DIGITAL PAYMENT SYSTEM IN INDIA: ISSUES AND CHALLENGES

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Abstract: A digital payment system in India is an effort to move towards cashless economy by minimizing the use of cash in physically. The reason is that to adopt electronic transaction in payment system, because it brings efficiency and transparency in transactions as well it enables faster growth and development of the economy. The study attempt to evaluate the e-transaction system in India along with methods of digital payments, recent trends which are associated with digital transaction and challenges in making India as a cashless economy. The study based on secondary source of data. Study reveals that India is still lacking behind in electronic transactions, but after the demonetization (2016) there is a positive sign have been seen in the using of digital transactions. The study recommends that government should promote and encourage their agencies and private sector service providers to widen financial literacy at a great extent.

Key Words: Digital Payments; Efficiency; Transparency; Cashless Economy

I. INTRODUCTION

Payment system plays an important role in driving the economic and social Development of the country. The last couple of years i.e., after the demonetization have been tremendous growth in use of internet and mobile phones in India. Increasing use of internet, mobile penetration and government initiatives such as Digital India, are acting as catalyst which leads to exponential growth in use of digital payment. India remains a largely cash based economy with cash accounting for more than 78% of all retail payments. Digitalization of transaction is the best way to move towards cashless economy. Such a cashless economy is releasable by promoting electronic money instruments, developing financial infrastructure and spreading digital transactions habits among people. Digitalization of transaction will benefit the poor, the middle class, the businesses and the nation. India is significantly behind peers on digital transaction and digitalization will create a multiplier benefit in efficiency of capital and resource allocation through greater transparency, traceability of transactions, enforce ability of low and significantly buoyed tax which will augment state's resources for social welfare.

II. Objectives of the Study:

1. To analyze the different digital payment methods in India.
2. To study the usefulness of digital transactions.
3. To investigate challenges ahead to achieve digital payment system.

III. Research Methodology:

The study is based on secondary data. The required data has been extracted from various sources like research journals, periodicals, government publications, magazines, newspaper articles and other authenticated to analyze effectively .The current study is an attempt to examine the digital payment in India.

IV. Results and Discussion:

In this category the discussion has been done on definition and modes of digital payments, evolution of financial infrastructure, some recent trends digital payments in India and its advantages challenges ahead to achieve 100 per cent digital transactions.

V. Evolution of Financial Infrastructure in India:

There are so many initiates taken by the government of India and RBI to achieve the goals of financial literacy. The evolution of India's financial infrastructure can be classified into following three main phase:

First phase	
Years	**Initiatives of Government Authorities**
1984	Introduction of magnetic Ink character Recognition (MICK) technology.
1987	First ATM installed in Kolkata.
1988	Computerized settlement operation at cleaning houses of RBI.
1998-2000	Core banking software.
Second phase	
2001	Internet banking.
2004	National financial switch.
2004-2005	Real time gross settlement(RTGS) National electronic fund transfer(NEFT)
2007	Mobile banking
2008	Check transaction system.
Third phase	
2010	Immediate payment service (IMPs).
2012	Adoption of ISO 200222 messaging standard in the Next Generation RTGS (NG-RTGS) system.
2014	Jan Dhan Yojana, National unified USSD platform RuPay card, Bharat Bill payment system (BBPS).
2016	UPI, Payment banks, mobile wallets.
2017	BHIM App.
2018	AePS

Definition of Digital Payment:

The payment and settlement act-2007 has defined payments. As per this any "electronic funds transfer" means any transfer of funds which is initiated by a person by way of instruction, authorization or order to a back to debit or card an account maintained with that bank through electronic means and includes point of sale transfers, automated teller machine (ATM), transactions direct deposits or withdrawal of funds, transfers initiated by telephone, internet and card payment. The general meaning of digital payment is, it 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 payments.

Modes of Digital Payments:

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."Faceless, Paperless, Cashless" is one of professed role of Digital India. As part of promoting cashless transactions and converting India into less-cash society, various modes of digital payment are available such as:

- Plastic Money- Debit/credit cards.
- Net Banking – Online Fund Transfer.
- E Wallets- Paytm, Freecharge etc.
- UPI- Unified payment Interface Apps.
- Aadhaar card- Aadhaar enabled payment system.
- USSD (Unstructured Supplementary Service Data).

