

ROLE OF SME IN DIGITAL PAYMENTS IN INDIA

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Abstract

The present paper seeks to examine how the digital payments have become an essential service in every context of life particularly Micro, Small and mediums enterprises. Ever since the developed countries and developing countries adopted the digital payments eco-system, there has been a tremendous Economic growth in terms of Ease of Doing Business (EoDB) and Digital India eco-system' to bring in broader transparency and expedite the process of payments in India. As a result, many governments encouraged the digital payment system which enhances transparency, efficiency and faceless-paperless payment system by allowing suppliers and contractors to submit their claim online which would be traceable in real time basis. As per the recent trends shown that the digital payments are being used in India which has recorded a robust growth of 26.2 per cent in terms of volume during 2020-21 on top of the expansion of 44.2 per cent in the previous year. After COVID-19 pandemic, people have given a great importance to health and they were scared of cash transactions which made them shift to online mode. Subsequently, the digital payment has become a common currency of everybody's life in the world. Finally, this paper further formulates how the transactions are being taken place between customer and SME in an efficient way also observed critically in the paper.

Keywords: SME, Digital Payments, Covind 19, Economy

Introduction

Payments made over the internet are generally classified under 'online payments'. These payments are done while purchasing products or availing any services, both online or offline. Online payments can either be one-off payments (like a purchase from Amazon) or recurring payments (like subscribing to Netflix). Some of the common methods of online payment include

1. Bank transfers
2. Digital wallets like Phonepay and Google Pay
3. Online credit/debit cards
4. QR Codes / UPI

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5. BNPL (Book Now Pay Later)

Online payments works for customer to place an order on the merchant's website. The payment gateway gathers all the required data and information needed for the transaction to take place and it informs the merchant than finally the merchants sends a confirmation message to the customer saying that they have received the payment. Though online payments seem highly convenient and safe, there are a few things you need to be careful of, given the increased fraudulent happenings. Most of the small and medium enterprises in India moved to digital payment after COVID 19. India has leapfrogged the rest of the world in the digital payments' revolution. Many of the innovative digital technologies that have transformed India's payments landscape are globally firsts. The financial inclusion is driven by the government's to focus on India has to built the world's largest digital payments infrastructure over the past two decades with digital transactions accounting for about 20 per cent of the country's GDP. COVID-19 cases as per World Health Organisation 763,740,140 confirmed cases of Covid 19 worldwide by as of 15th April 2023 and more than about 44,834,859 corona cased in India. The importance of health concern has raised after COVID 19 and for the survival and growth of businesses most of the Small and Medium-sized Enterprises (SMEs) shifted their mode of transactions from offline mode to digital mode. In many ways, the COVID-19 epidemic has been economically damaging. Global supply chains have been made significantly vulnerable because government agencies restricted to both import and export to combat the infection. Second, delays in resuming work have drastically decreased firms' production capability; whereas fixed expenses like wages, rental had also remained consistent, result in severe financial problems. The falling prices due to the pandemic have put extreme stress on service providers such as food service, hospitality, and tourist industry related to the activities such as cultural identity. Poorer, the COVID-19 epidemic is predicted to affect long-term destruction and a profound impact on global expansion.

Review of Literature

R. Joshi & Kumar, 2020 investigated the impact of digital India on the Indian economy in order to assess the challenges associated with digital India. The study discovered that digitalization has resulted in increased innovation, ease of operation, economic growth, and new job prospects. It has aided in the establishment of systemic transparency and the free flow of funds across the economy.

(M. C. Joshi, 2017) examined the impact of demonetization on digital payments, as well as the differences in growth in various digital payment modes prior to, during, and after

demonetization. They used a descriptive research approach to achieve the above goals, and the study's required data of retail digital payment data in NPCI was acquired from the Reserve Bank of India's website. They discovered in their research that the true impact of demonetization on digital payments was also realized after the move. Demonetization made it mandatory to utilize digital payments as an alternative to cash, and digital payments have continued to rise since then (Agarwal et al., 2018) examine how the unavailability of cash affects a consumer's spending behavior and choice of spending mechanism in a cash-based economy. They also use a difference-in-difference framework to estimate the magnitude and persistence of the use of digital payment channels post the announcement. They noted that the debit card data reveals an increase in usage post demonetization among existing users, where transaction volume rose by almost 28 percent, and also that the transaction volume of new adopters rose by almost 400 percent. They also analyzed the impact of demonetization from the supply side on payment modes like traditional (debit card) and non-traditional (e-wallet) as well as from the demand side by collecting data from two retailers (one an e-grocer and the other a physical marketplace).

