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Digital Payment System in India: Challenges and Opportunities

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Abstract — Digital payment system is not only helped the fast transactions but at the same time it has saved lot of time and money in the country. It's also helpful for the people to make them digitally literate like they know what are internet, apps and websites. Digital payment is a way of payment which is made through digital modes. In digital payments, payer and payee both use digital modes to send and receive money. It is also called electronic payment. No hard cash is involved in the digital payments. All the transactions in digital payments are completed online. It is an instant and convenient way to make payments.

It has a great potential to serve the society and an economy in a much better way catering almost all the needs of the modern global economy without giving chance to let grow the socially disapproved practices, malpractices, anti-social activities, ete. Thus cashless society is need of the hour taking almost all the prevailing issues and challenges before the society into the proper consideration. Cashless society stands for an economy where each and every person of the society does transactions digitally or electronically i.e. transactions route via debit cards, credit cards, smart cards, prepaid cards, electronic wallet, digital currency, different apps, etc.

Keywords — Digital payment, cashless, economy & digital currency.

Introduction

Digital India is the beginning of digital revolution. It is a dream which is created by the Government of India to ensure that government services are made available to citizen electronically, even in remote areas, by improving online infrastructure and by increasing Internet connectivity. E-payment is a method in which a person can make Online Payment for his purchase of goods and services without physical transfer of cash and cheques, irrespective of time and location. Digital payments grew 55% by volume and 24.2% by value in 2016-17 over the previous year. Reserve Bank of India (RBI) data on Electronic Payment System (EPS) shows that number of digital transaction in FY 17 (figures till January 2017) was 1569.3 crore. This figure was 1512.6 crore for FY 16. Demonetization did increase the growth of digital transitions. Between November 2016 and January 2017, 545 crore digital transactions happened in India which is 38% higher than the number of transitions in the same period a year ago. These figures should not be taken as normal growth as liquidity shortage caused many people to switch to digital methods. Growth in digital transactions has been coming down with cash coming back in the economy.

Objectives of Study

The digital payment system is very useful for saving time and cost and it have great future. So study of digital payment system is very essential to know the merits and demerits of it. The following are objectives of the study:

1. To know the concept of digital payment.
2. To view the various methods of digital payment system.
3. To study the advantages and disadvantages of digital payment systems.
4. To criticize the challenges for formation of digital payment system.

What is Digital Payment?

Digital payment is a way of payment which is made through digital modes. In digital payments, payer and payee both use digital modes to send and receive money. It is also called electronic payment. No hard cash is involved in the digital payments. All the transactions in digital payments are completed online. It is an instant and convenient way to make payments.

If we talk about cash payments, one can have to first withdraw cash from his account. Then he uses this cash to pay at shops. Shopkeeper goes to the bank to deposit the cash which he got from him. This process is time-consuming for him and also for the shopkeeper. But in digital payments, the money transfers from his account to the shopkeeper's account immediately. This process is automatic and neither we nor the shopkeeper is required to visit the bank. Digital payments save us from long queues of ATMs and banks. Because, if we pay digitally, we won't need to withdraw cash from our account. It also lots of time and a little bit money as well.

Modes of Cashless Transactions

1. Cheque:

The cheque is one of the oldest methods of cashless payment. It is a known method to everyone. In this method, you issue a cheque for the specific amount to someone else. The cheque gets deposited in the respective bank. The bank processes a payment through a clearing house.

The entire transaction done payments get dishonored due to signature mismatch or insufficient fund. In order to avoid such issue, we can use other cashless payment options.

2. Demand Draft:

Demand draft is another rudimentary way of cashless transaction. It is safest option to receive payment from anyone. Demand draft (DD) never gets defaulted as it is signed by the banker. The disadvantage of DD and cheque is you need to visit a bank in order to deposit cheque and demand draft. The clearance of cheque and DD takes additional time.

3. Online Transfer – NEFT or RTGS:

The third simplest method for the cashless transaction is online transfer using NEFT or RTGS. In order to do online money transfer, you need internet banking facility. Online transfer using NEFT or RTGS is comparatively faster than cheque or DD. Online transfer can be done from anywhere using internet facility.

4. Credit Card or Debit Card:

Credit card or debit card is another cashless payment method. The usage of credit card and debit card was limited in India. However, usage of credit card and debit card is increasing now because of demonetization. The limitation of this payment method is an availability of swipe card facility (PoS) at merchant end.