Plastic Money:

Plastic money means debit and credit cards that are used at ATM's for cash withdrawal POS machines while shopping. Having a debit or credit cards make you burden free from carrying cash. Also risk of theft goes down to zero as it needs a PIN to carry out transactions. You don't need to carry out huge amount of cash with you. Just swipe and go. Debit card payments are made through bank account. Bank account gets debited while paying using debit card, but in case of a credit card, it is monthly postpaid bill payment system that takes place.

Net Banking:

Net banking is another way for making transactions electronically. All you need is a bank account with e-banking facility enabled on it. You can transfer your funds to others account from comfort of your home. There

is no need of going to your bank to get transfers done. You can make all payments and transfers yourself. This is a very convenient way to go cashless in India As Well.

E-Wallets:

E-wallet stands for electronic wallet. It is a type of electronic card which is used for transactions made online through a computer or a Smartphone. The utility of e-wallet is same as a credit or debit card. An e-wallet needs to be linked with the individual's bank account to make payments. The main objective of e-wallet is to make paperless money transaction easier.

UPI:

Unified payments Interface (UPI) is a payment system launched by National Payments Corporation of India and regulated by Reserve bank of India which facilitates the fund transfer between two bank accounts on the mobile platform instantly. Unified payment interface is an electronic funds transfer instrument that enables all bank account holders to send and receive money from their smart phones without the need to enter the bank account information or net banking user id/password. UPI is an advanced version of Immediate payment service (IMPS) platform designed for transforming funds using: Transfer through virtual payment address (unique id provided by bank) or Account number + IFSC or Mobile number + MMD(mobile money identifier) or Aadhaar number or collect/full money basis virtual ID. National Payment Corporation of India has launched a payment app BHIM and NUUP service for performing transaction using Aadhaar number over UPI.

AePS:

AePS is a bank led model which allows online interoperable financial inclusion transaction at POS (MicroATM) through the business correspondent of any bank using the Aadhaar authentication. AePS allows you to do six types of transactions. The only input required for a customer to do a transaction under this scenario are;-

- IIN (Identifying the bank to which the customer is associated).
- Aadhaar number.
- Finger print captured during their enrollment.

USSD:

USSD banking or *99# banking is a mobile banking based payment mode. You do not need to have a Smartphone or internet connection to use USSD banking. You can easily use it with any normal feature phone. USSD banking is as easy as checking your mobile balance. You can use this service for many financial and non financial operations such as checking balance, sending money, changing MPIN and getting MMID.

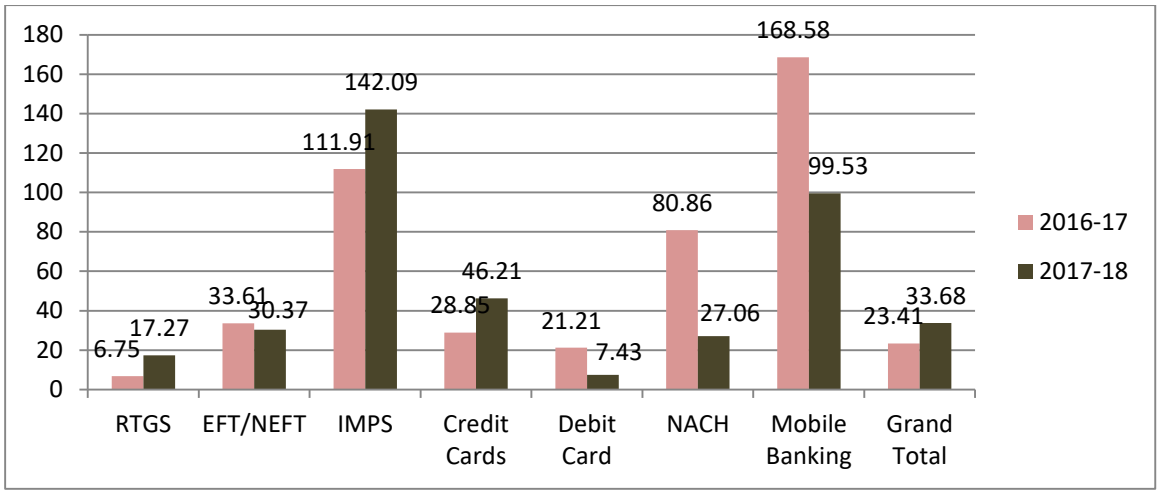
The *99# code works as a bridge between your operator's server and your bank's server. It is uses your registered mobile number to connect with your bank account. Hence dial *99# with your registered mobile number only. USSD banking has a transaction limit of Rs.5000 per day per customer. RBI has also set a maximum change of Rs.2.5 per operation.