(**Ghosh, 2021**) reviewed various papers and noted that digital payment is far more convenient and time-saving as compared traditional means of paper currency. He also emphasized that such payment transactions can be done round-the-clock by any individual who possesses an internet connection; they don't have to wait in lines to make transactions. The researcher suggests that people are using and accepting digital payment systems as it is a faster mode of payment that also offers rewards or cash back. The researcher also talked about the digital payment system post-demonetization and how the government took an initiative to make India a cashless country. The researcher noted that post-COVID-19, we are all making the most use of the digital payment system. All ecommerce, all online grocery, or other necessary online commerce does not accept cash. They all accept prepaid payment, which can be done through various digital payment systems.

(**Dr. Swati Kulkarni, Dr. Aparna J Varma, 2021**) They attempted to identify the thinking of consumers with respect to online payments and the safety of these payments. This study aims to understand the frequency of digital payments and factors affecting or challenges faced by consumers while using digital payment modes that may affect consumer perception. The researchers also suggested that the study is exploratory in nature and relies on literature reviews and secondary information.

Objectives of the Study

1. To analyze digital payment system of India in small and medium enterprises
2. To understand various modes of digital payment in small and medium enterprises
3. To examine the benefits of digital payments to SMEs, Customers, merchant and the government

Digital payment system of India in SMEs

SMEs play a vital role in India's social and economic growth. SMEs generate nearly 8 per cent of GDP to the MSME sector as per the Ministry of Micro, Small and Medium Enterprises. Its economic contribution varies from industrial production, jobs and export revenue generation. MSMEs are divided into groups under the MSMEs Development Act of 2006, namely Manufacturing Enterprises (Maximum Investment up to Rs.10 Crores) and Service Enterprise (Total Investment up to Rs.5 Crores). The SME sector is significant in providing large-scale jobs at relatively low capital costs compared with large companies. It also contributes to the industrialization of urban and backward regions, reducing regional imbalances and ensuring a fairer allocation of national incomes and resources. As per the Ministry's Website, the SME sector employee's approximately 80 million people. It also generates 45 per cent output and 40 per cent of its exports. The rural areas increase in the utilization of the internet over 150 million subscribers by increasing numbers for greater utilization of smart phones and personal computer, and it is about 14.9 per cent of rural utilization of the Internet. These firms also act as support units for large enterprises and contribute significantly to the nation's socio-economic growth. These accomplishments have numerous developments because the development of the Internet was increased as SMEs realize market opportunities by assessing end customer directly demand for SME. SMEs significantly contribute to India's Gross Domestic Product (GDP). While the pillar of the Indian economy, these companies face challenges arising from outdated practices and the absence of digital influence. Furthermore, a competitive environment, demanding consumers, and tight financial support also create more problems. SME digitization will also go a big step towards overcoming these problems and helping small companies to attract more consumers and make higher profits than before. If SMEs want to succeed, they should implement the latest technologies and methods to encourage workforce productivity, reduce human faults, and calculate growth parameters in a very concise form. Other studies also

highlighted this theory and pointed out that SMEs can go digital immediately. A digital start making can also enable SMEs to expand quickly internationally, despite huge investment.

Various modes of digital payment in Small and Medium Enterprises

According to another study, there was a significant increase in digital payment methods and transactions in small and medium enterprises. The effect they saw from the use of various mobile wallets like Paytm, Razorpay, Mobikwik, Freecharge, etc. just one day after demonetization. Various grocery startups saw an increase in sales of 40–50 per cent. Furthermore, one of the studies showed that the liquidity state of the economy is highly affected in a positive manner as demonetization helped the country to go cashless while at the same time increasing transparency in the financial aspect of the economy. It was also observed that digital payment transactions through internet banking and mobile digital wallets saw a tremendous rise in value. Paytm wallet, for example, grew from 125 million wallet customers prior to demonetization to 185 million three months later. And it continued to grow, hitting 280 million users by November 2017. PWC India reported that post demonetization, the transactions through digital payment methods of NEFT and RTGS have seen a substantial rise, both in terms of volumes and values. The value of NEFT transactions increased from 8,808 billion INR to 14,182 billion INR. And the value of RTGS increased from 78,179 billion INR to 1,02,348 billion INR. The transactions from E-wallets reportedly increased from 17 lakhs per day to 63 lakhs per day. It was also seen that in various metro cities, even small market merchants started keeping Point of Sales (POS) machines at their shops to accept payment digitally. Popular e-wallets used in India: G-pay In the year 2015, Google Incorporation launched the application. Google Pay is the most widely used digital payment app, and it's available on both Android and iOS devices. A person can either transfer money or pay their utility bills immediately from their bank account. Or by having a UPI (Unified Payment Interface) ID, which can only be obtained after installing the Google Pay application. The app provides users with two levels of protection, including fingerprint security. It renders individuals stress-free in the event of identity theft or the loss of their secret credentials. It can be used by small businesses. Payments can be made or received by merchants, wholesalers, or even major corporations. As of today, the app has over 100 million users.

