

A STUDY OF ECONOMIC IMPLICATIONS OF DIGITAL PAYMENTS IN INDIA

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Abstract

Digital payment is an economy where maximum transactions are done without using the physical cash or means of hard cash. The present paper aims to study the economic implications of the digital payments for the economic growth in India, as well as it also focuses on the relation between the digital literacy rate and the modes of digital payment avenues. India has shifted to the digitalization in its financial transactions for the sudden eruptions of both Demonetization and the pandemic-Covid. This research has adopted the methods of collecting data in primary and secondary modes. The economic implications of digital payments are majorly studied in the secondary data however this research has depended on primary data in the form of sample survey method for the latter part of the aim of this paper. This research found that there are both positive and negative results by the digital payments in terms of financial transaction: positive-Convenience of easier payments, reduction of cost on currency production, cash related crimes, dependence on currency, the less production of physical currency, ease of international transaction, negative-Cyber security, financial fraudulence, rise in public expenditure, Identity thefts, and lack of digital literacy. It is also found that digital payments pave the ways for the employment opportunities in technology. There is scope for further research in the related areas such as the opportunities of the reduction of corruption and the enhancement of transparency in the financial transactions due to the digitalization.

Keywords: Digital payments, Digital Literacy, Demonetisation, e-Wallet, and Online Transactions

Introduction

The Digital payment (Digital India Programme) is a flagship programme of the government of India one of the professed role of Digital India is “Faceless, Paperless, and Cashless”. The

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Government of India with a vision to transform India into digitally empowered society and knowledge economy. Nowadays smart phones are available in the economic range can provide quite a decent access to the digital world as well. Cash or Coins payment in business transactions is a traditional mode where as transactions occur via debit cards, Credit cards, payment wallets and other digital modes, replacing traditional payment modes.

The first Online banking services introduced in India in 1996 by the Industrial Credit and Investment Corporation of India (ICICI) in 1999 the banks such as HDFC, IndusInd and Citi bank launched online facilities. Cash is playing vital role and will always be in demand in various sectors, whether that's transportation, biotechnology, automobiles, cement, banking, agriculture and allied sectors etc. Still a digital payment is essential to boost the India's economy and make business easier, faster and more efficient.

The cashless economy reduces the corruption rate, and black money circulation and there are some problems in cashless economy such as online frauds, cyber crimes and lack of awareness in digital literacy, The digital payments became popularity after demonetization and covid19 era, it is very crucial for India's economic development, hence it can be said that the main focus is on rural India because of the digital literacy rate is very low in rural India.

Review of Literature

Karmakar and Narayan (2019) for their part households with no bank accounts experienced significant declines in both income and expenditure in the month following to informal borrowings to meet immediate needs. In their conceptual study they found that various e-payment systems such as E-wallet, UPI and plastic money, net banking and AEPS etc.

K.S. Sridhar (2019) This paper explain about the internet banking in India and have identified the positive and negative impacts to banks as well as customer of the digital payment system in India. In his part explained various electronic modes of payments and also stated that the cashless society have the challenges to transform India into digital payment system.

C, B. Pavitra and Dr. A.C Ranganayaki (2019) In their conceptual study “Types Opportunities and Challenges of Digital payment System in India” the researchers studied about the various types of digital payment systems in India, their study explained that the opportunities and challenges digital payment systems in India, and they offered the suggestions to improve and identity the future of cashless society.

Bajaj and Damodaran (2020) For their part, found that in the period following demonetization, aggregate household output declined by 20 percent, and consequences unevenly distributed between urban and rural house hold the author also described how switching to digital payments involved an entry cost.

TRANZACT Team (2022) In their conceptual study that today smart phones in the economic range, can provide quite a decent access to the digital world as well, Adding to this dynamic growth in the number of customer service providers across diverse channels such as manufacturing, e-commerce is also an important factor in increasing the adoption of a cashless economy.

Razor pay Team (2021) In their part, that the Razor pay payment Gateway is our flagship product, providing holistic payment solution to enterprises big and small, and describes that the carrying forward the mission of cashless and digital India.