Recent Trends in Digital Payment in India:

Digital payments and per capita transaction in India are one of the lowest compared to similar countries as indicated in following table;

Country	Non-Cash Transaction By Non-Bank Per Capita Per Annum	No. of Pay Points Per Million People
India	11	1080
China	26	16,602
Mexico	32	7,189
South Africa	70	7,267
Brazil	142	25,241
UK	355	30,078
Singapore	728	31,096

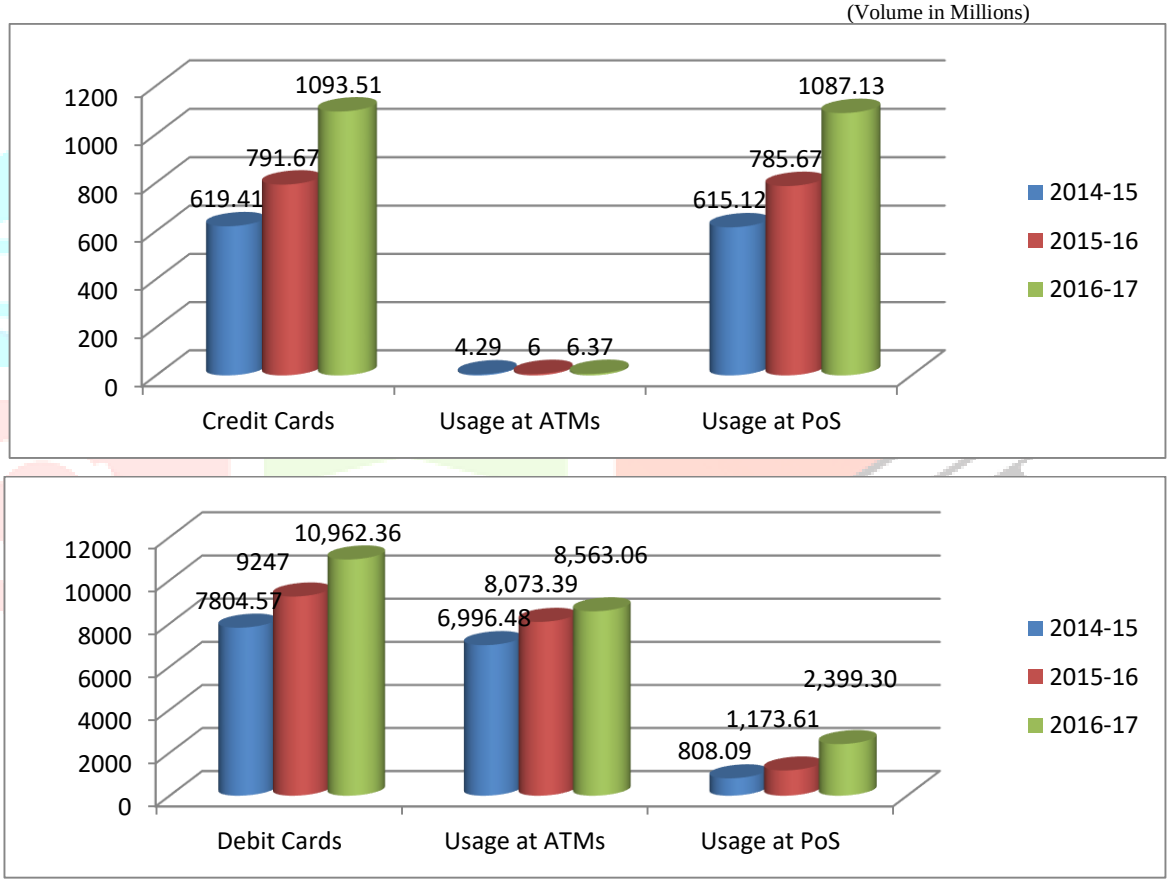
Growth Rates of Digital Transaction by Various Modes in 2016-17 & 2017-18



