



DIGITAL PAYMENT IN INDIA: PROSPECTS AND CHALLENGES

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Abstract

Cash has been in use for over 2600 years and is the dominant form of transaction globally. India is also amongst the highest level of currencies in circulation at 12.1% of GDP. It is estimated that the cash in hand is around 3.2% of household assets, higher than investment in equities, or roughly around \$ 220 billion. Of this cash, 87% is in the form of Rs 500 and Rs 1,000 notes or roughly Rs 14 lakh crore (\$190 billion). A significant portion of the household cash on hand is generated by economic transactions that are not reported to tax authorities or generated through corruption. Scrapping the higher denomination is as revolutionary as attempting to replace fire or the wheels. One intermediate objective of demonetization is to pave ways for a less-cash or cash-lite economy, as this is key to channeling more saving channeled through the formal financial system and improving tax compliance. This concept paper construed by reviewing articles, news reports, journals and books discussing the new trend of digital payment and the implications.

Introduction

A digital payment is to Finance what invention of wheel was to transport.

It offers an unprecedented opportunity to our people, most of whom live in rural India or are migrants in big cities. It promises access to formal financial services and benefits from e-commerce, especially for those who continue to be excluded. In addition to accelerating financial inclusion, opening new business models and markets digital payments can improve the State's ability to curb tax leakages, funding of criminal activities and reduce cash related costs. The phenomenal global growth in digital payments may be attributed to four factors:

(i) Digital and technology revolution, (ii) entry of several non banking PSPs into payments space, (iii) customers becoming more demanding and expecting instantaneous and one-touch payment solutions and (iv) progressive changes in the regulatory framework. India is no exception to these changes.

Over the past few years, the payment landscape in India, too, has mirrored these developments, with digital payments displaying a robust growth. However, India continues to have one of the lowest use of digital payments globally. The recent initiative to demonetize high denomination paper currency has highlighted the gaps in our digital payments ecosystem. The situation needs to be reviewed from the perspective of an ordinary Indian “AAM AADMI”

Why Digital Payments

The basis of four key factors, that make paperless payment instruments and systems more desirable –

1. Cash is expensive. While there are several perceived benefits of transacting in cash (such as instantaneous settlement, relative anonymity, and the notion of security associated with holding physical value), there are several latent and implicit costs associated with cash.
2. Technology has been advancing at a rapid pace to deliver robust, secure and convenient payments solutions. This enables rapid delivery of payment services to large sections of the population.
3. Digital payments allow for services to be delivered at lower costs, afford greater scalability and greater ease of access. This in turn, helps in fostering economic growth and financial inclusion.
4. Recent Government initiatives have created a catalytic environment for the greater proliferation and growth of digital payments.

Research Methodology

The research methodology is descriptive cum analytical in nature.

Objectives of Study

- To understand the concept of Digital payments in Indian context.
- To find out the challenges faced in the implementation
- To know the recent initiatives taken by govt for digital payments

Literature Review

A review has been primarily to identify appropriate methodologies and a subset of the articles/reports which has been reviewed. Reviews of some of them are given below:



Aparna Iyer (2013) in her article safety and security are the new challenges as banks go electronic even in the hinterland. As banks go more Hi-Tech, the regulator has to necessarily stay a step ahead.

Linda Eagle (2010) in her report, as more bank customers begin to use electronic banking solutions, hackers and money launderers are becoming more creative in their fraud tactics.

According to (Worku, 2010), e-payment and e-banking applications represent a security challenge as they highly depend on critical ICT systems that create vulnerabilities in financial institutions, businesses and potentially harm customers. “It is imperative for banks to understand and address security concerns in order to leverage the potentials of ICT’s in delivering e-banking applications”

Sumanjeet (2009) in his study concluding remarks first is that despite the existence of variety of e-commerce payment systems, credit cards are the most dominant payment system.

Alvares, Clifford (2009) in their reports “The problem regarding fake currency in India.” It is said that the country’s battle against fake currency is not getting easier and many fakes go undetected. It is also stated that counterfeiters hitherto had restricted printing facilities which made it easier to discover fakes.

Annamalai, S. and Muthu R. Iakkuvan (2008) in their article “Retail transaction: Future bright for plastic money” projected the growth of debit and credit cards in the retail transactions. They also mentioned the growth factors, which leads to its popularity, important constraints faced by banks and summarized with bright future and scope of plastic money.

Challenges in the Way of Digital Payments

Digital transactions face significant impediments.

- They require special equipment, cellphones for customers and Point-Of-Sale (POS) machines for merchants, which will only work if there is internet connectivity.
- They are also costly to users, since e-payment firms need to recoup their costs by imposing charges on customers, merchants, or both.
- No prior experience with digital payments, or at worst, a conscious distrust of the channel
- No prior experience with the particular service/app, and/or an unwillingness to start using a new service provider
- Strong preference for cash for familiarity, convenience, or privacy
- Inertia to adopt a new mode of payment

Recent Initiatives for Digital Payments in India

While this is definitely a long process—to move over 86% of cash transactions to digital—our government has already begun multiple actions on all directions, starting with JAM (Jhan Dhan, Aadhaar and Mobile). In the wake of the demonetisation, the government has taken a number of steps to facilitate and incentivize the move to a digital economy. These include:

- Launch of the BHIM (Bharat Interface For Money) app for smartphones. This is based on the new Unified Payments Interface (UPI) which has created inter-operability of digital transactions.
- As of January 10, there had been 10 million downloads, and over 1 million transactions had been conducted. The 250 million digital-haves can use their smartphone to make simple and quick payments.
- Launch of BHIM USSD 2.0, a product that allows the 350 million feature phone users to take advantage of the UPI.
- Launch of Aadhaar Merchant Pay, aimed at the 350 million who do not have phones. This enables anyone with just an Aadhaar number and a bank account to make a merchant payment using his biometric identification. Aadhaar Merchant Pay will soon be integrated into BHIM and the necessary POS devices will soon be rolled out.
- Reductions in fees (Merchant Discount Rate) paid on digital transactions and transactions that use the UPI. There have also been relaxations of limits on the use of payment wallets. Tax benefits have also been provided for to incentivize digital transactions.
- Encouraging the adoption of POS devices beyond the current 1.5 million, through tariff reductions.

Suggestions and Recommendations

- Make regulation of payments independent from the function of central banking
- Create parity between cash and digital payments
- Create awareness and transparency
- Implement disincentives for usage of cash



- Promote digital payments within Government - POS and mobile based acceptance infrastructure & Promote digital payments within Government - POS and mobile based acceptance infrastructure
- Promote USSD based payments: USSD can be used to provide various digital services to consumers who do not have smart phones and internet access.

Conclusion

The cashless system is not only requirement but also a need of today society. The cashless transaction system is growing in india. The transition to digitalization must be gradual; take full account of the digitally deprived; respect rather than dictate choice; and be inclusive rather than controlled. There is need to ensure inter-operability of the payment system, which will be at the heart of increasing digitalization going forward, building upon the newly created UPI. The risks in the online payments are theft of payments data, personal data and frauds have become rejection on the part of customers. To ensure that this data is not compromised in any way while people use different digital payment modes, robust security across devices is absolutely necessary. To increase trust in digital payments, cyber security systems must be strengthened considerably. The effectiveness of electronic payment system depends largely on the availability of an efficient ICT infrastructure where reliable net work connectivity, durable hardware and high expertise in ICT are available

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