5. E-Wallets:

E-Wallet is next cashless payment option. E-Wallet can be used to purchase products starting from grocery to airline tickets. In order to use E-Wallet customer and merchant, both require and smart phone with active internet connection. The most popular example or E-Wallet is PayPal. After registering for E-Wallet you need to link your credit card or debit card with your E-Wallet id. You can use E-Wallet for fund transfer or online shopping. It is simplest cashless method.

6. Mobile Wallets:

The next cashless payment method is a mobile wallet. You do not need a debit card, credit card or internet banking password for making payment using a mobile wallet. Just load money in your wallet via IMPS and use it on the move. You can download mobile wallet app from play store. Few examples of mobile wallets are Paytm, PayUmoney, MobiKwik, etc.

7. UPI Apps:

UPI is a mobile payment system which allows you to do various financial transactions on your smart phone. UPI allows you to send or revive money using virtual payment address without entering bank information. Merchant can enroll with bank to accept payments using UPI. Like in the case of a PoS machine the merchant would require a current account with a bank to accept UPI

payments. The examples of few UPI Apps are SBI Pay, Union Bank UPI App, Phonepe, etc.

8. Gift Card:

The next cashless payment method is a gift card. Gift card is a readymade card and can be purchased from a merchant or from the bank. The gift card is loaded with a fix cash amount you can purchase any item from the specific vendor by using a gift card.

9. Aadhaar Enabled Payment System:

Aadhaar Enabled Payment System (AEPS) is one of the best cashless payment methods. AEPS is like Micro ATM it use smart phone and a finger-print scanner for the transaction. In order to use this facility, it is mandatory to link your Aadhaar card to your bank account. You can use AEPS in order to perform transaction like Aadhar to Aadhaar fun transfer, Cash withdrawn, Cash deposit, etc.

10. Unstructured Supplementary service Data:

You can use USSD cashless option if you don't have a smart phone or internet connection. Unstructured Supplementary Service Data is mobile banking service. From any mobile, you can dial *99# and use this service. You can do all these things which are available to a person with smart phone and internet connection. Almost including SBI, ICICI, BOB, Axis Bank and PNB supports USSD payment option.

Advantages of Digital Payment System

The Digital India programme is a flagship programme of the Government of India with a vision to transform India into a digitally empowered society and knowledge economy. As part of promoting cashless transactions and converting India into less cash society, various modes of digital payments are available. There are so many benefits that are related directly or indirectly to the India's economy with the use of digital payment system for making various transactions in the market. The benefits include:-

1) Printing money and coins reduced:

Printing money is the direct cost that affects the bank. In the digital payment system maximum transactions are made without use of hard cash so there is no there is no requirement of printing the money. So the cost of printing money of government is reduces. Data from a Right to Information answer by the RBI in 2012 shows that it costs Rs. 2.50 to print each Rs. 500 denomination note, and Rs. 3.17 to print a Rs.1,000 note. From April 1994 to June 2016, currency has shown a yearly growth rate of 17%, while the share of bank currency has remained around 5%. Production of coins and paper currency is indeed an expensive endeavor and the life span of most of the paper currencies is about 6 years. So, by going digital payment system the cost of production gets reduced.

2) Maintenance Cost:

There is another important aspect is the maintenance in the form of storage of notes, transportation of the notes to the distant places, security of the notes and devices for the detection of counterfeit notes. The other major aspect of the maintenance is that the distribution of money through ATM machines at the different locations. It is reported that all this maintenance cost the government about 5% of the GDP of India. By the Digital payment system we can save somewhere around 500 crores by this mean only.

3) Eradication of the corruption:

Going Digital payment system is going to eradicate the corruption to some extent. The direct transactions of the money cannot take place easily. These transactions will be simple easy and transparent which in turn will show in the accounts of the senders and the receivers. This Digital payment system is going to hit the corruption in a much planned way from the government offices.

4) Decreased Crimes:

It is a well known fact that the criminal underworld usually requires huge volumes of cash to carry out their nefarious operations, such as Armed Robbery, Kidnapping Terrorist Activities and Money Laundering. Therefore, Digital payment system placed control on all the transactions and set a limit on the amount of cash flowing in the system, will curtail such activities as armed robbery, kidnapping, drug and gun running and money laundering. In an environment of extensive and predominate use of cheques and e-payments, criminal transactions can be easily traceable and tracked.