Source: Database of Indian Economy, RBI**,**

Usage of Credit and Debit Cards

(Volume in Millions)



Source: Database of Indian Economy, RBI,

Status of Pradhan Mantri Jan Dhan Yojana

(As on Dec-2017)

Bank Name/Type	NO. OF Beneficiaries			No. of RuPay Cards
	Rural	Urban	Total	
Public Sector Banks	13.3	11.5	24.8	18.6
Regional Rural Banks	4.2	0.8	4.9	3.6
Private Sector Banks	0.6	0.4	1.0	2.0
Grand Total	18.1	12.7	30.7	24.2

Sources: GOI – https://pmjdy.gov.in/account

Advantages of Digital Transactions:

Electronic transaction offers many advantages to the government as well as people:

Lower risk: With proper cyber security, online payment is relatively risk free, whereas there are always safety issues with physical cash.

Reduction in the cost of printing money: There is a process of issuance of currency where government bear, costs against designing, developing, printing, storing, transporting and placing etc. All this can be avoided by digitalization of cash transaction. In financial year 2015, RBI spent Rs.27 billion for priority new currencies.

Convenience and accessibility: Customer no longer needs to carry cash or visit an ATMs. In fact, they don't even to be physically present to pay! Customer can pay anytime from any part of the world.

Accountability of notes: In India 1 in 7 notes is supposed to be fake, which has a negative impact on economy. By going cashless transaction, accountability of notes and coins in circulation will be possible.

Transparency and monitoring: Cashless can be easily monitored by the government. Therefore, tax evasion would be difficult and would enhance revenue collection.

Low cost of transactions: There are efficiency gains as transaction costs will also come down by using methods of digital payments.

Challenges Ahead:

There are various challenges for the people and also for the government there is unanimous agreement on the need to go digital. But can this be possible without paper infrastructure?

In rural areas we are suffering lack of ATMs and POS machines, E-wallets and mobile payment systems need a Smartphone and an internet connection, but less than a quarter of the population owns a Smartphone, a fast and reliable internet connection, expensive and difficult to find, Public Wi-Fi hotspots and mobile phone battery charging stations few and far between, card cyber security remains a key concern along these the followings are also crucial challenges to go digital payment or E-transactions:

Cash dominated economy: There is high level of cash circulation in India, cash in circulation amount to amount 11.1 as percent of India GDP, and nearly 90% of transaction take place in cash informal/unorganized sectors.

Language Barriers: Internet is an English base platform. The details on the plastic card also in English. The messages received on mobile regarding transaction are also in English. Therefore, it is required to use multiple languages regarding these processes or make everyone learn English.

Expensive swipe Machines: Swipe machines are also not subsidy free. It can only be afforded by rich shopkeeper. It can't be expected from an auto driver or a normal grocery seller to afford swipe card machines. Besides many street vendors shopkeepers don't know how to use swipe machines.

Low financial literacy rate: According to 2011 censes India has 74 per cent literacy rate, but only 10 to 1 percent of people have the knowledge about finance and transaction.

Slow internet speed: Internet is a pre-requisite for digital transaction. India is plagued with very low internet speeds, which continue to inch up but lower than global bench mark.

Findings and Suggestions:

The payment system initiatives taken by the Government and RBI have resulted in greater acceptance and deeper penetration of non-cash payment modes. India in terms of using digital payment methods is still very poor in comparison to other similar countries in the world. Most of countries have already adopted electronic transaction system, India is in its initial stage and majority of people depends on cash based transaction, the reason is that unavailability of proper internet connectivity, lack of awareness and knowledge about financial transaction etc.

India needs to come up with new policies of digital transactions. The study recommends that government should promote and encourage their agencies and private sector service providers to widen financial literacy at a great extend. Government should make compulsory to everyone must and should pay their water bill electricity bill etc. through only with digital modes of payment. Along this government should provide additional benefits to those individuals who are using electronic methods to various payments and transactions.

Conclusion:

Achieving at 100 per cent cashless economy through electronic transaction only will never possible but we can achieve at least the goal of less cash economy and society. However, move towards traditional payment system to digital payment system depends on how effectively we deal issues like cyber security, online frauds, fake accounts, awareness campaigning and proper remedial system.

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