. However, the transition to cashless payments also creates a number of problems and disadvantages that need to be addressed. In this article, we study the problems and prospects of the development of cashless payments, focusing on the role of the banking system and the state.

Keywords: Digital Transactions, Fraud, Cashless Payment Systems, Digital Divide, Cryptocurrencies, Infrastructure & Technology, Debit Cards, Credit Cards, Prohibitory Laws.

Problems with cashless payments:

The challenges associated with cashless payments can be broken down into various aspects, including security issues, technological limitations, and accessibility issues. While cashless payments offer convenience and efficiency, they come with unique challenges that must be addressed for widespread adoption and use. In this comprehensive answer, we will look at each of these issues in detail.

1. Security issues: One of the main problems with cashless payments is the issue of security. As digital transactions become more common, the risk of fraud, identity theft, and unauthorized access to sensitive information increases. Cybercriminals use a variety of methods to exploit vulnerabilities in payment systems, including hacking, phishing, and malware attacks.

a) **Fraudulent activities:** Cashless payments, criminals are prone to fraudulent activities such as obtaining card details using illegal devices. In addition, online transactions can be compromised through data breaches or unauthorized access to payment gateways.

b) **Identity theft:** With the proliferation of digital payment methods, personal information such as credit card details and bank account numbers are stored electronically. If this information falls into the wrong hands, it can lead to identity theft and financial loss.

c) **Data Breach:** Organizations that store customer payment information are potential targets for hackers seeking unauthorized access to valuable information. Data breaches can cause significant financial losses for businesses and individuals.

d) **Lack of consumer awareness:** Many users may not be fully aware of the security measures they need to take while making cashless payments. This lack of awareness can make them more vulnerable to fraud and fraudulent activities.

2. Technological limitations: Cashless payment systems rely heavily on technological infrastructure and connectivity. However, there are a number of technological limitations that prevent the continuous operation of these systems.

a) **Connectivity issues:** Cashless transactions can be difficult in areas with limited or unreliable internet connectivity. This is especially problematic in rural or remote areas where stable internet access is limited.

b) **System Downtime:** Cashless payment systems, including online banking and mobile payment applications, are subject to system failures and downtime. Technical failures, maintenance activities or cyber-attacks may disrupt the availability of these services and cause inconvenience to users.

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c) Compatibility and interoperability: Different payment systems may have different levels of compatibility and interoperability. This can make it difficult to transfer funds between different platforms or use cashless payment methods for international transactions.

d) Complexity for elderly users: Some elderly people may find it difficult to adapt to new technologies and navigate complex cashless payment systems. This can lead to a lack of inclusivity and accessibility for certain demographics.

3. Usability Issues: While cashless payments provide convenience, convenience remains a significant challenge for certain segments of the population.

a) Digital divide: The digital divide refers to the gap between those who have access to technology and those who do not. In many parts of the world, particularly in developing countries, a significant portion of the population still does not have access to a smartphone, computer, or internet connection. This limits their ability to participate in cashless transactions.

b) Financial Exclusion: Some individuals, such as those without bank accounts or credit cards, face difficulties in using non-cash payment methods. This can lead to financial exclusion and limit their ability to engage in digital transactions.

c) User Experience: Cashless payment systems should be designed with user experience in mind. Poorly designed interfaces or complex processes can prevent users from using these methods.

Prospects for cashless payments:

In recent years, cashless payments such as mobile payments, contactless payments and cryptocurrencies have become popular. According to a report by ResearchAndMarkets.com, the global cashless payments market is expected to grow at a compound annual growth rate (CAGR) of 12.2% from 2020 to 2027 and reach \$12.8 trillion by 2027.

One of the main drivers of this growth is the increasing use of mobile payments, particularly in emerging markets. For example, in China, mobile payments have become the main form of payment, with over 80% of the population using mobile payment apps such as Alipay and WeChat Pay.

Another factor contributing to the growth of cashless payments is the growing popularity of contactless payments. Contactless payment systems that use Near Field Communication (NFC) technology allow users to make payments by tapping their device to a payment terminal. This technology is increasingly common in public transportation systems, retail stores, and other high-traffic areas. Cryptocurrencies such as Bitcoin and Ethereum are also gaining traction as a form of cashless payment. Although still a relatively small market, cryptocurrencies offer a level of decentralization and security that traditional payment systems lack. However, their volatility and lack of regulation make them a risky investment for some.

The role of the banking system:

1. Infrastructure and technologies:

Banks play an important role in creating the necessary infrastructure and technologies required for cashless payments. They invest heavily in creating secure and reliable payment networks that enable seamless transactions between different parties. Banks develop and maintain payment processing systems that facilitate the electronic transfer of funds and ensure the accuracy and security of transactions. These systems often involve complex networks connecting various stakeholders, including merchants, card issuers, payment processors, and clearinghouses.