PhonePe

PhonePe is another Indian-based payment service app that was released in 2015 as a privately owned multilingual mobile and PC software. The company's headquarters are located in Bangalore, Karnataka, India. PhonePe is a unified payment interface (UPI)-based software that requires a user to link their bank account and generate a UPI ID in order to complete any transaction or pay utility bills. The app, like Paytm, is available in 11 languages for Indian customers. As of today, PhonePe has over 280 million clients who use its services. The company offered an ATM service for its subscribers called "PhonePe ATM" in January of 2020. It creates more revenue.

BHIM

Bharat Interface for Money (BHIM) is a payment app that lets you make simple, easy, and quick transactions using the Unified Payments Interface (UPI). You can make direct bank payments to anyone on UPI by using their UPI ID or scanning their QR code with the BHIM app. You can also request money through the app using a UPI ID. Pioneered and developed by the National Payments Corporation of India (NPCI), BHIM has been conceived and launched by the Hon'ble Prime Minister of India, Narendra Modi, on December 30th, 2016 to bring financial inclusion to the nation and a digitally empowered society.

Paytm

This type of payments method is a third-party mobile and computer-based digital payment service with Indian origins. Paytm was founded in 2010 as a private business operating company. Ecommerce, financial technology, and digital wallets are among the application's specialties. It is a commonly used program that provides services in 11 distinct Indian languages, with the goal of being easily understood by all citizens of the country. Aside from providing the ability to send and receive payments, the app also caters to a variety of client demands through its Paytm Money, Paytm Smart Retail, and Paytm Payments bank services. As of now, the application has over 350 million active users.

Banking Cards

Banking Cards provide consumers with increased security, convenience, flexibility, and control than with any other payment method. The wide variety of cards available—including credit, it also provides a great deal of flexibility. These cards provide 2 factors authentication for secure payments, e.g., secure PIN and OTP. RuPay, Visa, and Master Card.

Some examples of card payment systems are as follows:

Mobile Wallets

A mobile wallet is a way to carry cash in a digital format. You can link your credit card or debit card information on your mobile device to the mobile wallet app or you can transfer money online to a mobile wallet. Instead of using your physical plastic card to make purchases, you can pay with your smart phone, tablet, or smart watch. It is required to be linked to the digital wallet to load money into it. The majority of banks have their own email, wallets and some private companies, e.g., Paytm, Freecharge, Mobikwik, Oxigen, mRuppee, Airtel Money, Jio Money, SBI Buddy, Itz Cash, Citrus Pay, Vodafone MPesa, Axis Bank Lime, ICICI Pockets, Speed Pay etc.

Aadhaar Enabled Payment System

Is a bank-led model which allows online interoperable financial transactions at PoS (Point of Sale/Micro ATM) through the Business Correspondent (BC)/Bank Mitra of any bank using Aadhaar authentication.

Banks Prepaid Cards:

For Spending money, it is loaded into the prepaid card in advance. If you have "opted in" to your bank's overdraft program, you can cover your overdraft with a debit card linked to a bank account. This means that your bank may charge you a fee to cover the cost of a purchase or ATM withdrawal. Withdrawal that exceeds what you have in your account.

Unified Payments Interface (UPI)

It's a system that powers multiple bank accounts. This single mobile application (of any participating bank) merges several banking features, Fund routing and merchant payments are combined under one hood. It also caters to the "peer to Peer" collects requests which can be scheduled and paid as per requirement and convenience. Each bank provides its own UPI App for Android, Windows, and iOS mobile platforms.