Objectives of the study

1. To study the various modes of the digital payment systems available in India.
2. To examine the positive and negative economic implications of the digital payments in India.
3. To study the customers perception in digital payments in India.
4. To know the Government Initiatives and challenges of digital payment systems in India.

Methodology

This is the conceptual study, based on primary data has been collected from sample survey on customers perception regarding financial digital payment, and the Secondary data has been collected from various research papers, journals, and websites etc.

I. Various Digital Payment Modes

According to Digital India Programme currently we have ten methods of digital payment available in India. Some modes have been in use for more than a decade, some modes have become popular recently, and other some modes are new.

1. **Bank Cards:** First the bank cards launched by the Central Bank of India in 1980 in India. In the form of first credit card, Master Card was introduced in 1988. Cards have security, safety, convenience and portability. Because of the multiple reasons the Banking Cards payment become popular in online transactions like physical transactions.
2. **Unstructured Supplementary Service Data (USSD):** This mode is launched in 2016. It is for those who did not have access to proper banking and internet facilities. Mobile banking

transactions are enough without an internet connection by simply dialling *99# on any feature phone.

3. **Aadhar Enabled payment System (AEPS):** The AEPS is bank-led model for digital payments which allows online interoperable financial inclusion transactions at point of sale (PoS) through the business correspondent (Bank Mitra) of any bank using the Aadhar authentication.
4. **Unified Payment Interface (UPI):** UPI was developed by National Payment Corporation of India (NPCI) in 2016. It facilitate peer to peer person to merchant transactions. UPI is far more well-defined and standardized across banks as compared to IMPS, NEFT and RTGS. This method has become most popular digital payment modes in 2020.
5. **Mobile Wallets:** This is virtual wallet it stores payment card details on the mobile device, Often customers link their banking cards to the wallet to facilitate secure digital payments, alternate way to use the wallet is to add money to the mobile wallet and use the said balance to transfer money.
6. **Bank Pre-paid Card:** It is a pre loaded debit card (Single-use or reloadable for multiple uses) issued by banks. Under the motto of “Pay Now, Use Later” These cards allow user to buy things with fund available in their card.
7. **Point of Sale (PoS):** Merchant establishments will provide a Technological instrument (PoS) to carry out the sale of goods and services to customers in digital environment. It is also known as the location or segment where sale happen, the most common type of machine is for Debit and Credit Cards. Where the customer can pay simply swipes the card and enter the PIN.
8. **Internet Banking:** It is also known as e-banking or online banking. It allows the customers of a particular bank to make transactions via banks website. E-banking needs a Stable internet connection to make payments or receives and accesses a banks website, IMPS, NEFT, and RTGS are some of the top ways to make transactions via internet banking. Nowadays most of the Indian banks have launched their internet banking services. It is also one of the most popular mode of electronic transaction.
9. **Mobile Banking:** This is one of the services provided by the banks and financial institutions to customers via mobile devices, typically through the banks mobile app. Today most of the banks have their mobile banking app can be used on handled devices such as mobile phones, Tablets and computers for digital payments.

10. **Micro ATMs:** - It is a device for Business Correspondent to deliver essential banking services to customers these Correspondents who could even be a local store owner will serve as a micro ATM to conduct instant transactions.

I. Positive Economic Implications of Digital Payments in India

1. **Transparency:** Cashless economy have major benefit to bring accountability and transparency to the monetary system, digital monetary payments helps banks in recognizing customer and track their flow of money. This will help to reduce financial crimes and frauds like tax evasion
2. **Minimise cash related crimes:** Money laundering or black money practices that negatively impact on India's economic growth will be minimise with the digital payment system, corruption or illegal transactions may be reduced with the cashless economy.
3. **Convenience:** The digital payment system ensures that easier and immediate payment anywhere and anytime. For instances if you want to send money to your friend residing in other city, you need not the hassle visiting bank to send the money.
4. **Reduces the cost on currency production:** RBI may reduce the currency production as well as cost of currency production with the help of cashless economy in the society, it is also easing of statutory burden for RBI as the regulatory authority
5. **Ease of international transaction:** Without using digital payment system earlier it was very troublesome to engaging international business, today it is very ease up by using plastic money and internet banking with the government initiation.

