

# **ELECTRONIC PAYMENTS IN INDIA: ISSUES AND CHALLENGES**

**BY**

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## **ABSTRACT**

The paper evaluates the challenges in adoption of electronic transactions in India. Demonetization has given a trigger to move towards cashless transactions in India. But the sustaining the momentum gained after demonetization requires a comprehensive integrated approach, otherwise the cashless transactions will remain confined to urban areas. The paper draws upon secondary data to examine the trend and challenges. An 8C Model is proposed to overcome challenges. Cashless transactions have the potential to bring efficiency, transparency and accountability.

**Keywords:** Electronic Payments, Demonetisation, 8C Model, Challenges, Comprehensive

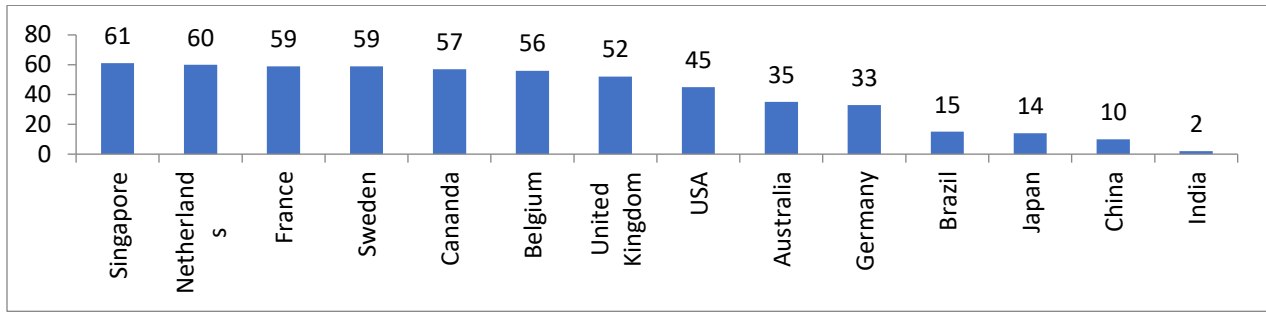
## **INTRODUCTION:**

As a part of digital revolution, the Prime Minister, Mr. Narendra Modi took a major policy initiative by demonetization of Rs. 500 and Rs 1000 currency notes on 8<sup>th</sup> November 2016. In a country where 98% of all economic transactions by volume are done by cash, demonetization of 86% of currency was a bold move by Prime Minister Mr. Narendra Modi. Such a drastic change passed peacefully, without any major social unrest and victory in 4 states out of five in state assembly elections held after demonetization is an indication that the citizens of the country have supported the move, though improper mob management by bank employee has led to some casualties.

In an era of information technology characterized by reach of smart phones with a large section of population, there could not have been a better time to change the status quo and embrace

**Electronic Payments In India : Issues and Challenges**

Figure1: Percentage of Cashless Transactions in Major Economies

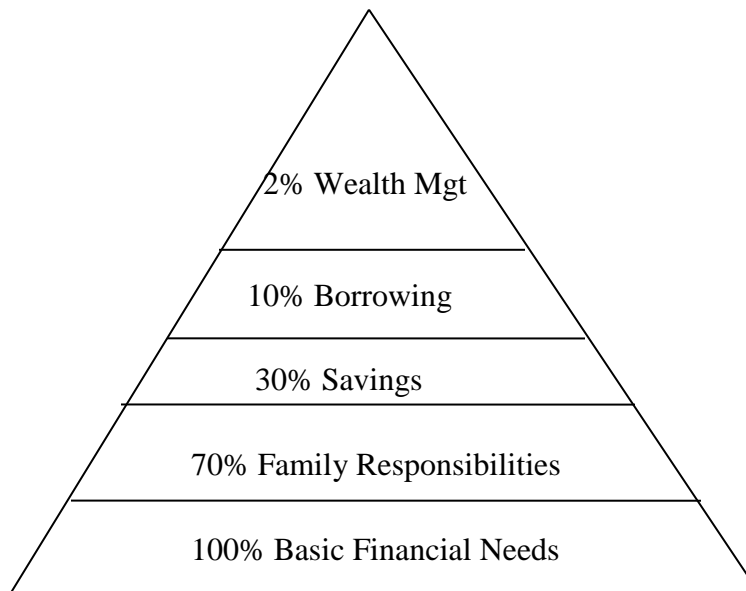


Source: Business Today, 2016

technology for a smart payment ecosystem. Nobody uses outdated inland letters now days in the era of smart phones, because of comfort, speed of communicating through mobile phones..