Digital Payments benefit to SME, Customers, Suppliers, and the Government

Moving from cash to digital payments can increase an Increase an entrepreneur's profitability by reducing operating costs and making it easier to manage trade contracts, delivery records, and accounts receivables. Making and receiving digital payments can increase an entrepreneur's participation in e-commerce and improve their interactions with clients, vendors, and financial institutions. For instance, digital records can help entrepreneurs better manage their inventory stock and make cheaper procurement decisions. Small shop owners, for example, can track their sales by product type and day of the week and use this information to optimize inventory management. Entrepreneurs can make digital payments to suppliers more frequently, lowering the number of days of extended trade credit and working capital expenses (by reducing accumulated interest on supplier loans). Digital financial

payments also facilitate record keeping and improve transparency by creating an easily traceable electronic trail that can reduce document-related fraud. A study finds use of digital payments and cards reduced manual intervention and reconciliation efforts, making them three times more cost-effective on average than traditional purchase order costs. Entrepreneurs receiving digital payments have less cash on their premises and therefore face a lower risk of theft. Digital payments might be especially important for the success of female entrepreneurs. Long travel distances, social norms, and family responsibilities often prevent women from traveling to faraway suppliers or bank branches. Digital payments can help them overcome such limits on their mobility by making it easier to access money and the marketplace.

Speed of transactions

For both the seller and the customer, online payments save a lot of time. People don't have to wait in lines, take time to write checks, or wait for paper bills. They don't have to wait for banks to clear their checks so that they can access the money.

For sellers

It saves a great deal of time since they don't have to waste time printing and mailing bills. Online payments also decrease the chances of late payments. Since it takes less than a few minutes to complete a transaction, people will not forget it or put it off for later. From any part of the world. It is easier to click a feature on your smartphone than to collect the correct amount of cash for your purchase. You don't have to carry a lot of cash, get worried about theft or not having perfect change. With online payment options, you just need to remember a certain pin, and that's it, your transaction is done!

Reaching Global Audience

One of the biggest advantages of having online payment gateways is that businesses can operate globally and have a customer base irrespective of geographical limitations. According to research, over 56 per cent of online shoppers prefer to shop cross-border. So implementing online payment options on your e-commerce site will undoubtedly increase sales as you will be catering for a global audience.

Low Transaction Costs

In a traditional payment setup, businesses have to hire front-desk employees or cashiers to manage sales and payments. But with online payments, transactions take place in an automated environment. Merchants can set up online payment gateways with minimal investment and lower transaction costs.

Quick and easy setup

Instead of spending time on setting up a whole payment process that involves certain equipment and some extra employees, you can easily and quickly integrate online payment gateways for your business. However, before you choose the services of a particular vendor, you can evaluate the different options available in order to choose the best one.

Variety of payment choices

With online payment features, you can offer your a customer wide variety of payment options

Availability of more distribution channels

As a business, having online payment options can benefit your distribution channels a lot. If you are ready to accept online payments, you can enter the affiliate domain and branch out your sales by displaying your products or services on other websites. It is a great way to increase sales.

Easy Management

Online payments make it easier to manage and store your money and other financial data. For both vendors and customers, there are a lot of tools available on the internet that will help you with transactions. You don't have to keep track of your finances and let the tools do the job. It only gets easier since you don't have to carry cash or cards.

Better Customer Experience

If customers feel it is convenient to purchase from you while also being able to save money and time, then that automatically translates to a positive customer experience. And as a business, you must put customer experience above everything else. Implementing online payment options for your business is a great way to achieve it, as many people nowadays prefer online payments over cash or card transactions.

Recurring payment capabilities

Online payments have made subscription markets operate with ease. Earlier, people used to make cash/card payments at regular intervals. Now, payments are automated and people don't have to actually remember to pay or take the effort to go all the way to the physical place of business to make their payments. This has made receiving and accepting payments easier for both the seller and the customer.

Conclusions

Digital payments improve the speed and reduce the cost of payments between SME entrepreneurs and suppliers, employees, customers, and governments. Digital financial systems make it easier for SME entrepreneurs to access credit products to start and expand their businesses and encourage formal entrepreneurship by facilitating compliance with regulatory and tax obligations. Government of India can promote digital financial services by

investing in the necessary physical and regulatory infrastructure and collaborating with private entities to offer training for potential users. A strong financial infrastructure, including access points such as mobile phones, is needed to support digital payment systems. SME Entrepreneurs and employees often lack financial literacy, making it harder for them to use digital financial products efficiently. Digital payments can increase an SME entrepreneur's profitability by making financial transactions with customers, suppliers, and the government more convenient, safer, and cheaper. Paying wages digitally benefits employees and is safer and more cost-effective for employers as well as micro, small and medium enterprises. Digital payments automatically provide users with a credit history and can thus improve an SME entrepreneur's access to credit the money. Digital payments give women SME entrepreneur's greater control over their income, potentially benefiting their entire household, especially children's.

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