II. Negative economic implications in digital payments in India

1. **Cyber security:** The digital payment system has opened avenues for online crimes and frauds. The recent report by Microsoft revealed that on an average an Indian consumer lost Rs.15334 by falling prey to online scam in 2021.
2. **Thefts of Identity:** Financial illiteracy may causes in increase in identity thefts in India. But do not have the financial knowledge may lose the confidential information along with the hard-earned money.
3. **Public expenditure increases:** The cashless system brings may be addictive, people and firms tend to over spend digital payments, which can be leads to spending traps. Especially youngsters, this may be increasing the public expenditure.
4. **Financial illiteracy:** -Financial illiteracy is the biggest barrier in rural India towards Transitioning digital payments or cashless economy in India.

III. Customer's Perception Towards Digital Payments

I have conducted a Sample survey with the sample of 50 customers from different areas of Mancherial district. The result analysis of the survey is as follows:

Factor 1: Benefits	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
If saves my time and cost for using an electronic payment system	90%	5%	5%	0	0
Electronic payment system is convenient for me	60%	10%	5%	10%	15%
The billing and transaction process are accurately handled	70%	10	15%	5%	0%
Speed of electronic payment system flow is faster than traditional payment system	90%	10%	0%	0%	0%
I find that it is easier to conduct my financial transactions	70%	10%	4%	11%	5%

Source: Primary data

Factor 2: Trust	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
I trust on the ability of an electronic payment system to protect my privacy	70%	10%	5%	10%	5%
I trust an electronic payment system that will not lead transaction fraud	60%	10%	10%	10%	10%
Confidential information is delivered safely to customers	50%	20%	15%	10%	5%
I feel the risk associated with Electronic payment system is low	60%	20%	10%	5%	5%

Source: Primary data

Factor 3 Self-Efficiency	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
I will only use an Electronic payment system if I heard it before	50%	20%	10%	10%	10%
The comments of other people will influence my intention to use an electronic payment system	70%	20%	10%	0%	0%
I will use an Electronic payment system when my friends introduce it to me	80%	10%	10%	0%	0%

Source: Primary data

Factor 4 ease to me	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
The structure and content of the web site are ease to understand	40%	10%	10%	20%	20%
Learning to use an Electronic payment is easy	60%	20%	10%	10%	0%