Banks are also investing in developing user-friendly digital platforms and mobile applications that allow customers to access their accounts and make cashless payments

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conveniently. These technological advancements have significantly contributed to the growth of cashless payments by providing user-friendly interfaces and enhanced security measures.

2. Payment card issuance:

One of the main roles of banks in cashless payments is to issue payment cards such as credit cards and debit cards. Banks act as intermediaries between customers and payment networks such as Visa, Mastercard or American Express. They issue these cards to the customers after necessary verification to ensure their credit worthiness or account balance.

By issuing payment cards, banks allow individuals to make purchases without carrying cash. Payment cards offer consumers convenience, security and flexibility, allowing them to transact at a variety of merchants around the world. Banks also provide additional services related to card management, such as setting spending limits, monitoring transactions for fraud, and offering rewards programs to encourage card use.

3. Merchant Services:

Banks play a crucial role in enabling businesses to accept cashless payments from their customers. They provide merchant services that enable businesses to integrate payment processing systems into their operations. Banks offer point-of-sale (POS) terminals, online payment gateways, and other tools that allow businesses to accept payments through various channels.

These services help businesses expand their customer base by catering to individuals who prefer cashless payment methods. Banks also provide additional services such as transaction analysis, reporting and reconciliation to help businesses manage their funds effectively. By offering comprehensive services to merchants, banks contribute to the growth of cashless payments in the commercial sector.

4. Security and Fraud Prevention:

Banks play an important role in ensuring the security of cashless payments. They employ robust security measures to protect customer financial information and prevent fraudulent activity. Banks invest in technologies such as encryption, tokenization, and multi-factor authentication to protect transactions and customer data.

In addition, banks monitor transactions for suspicious activity and use sophisticated fraud detection systems to quickly identify and prevent fraudulent transactions. Their expertise in risk management and fraud prevention helps maintain trust in cashless payment methods among consumers and businesses.

5. Compliance with regulatory documents:

Banks are subject to a strict regulatory framework governing cashless payments. They must comply with anti-money laundering (AML), know-your-customer (KYC), data privacy, consumer protection and financial reporting regulations. Banks play a critical role in ensuring compliance with these regulations by implementing robust internal controls, conducting regular audits and reporting suspicious activity to appropriate authorities.

By complying with the requirements of regulatory legal documents, banks contribute to the overall integrity and stability of cashless payment systems. Their compliance efforts help reduce the risks associated with money laundering, fraud and other illegal activities.

The role of the state:

The state plays an important role in the development of cashless payments, because it has the right to regulate and control the financial sector. Governments are actively promoting the

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adoption of digital payments and cashless transactions and are implementing policies and initiatives to support this goal.

One of the main ways for the government to develop cashless accounts is to create digital payment platforms and systems. For example, many governments have launched their own digital payment platforms, such as the Indian government's Unified Payments Interface (UPI) and the Chinese government's Alipay and WeChat Pay. These platforms allow users to make online payments, transfer money and access a range of financial services. In order to encourage the adoption of cashless payments, the state also allocated incentives and subsidies to business entities and individuals. For example, many governments have offered tax breaks and other benefits to businesses that adopt digital payment systems. In addition, some governments have provided subsidies to help low-income individuals access digital payment systems and cashless accounts.

Another way for governments to support cashless accounts is to implement laws and regulations that support digital payments. For example, many governments have passed laws requiring businesses to accept digital payments or prohibiting the use of cash in certain transactions. These laws and regulations help create a level playing field for digital payments and cashless accounts and promote their adoption.

Governments have also invested in infrastructure such as high-speed internet and mobile networks to support the development of cashless accounts. This infrastructure is essential for the operation of digital payment systems and cashless accounts, and has helped to increase access to these services.

Summary:

The development of cashless payments creates both opportunities and challenges for the banking system and the state. To address these issues, it is critical for governments and regulators to create clear rules and guidelines, while banks must invest in innovative products and services and manage the risks associated with digital payments. By working together, the banking system and the state can facilitate the adoption of cashless payments and increase the efficiency of financial transactions.

Books:

1. "Digital Payment Systems: Opportunities and Challenges" by the International Monetary Fund (IMF)
2. "Payment Systems and Financial Stability" by the Bank for International Settlements (BIS)
3. "The Future of Payments: A Look at the Next Generation of Payment Systems" by the World Economic Forum (WEF).
4. "Global Cashless Payments Market Size, Share and Trends Analysis Report By Type (Card-Based, Digital Wallets, Mobile Payments), By Application (Retail, Transportation, Hospitality) , forecasts by region and segments, 2020-2027.
5. "Contactless Payment Market Size, Share and Trends Analysis Report 2020-2027, by Type (NFC, BLE, QR Code), by Application (Retail, Transportation, Hospitality), by Region and by Segment Forecasts."
6. "Cryptocurrency Market Size, Share and Trends Analysis Report by Type (Bitcoin, Ethereum, Litecoin), by Application (Payment, Investment, Mining), Region and Segment Forecasts, 2020 - 2027 years."