



INCENTIVIZING E-PAYMENTS -A KEY INITIATIVE FOR ACCELERATING FINANCIAL INCLUSION IN INDIA

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Abstract

An electronic payment is known as any type of non-cash payment that doesn't involve a paper check. An e-payment system used to resolve financial transactions through the transfer of monetary value using Credit card, Debit card, Charge card or Smart card or via internet banking. Since the development of Internet-based electronic commerce, new payment systems have appeared, with the objective to allow merchants and customers to settle their transactions directly on the web. The proposed initiative of Government of India to incentivize e-payments is a step towards achieving 100% financial inclusion. The present paper focuses on the need and benefits for incentivizing e-payments in India.

Key Words: Financial Inclusion, e-Payments, e-Commerce.

Introduction

Electronic payments are payments that are made directly to payee from one bank account to another using the security services over the Internet to process the transactions. E payment is a subset of an e-commerce transaction that includes electronic payment for buying and selling goods or services offered through the Internet. Generally most of the people think of electronic payments as referring to online transactions on the internet, but there are actually many forms of electronic payments. These transfers could be done through means of cards (debit / credit/smart), mobile wallets, mobile apps, net banking, Electronic Clearing Service (ECS), National Electronic Fund Transfer (NEFT), Immediate Payment Service (IMPS), or other similar means. With the rapid advancement of telecommunication and technology the traditional mode of payments that involves cash exchange between buyers and sellers, is being replaced by e-payments. Majority of youth of the country and the working professionals are showing great interest towards e-payments. Incentivizing e-payments means to pay some benefits for the non-cash payments over the internet. This initiative by the Government of India will fuel the Government's plan to achieve 100% financial inclusion thereby achieving the objective of extending banking services to the entire population without any discrimination. This paper focuses on emphasizing on the benefits of incentivizing e-payments in India.

Objectives of the Study

The primary objective of the study is to understand the need for incentivizing e-payments for accelerating financial inclusion in India. Specifically the objectives are:

- To understand the concept of e-payment.
- To understand the benefit of e-payments for both the customers and retailers.
- To know the benefit of incentivizing e-payments.
- To know the status of implementation of e-payments in India by many companies and in other countries.
- To suggest measures to strengthening e-payment system in India.

Need For E-Payment

- E-payment is required to be implemented everywhere because it is regarded as a key component of the financial infrastructure of a country.
- Due to globalization, the corporations need to transact across the borders. So e-payment is much needed.
- The "electronic" payment system is normally maintained or controlled by the Central Bank of a country. There is no physical exchange of money so there are no worries for loss of money or theft.
- Revenue authorities often use electronic payment systems to verify the taxes and charges due to Governments by a business.
- E-payment system can increase transparency and reduce corruption.

Benefit of E-Payment

- People in India have realized the benefits of opting for cashless payments as it is easy, secure and fast. Within some minutes the e-payment can be done.
- The introduction of reward points and discounts has also encouraged a majority of Indians to try cashless payments.
- It can help in reduction of circulation of fake notes. According to a report most of the currency notes in circulation in India are fake, amounting to as much as Rs 3,200 crore in that year.



- It will also help in reducing black money transaction.
- E-payment has several advantages like privacy, integrity, compatibility, convenience, mobility, acceptability, good transaction efficiency.
- Persons can make their payment and make purchases at unusual locations at any time, 24 hours a day, 7 days a week, 365 days a year.
- An electronic payment system allows the management and other certified users easy access to snapshots and detailed reports for the improvement of decision-making and process efficiency.
- An electronic payment system makes it easier to track and monitor data to ensure loyalty to complex regulations and all business rules.
- For suppliers, an electronic payment system can immediately improve DSO (Day sale outstanding) numbers by allowing them to electronically receive and process payments from commercial customers.
- A technically advanced electronic payment system lowers associate process time by automatically initiating and processing payments
- A best-in-class electronic payment system accelerates credit and collections by giving customers, collections groups and internal customer service department's greater visibility into payment.
- Increased mechanization is a key feature of a strong electronic payment system, enabling less reliance on time-consuming and costly manual business processes.

Success Stories of Incentivising E-Payments

- BSNL in India is giving 1% discount on the bills payment if it is paid through online.
- Indian e-commerce companies like Paytm and Freecharge are giving many offers and discounts on online recharges and bills payments.
- City bank gives the opportunity to save 20% in Restaurants and many more opportunities in shopping if you use its card.
- AMAZON has started as an online bookstore initially and now it is the world's largest e-commerce site. Now in India it has started expanding services and incentives for third party sellers.
- The e- and m-commerce sector in Vietnam is growing organically. Non-cash payments services are gradually emerging. There are four partnerships with trial licenses from the State Bank of Vietnam for m-wallets and m-POS that leverage Smartphone users.
- In September 2014, Apple announced that its new iPhone 6 came equipped with an e-wallet app which is called Apple Pay that would store payment information and allow customers to pay for items by holding the iPhone in front of a reader and placing a finger over the fingerprint sensor.

Limitations of E-Payment

Though there are numerous advantages of e-payment but still there are few limitations.

- The biggest drawback of e-payments is the lack of verification, disclaimer of charges and credit card frauds. Anyone can use credit card without proper authentication.
- The more electronic information you send and accept, the higher your risk of fraud and computer hacking.

Measures to Strengthen e-Payments

- Currently, the Merchant Discount Rate (MDR) on Debit Card transactions up to Rs.2000 is 0.75% and above Rs.2000 the MDR is 1%. The possibility of reduction in the MDR and the explanation of the circulation of the MDR across different stakeholders will be examined.
- The currently offered swapping fee on Debit/Credit Card transactions are not consistent and need to be standardized to encourage both issuing and acquiring banks to establish and utilize acceptance infrastructure.
- Tax benefits could be provided for accepting Electronic payments to the merchants. For e.g. an appropriate tax rebate can be provided to the merchants, merchants could get a tax benefit for accepting 50 per cent of payment in electronic mode . Alternatively, 1-2% reduction in value added tax could be considered on all Electronic transactions by the merchants.
- Tax benefits in terms of income tax rebates to be considered to consumers for paying a certain proportion of their expenditure through electronic means. The authentication requirements for different classes of transactions could be re-examined based on the risk profile and safety requirements and do away with the transaction charges for purchases of petrol, gas, rail tickets etc.
- It will be better to consider charge of a nominal cash handling charge on transactions greater than a specified level and dis-incentivise cash transaction.



- All high value transactions exceeding Rs 1 lakh will have to be made through electronic mode and the utility service providers would be encouraged to give incentives for card payments.
- Incentives also could be provided to the merchants for accepting major portion of their transactions through plastic money as well as the customer for making transactions through e-payment.
- At present the telecom companies are levying USSD charge of Rs. 1.50 per transaction for mobile banking/payments. To enhance adoption of mobile banking/payment, the USSD charges could be examined and restructured.
- All Banks must be asked to put point of terminals (POS) at all locations and create the confidence within the people and make them believe that their cards will be accepted.

Conclusion

E payment allows everyone to transfer money from one account to another account and it is executed electronically as a direct deposit through a national payment system, operated by the banks or in conjunction with the government. Incentivizing e-payments means giving various benefits and reward for e-payments. The proposal of incentivizing e-payment can play a great role in the financial inclusion in India. As incentives will be paid and tax benefits will also be there, it can be expected that it will draw attention of large number of people. The incentives will motivate the individuals to open a bank account and use e payment channels, which will result in accelerating the process of bringing the total population of India under the umbrella of financial system.

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