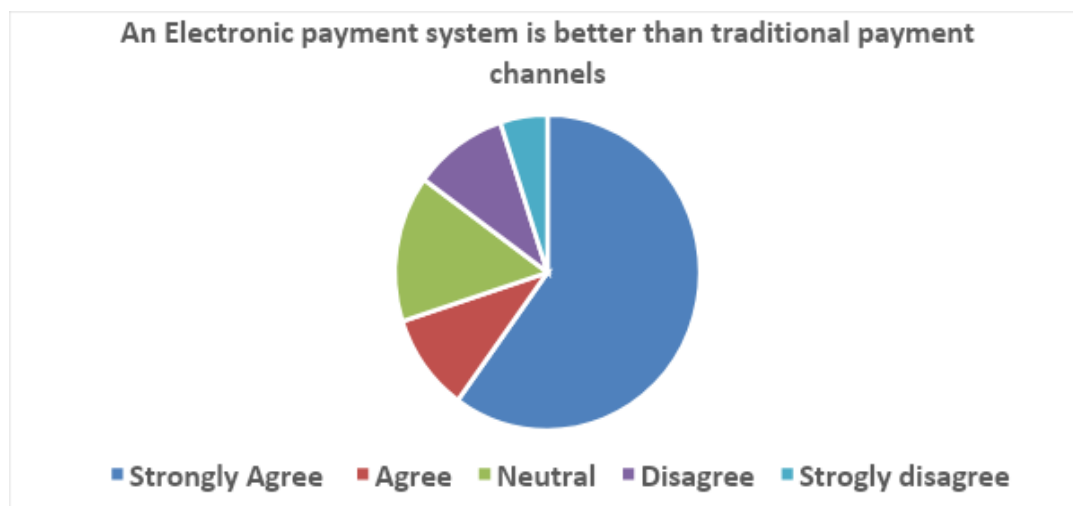
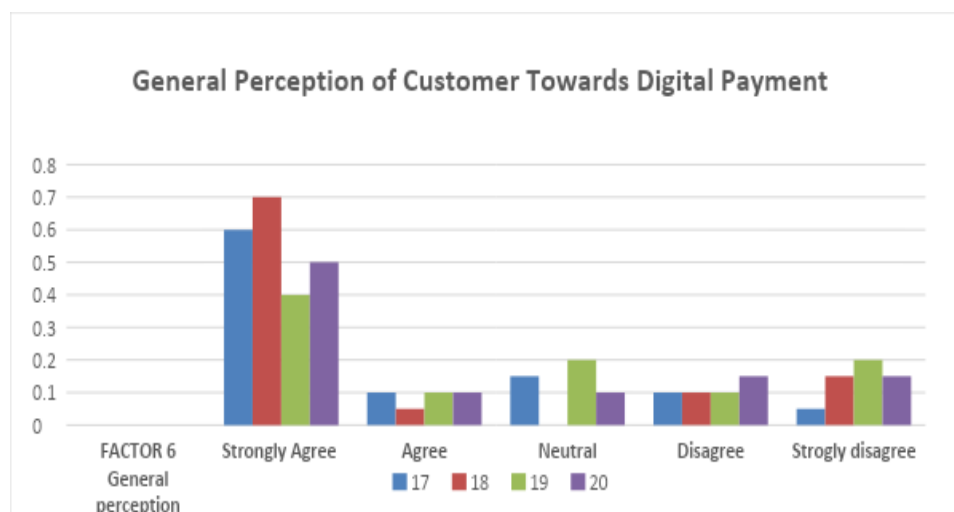
Source: Primary data

Factor 5 Security	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
I am concerned about my security when using an Electronic payment system	60%	20%	10%	10%	0%
Matters of security have significant influence on me in using an Electronic payment system	40%	20%	10%	20%	10%

Source: Primary data

Factor 6 General perception	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
An Electronic payment system is better than traditional payment channels	30%	10%	40%	20%	0%
Electronic payment system is much more efficient than traditional payment channels	70%	5%	0%	10%	15%
I will choose the trusted Electronic payment system to make transaction	40%	10%	20%	10%	20%
I feel that A user - friendly Electronic payment system will influence me to adopt the system	50%	10%	10%	15%	15%

Source: Primary data



V. Government Initiations and Challenges in Transitioning to Digital Payments

1. The Demonetization is the first move by the government of India in November, 2016.
2. The National Payment Corporation of India has launched the Unified Payment Interface (UPI) it's a biggest and boldest payment Interface.
3. The Pradhan Mantri Jan Dhan Yojana is one of the most renowned and successful initiation by the Government of India.
4. The Direct Benefit Scheme (DBS) was launched to provide financial benefit to individuals such as LPG subsidies, old age pensions and Scholarship, helping the rural people to move digital payment.

Challenges

1. The people of the Rural India are not aware and educated to digital payments
2. The most of the population of India didn't have the smart phones, Debit and Credit Cards.
3. Majority population uses the Debit Cards to withdraw money rather than paying directly through it.
4. Only 26 per cent of the population has the internet access and choose to digital payment system.
5. Privacy and Security are the most challenging tasks to the government to overcome the Problems.
6. Lack of Digital and financial Literacy was another Challenge of the People of India.

Conclusion

The study concludes that prepaid recharge is still the largest use case across metros and non-metros, mobile bills payments and other utility bills are the second largest use case, (PoS) Point of sales and other are low. Mostly the Plastic money is used for withdrawal of cash. In spite of so many challenges in transmission of digital payment systems in India. India can easily pace up to becoming on efficient digital payment system.

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