5) Wipe away the black money:

It has been observed that many businessman start evading the real money. Most of them never show that actual business on paper. This habit of evading sales has caused a lot of impact on the tax of the country. Small shopkeepers and big industrialists do this to save tax. This practice has created a very big problem of loss of tax to the exchequer. The loss of huge money has lead to the parallel economy in the state that has created a big los not only to the government but towards the development of the common people's goal. The presence of Digital payment system will definitely lead to the development of the country by means of collecting surplus taxes and also to spend these taxes for the benefit of the scheme.

6) Stop Leakages:

Digital payment system is the best and one of the few ways in the system to stop leakages of the money by the officials of the government while distribution money to the beneficiary. The present policy of the linkage of AADHAR or UID NO. by the government has resolved this issue to the great extent. The direct benefit transfer policy of the government has helped the identification of the beneficiary on the basis of biometric identity and helps the people to get their dues directly in their bank account.

7) Saves Money and Time:

In case of Companies and governments will get efficient and they can reduce costs as they no longer need the manual accounting work to be done if all transactions are through Digital payment system. The costs associated with accounting and handling cash is very high. Business and individual can also avoid other costs as well. Theft often leaves a big hole in one's pocket. The risk of theft will continue until people carry cash and by going Digital payment system the same cancan be reduced.

Disadvantages of Digital Payment System

1. Cash is Still the King:

It is the habit of transacting in cash and trusting it to be the most viable option which needs to be changed. However, this dependency on cash does hold merit. Most of the developing countries are struggling with basic infrastructure for online transactions like a mobile phone or handheld device, internet connectivity; in some even electricity is a far-fetched dream. Thus performing critical activities like online transactions is not even heard of. Also with the growing cyber-attacks and frauds, banking is still susceptible and the need of the hour is stricter cyber laws and a focused approach to developing safer systems.

2. Security – Cyber Attack, Fraud and Power Outages:

Digital payment system can be a nightmare when it comes to security. All our transactions will be done digitally. We will be prone to cyber attacks like hacking. Hackers can hack our sensitive information like password, credit card number etc and leave our account with no money. Even our personal computer is compromised. We can save our self from fraud but it is very difficult to save from a cyber attack.

3. Have to Trust Government or Third party:

There is no money in our hand in digital payment system. All the money is digital so either they are in control of banks or government or any other third party. We have to trust government or bank blindly because everything is under their possession. This is could be scary because if tomorrow something happens we will be left with no hard cash.

4. Reduced Liquidity means Bad for Certain Sectors:

There are certain sectors which depend upon high level of transactions. Sectors like Real Estate, jewelry, retail industry, restaurants and eating joints, cement and other SME will be affected badly because of digital payment system. It means a lot people who are employed by these sectors are also going to be affected.

5. Really bad for poor:

In our country so many people are not even using simple mobile so they are not interested to go for digital payment system. The structure of digital payment system is not suitable for our country where so many people are below poverty line.

6. Internet speed and cost for internet:

For going through digital payment system one can need fast internet connection which cost high. Means for making any payment or transitions digitally we can also cost more for data use.

7. Problem facing after unsuccessful transaction:

While making any payment by digital payment system there are so many parties, like payment receiver, bank merchant and our bank. If we make any payment and if it is not successful then we want to call any one of these three parties and give the details of payment made like reference numbers etc. In such case if we lost such reference number then the process of refund is not done properly.

Challenges in Establishing Digital Payment System

It is very important to see the facts that most of the situations and circumstances have posed as big challenge to the government. The above written are some of the findings that are based on the observations and the secondary data used in the paper. The major challenges that are there to establish the digital payment system are.

1. Financial Inclusion:

If we see the present situation of the people, in India having bank accounts, we can see that only sixty percent of the country's population has bank accounts. Still large number of people is not having the bank accounts. Government's decision on opening the massive bank accounts under Pradhan Mantri Jan Dhan Yojna has perpetuated this cause of giving every citizen of the country with the account. More than 228 million accounts were opened under PMJDY scheme till July 2016. Most of these accounts were zero balanced accounts and out of these many accounts are lying dormant in the bank. People without knowledge of operating accounts are in no way efficient enough to operate the account. These peoples are not aware about digital payment system having bank account.

