

DIGITAL PAYMENTS-A PASSAGE TO CASHLESS ECONOMY

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Abstract

Cash has been in use for over 2600 years and is the dominant form of transaction globally. Challenging this would be as revolutionary as attempting to replace tyre or the wheel. Many developed countries continue to have a significant proportion of transactions in cash. We do not know the future but all cash transactions can be replaced with digital ones. It is for the people to have the incentives to decide whether it makes sense for them to transact in cash or in digital form. It is important for them to have this choice. An ordinary Indian should have the choice to be able to safely, reliably and conveniently transact money digitally at a price which is affordable and at places where needed. An attempt has been made to study the preference of digital wallets over traditional cash payments.

Keywords: Cash, Digital payments, Economy, Technology

Introduction

Cash offers instant settlement, 24x7 up-time, familiarity and an illusion of zero transaction cost but 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. In this backdrop, the government has set a roadmap for digital payments to grow substantially over the next few years from the current level of about five

percent of personal consumption and twenty per cent of all transactions. India's cash to Gross Domestic

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Product (GDP) ratio is among the highest in the world which is likely to be reduced from about twelve percent to six percent by the introduction of digital money. Technology has led to payments emerging as a distinct industry: one that is increasingly dominated by Fintech companies. Payments is a business of transferring money. Traditionally, the field of payments has been bank driven. Also, banking is the business of giving assured returns on deposits and lending. India needs the combined effort of banks and non-banks to promote digital payments. The need is to focus on strengthening the ecosystems and suggest ways to enable the markets to be competitive and innovative; safe and resilient; accessible and inclusive.

Today, this is achievable as it is possible to build secure payment solutions suited to ordinary Indians which are as convenient as sending a message. About sixty-five percent of population have active mobile telephony. Ninety-nine percent have electronic identity in the form of Aadhaar. About thirty-five percent have already adopted use of technology in the form of internet and social messaging {a tenfold increase over ten years}. This was made possible because telecom regulations mandated open access and inter-connectivity.

Objectives

The major objectives of the present study were:

1. To study the factors contributing to the growth of digital payments in India.
2. To study the trend of cashless payments

Hypothesis

1. The people in the age group of 25-35 years are aware of the different modes of digital money and are switching to digital payments for its sheer convenience.
2. Cards have been the preferred mode of payment since demonetization.

Research methodology

The explanatory research has been carried to draw inferences about preferred modes of payments after demonetization to make India a cashless economy. The structured questionnaire was administered to 120 respondents of different age groups in tricity. In the questionnaire, ten dimensions related to study were randomly arranged.

Analysis

The respondents were asked to present their views about the preferred mode of payment. 65% respondents in the age group of 25-35 prefer net-banking for high-ticket transactions, although cards are the preferred mode of payment since demonetization.

The main concerns for not using digital mode by the respondents in the age group of 40-60 years is the risk of fraud and lack of merchant acceptance. 53% people are switching to digital payments for its sheer convenience. Three out of six respondents do not use a security software on their mobile phones and two out of every five respondents admit to never changing their security passwords. Only 7% feel comfortable sharing critical financial details during digital transactions.

66% of the respondents are likely to continue with digital payments for most transactions.

Conclusion and Recommendations

Given the evolving nature of payments, what is a great solution today becomes an obsolete technology tomorrow. The cashless transactions have increased these days irrespective of the digital illiteracy. But, India cannot become a cashless economy for next few years. The role of the State should be minimal and be driven towards creating an enabling ecosystem. It should focus on identifying and addressing market failures, situations when the competitive outcome of markets is not satisfactory from the point of view of society. The actions of the State should consider its capacity to intervene and Indian Government should work towards increasing the share of cashless transactions, which is a good thing for any economy.

Even though people are facing few problems, they are ready to bear these problems for its positive effect on the economy. If government successfully clears all the problems, drawbacks associated with the demonetization and bring continuous efforts on cashless business, this demonetization will become the successful economic revolution in India and we can expect a better tomorrow with corruption free India.

In summary, India is at an inflection point in its payment digitization journey. Innovations in form factors, technology, and measures like the Bharat Bill Payment System, Payments and Small Finance Banks are all building blocks of a less-cash society. Together, with a series of interventions

by the Government of India, these building blocks could accelerate the pace and scale of digitization.

However, additional government interventions will be necessary to increase the amount of personal consumption spent digitally from 5 percent to 36 percent; reduce the ratio of coins and notes in circulation to 10 percent from about 11 percent; and drop debit card usage at ATMs from 83 percent today to 76 percent over the next few years.

These include:

1. Establishment of an acceptance development fund, with participation by all relevant stakeholders.
2. Introduction of fiscal incentives for consumers capped at INR 2,000 per capita per year for five years as well as reducing 50 percent of the merchants' corporate tax liability on 50 percent of their revenues.
3. Levying administration sanctions for non-acceptance of digital payments, and promoting caps for cash transactions.
4. Reduction in taxes and duties for point-of-sale terminals, in addition to promoting domestic manufacturing.
5. Adoption of open loop payment systems for mass transit that enable citizens to use bank-issued contactless chip cards to make transit payments, and allow individual payment networks to undertake settlement at the backend, as recommended in the Reserve Bank of India's Payment Vision 2018.
6. Introduction of new regulations to mandate payment of all salaries electronically.
7. Procurement by the Government of India's 70-plus departments to be done through a virtual account.
8. Manifold efforts to bolster financial literacy and participation.

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