2. Lack of Infrastructure:

In India there are many areas where bank is still a distant dream. The remote areas are still not having the banks at their door step. People have to move to distant places to have their money transactions in the banks. There are no ATM facilities in the remote areas. Even the ATM is not fully backup with the electricity and other IT related facilities. It is the chief concern of the government and the bank to come up with the basic and secure infrastructure for the banking services.

3. Lack of education:

People living in the remote villages and areas of the country are still not educated enough and are not able to operate the banking services effectively. Illiterate people with bank accounts in the country are not even good enough to fill in the bank forms to deposit and withdrawal money. They have to take help of the people in the banks to fill in the forms and get their work done. It has become the prime responsibility of the government to start a campaign in the form of mission to enable the people to discharge their duty by themselves. Lack of education and the poor syllabus done in the schools are the main reasons that they are not able to operate their bank accounts.

4. Access of technology:

Technology is the backbone to this banking revolution. Technology must be available in all the areas of the country; it means all the banks at the branch level even in the remote area should have the access to the technology. The technology must have all the aspects that can help the individuals to do the things better and effectively. The second major aspect of the technology is that it should be easily handled and used by the people. It is one of the major aspects of the banking that the consumer must e ware of the technology and should be able to use it effectively for the purpose. The people are not aware of the technology and are not so involved in the use of it.

5. Large number of people to be covered:

There are large numbers of people that are to be covered by digital payment system. Although many accounts are opened during Pradhan Mantri Jan Dhan Yojna, but many of them are lying dormant. Still forty percent of the India's population are not having access to the bank and banking services. It needs a proper penetration into the market to give the services of banking to the people. It is one of the major challenges for the government to include large number of people in the mainstream.

6. Uneven profile of the participants:

The banks who are participating in this mission are having uneven status. The national banks and privatized banks have different priorities and there services are to the some extent are uneven in this context. As maximum cards are issued by nationalized banks they have different level of motives. The service missions missing in private bank and hence it creates the affair costly.

7. Customer awareness is missing:

Consumers are not aware about the different aspects of digital payment system. Service tax, transaction fee, security of the account all matters should be stressed upon so that consumer gets awareness and become an effective party to the mission.

Opportunities of Digital Payment System

After the induction of digital payment system or modes of digital payment there is end number of opportunities available for Indian economy to create cashless society. the opportunities are available for digital payment system are as follows:

Financial Literacy: Promotion of digital payment system motivates the people to learn about varied banking apps or various modes available for online banking trasaction. This motivation creates awareness about banking services and products, due this people of india become literate to perform banking transaction through digital mode.

Stopping of Corruption: Use of hard cash leads to corruption, but use of digital payment system helps to reduce corruption because every transaction done through digital mode.

Tax Collection: Digital payment system promotes legal financial transaction and every legal transaction leads to collection of tax.

Revenue Generation: After the use of digital payment modes, every business transaction has been recorded and every business maintains books of accounts in fair manner i.e. without malpractice. The result of that tax calculation and filling return will be done in time, therefore digital payment system helps to generate revenue in the economy.

Employment: Digital payment system, leads to legal financial transaction in India and helps to reduce the theft of tax, result of this revenue will generate and this revenue will invest or use to create employability.

Develop accounting culture: Digital payment system leads to develop accounting culture in business class because of every business financial transaction done electronically and record of all transactions easily available from bank records and result of that, it helps to every businessman to record business transaction.

Conclusion

It has a great potential to serve the society and an economy in a much better way catering almost all the needs of the modern global economy without giving chance to let grow the socially disapproved practices, malpractices, anti-social activities, ete. Thus cashless society is need of the hour taking almost all the prevailing issues and challenges before the society into the proper consideration. Cashless society stands for an economy where each and every person of the society does transactions digitally or electronically i.e. transactions route via debit cards, credit cards, smart cards, prepaid cards, electronic wallet, digital currency, different apps, etc. cashless transaction system has its enormous advantages that could benefit the whole economy in different ways provided it is used with full security measures and proper care.

In conclusion, the digital payment system is changing both online and offline at a brisk pace. Digital payments will likely continue to be a catalyst for digital innovation in the coming years and may have a significant impact in how the retail industry as a whole evolves over the next decade. It is very useful and more beneficial for electronically literate people only. But in case of illiterate peoples it fall measurably. And before installation of digital payment system we firstly improve our infrastructure and cyber security.

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