Though the move has opened up new opportunity for service providers and consumers to use electronic ways to payments, there are many challenges for adoption of electronic payments by a large section of society.

Figure 2: Financial Services required by Percentage of Population



Source: Watal Report

**Objective:**

1. Examine the trend and challenges in adoption of Cashless payments in India after demonetization.
- 2.

**Electronic Payments In India : Issues and Challenges**

## **Features of New Digital Transaction Methods:**

### **Payment Banks:**

73% of the people in rural areas still have no formal financial institutions to do their day to day monetary operations viz. credit and debit operations. Either they have to depend on the local moneylenders or to the relatives for their need, also keeping money at home invites trouble of theft etc. The RBI and GoI have come up with Payment Banks as a milestone solution to all these problems.

Payment banks are setup on the recommendation of Nachiket Mor Committee and will be registered as a public limited company under the Companies Act, 2013, and licensed and governed under Banking Regulation Act, 1949. Payment banks are entities that allow you to only open savings and current accounts. A payment bank can be a mobile service provider, supermarket chain, non-banking finance company, corporate business correspondent.

Maximum deposit per account will be Rs. 1 Lakh this will also check superfluous accounts and prohibit money laundering. They will offer debit card, net banking facilities and will set up ATMs at remote locations in rural areas. They are allowed to distribute mutual fund products, insurance products and pension products. Bank can also undertake utility bill payments. Has to use the word payments bank in the name of the bank

## **UNIFIED PAYMENT INTERFACE**

1. App based transaction platform on smart phones
2. Download the UPI app, create your unique id, set your pin
3. Sends and receive funds using unique id.

## **E-WALLET**

1. Another app based payment mechanism.
2. Link debit or credit card and use the app for payment.
3. Top up the E-wallet with cash and use for transaction.

## **CARDS:**

1. Payment can be made using Prepaid, debit or credit cards.
2. Need a pos terminal to swipe the cards.

### **ADHAR ENABLE-PAYMENT SYSTEM**

1. Link your Aadhar card with bank account.
2. Transfer funds and withdraw cash using Aadhar number and biometric authentication

### **UNSTRUCTURED SUPPLEMENTARY SERVICE DATA**

1. Normal mobile phone is used to transfer funds.
2. Mobile phone linked to bank account to facilitate transaction.

### **LITERATURE REVIEW**

Success story of Singapore is an example of eliminating corruption by demonetization (Gupta, Acharya, 2016). Demonetisation puts a premium on honesty and penalises dishonest conduct. The terror funding by fake currency has suffered after demonetisation. The cases of stone pelting have drastically declined after demonetisation (Majid, 2016). The terrorist activities have declined by 60% in Jammu & Kashmir, and hawala operations have declined by 50%. Moist are struggling to find cash to buy ammunitions (The Times of India, 2017).

In 1946 after demonetisation the stock market fell for two years, in 1978 stock market rallied for 3-5 years after demonetisation (Modi, 2016). There is no significant impact on equity markets after demonetisation in 2016.

### **RESEARCH METHODOLOGY:**

The exploratory research design is used for the study. The secondary data is used to identify the challenges is adoption of cashless transactions. The data was obtained from published reports and newspaper articles. The data was analysed through descriptive statistics.

### **FINDINGS:**

**The Brighter Side of Demonetization:** The move is considered to be a boon for the economy in the long term.

**Acceptance by People:** The people's verdict on demonetization can be assessed by the results of five state elections after demonetization. The victory of BJP in four of five states led by strong wave of Prime Minister, Mr. Narendra Modi indicates that people have accepted the move. The big victory coming from Uttar Pradesh with largest margin in 30 years (Tamkin, 2017) further supports the positive side of demonetization, as UP has been dominated by caste politics. BJP was able to cross the caste barrier on the agenda of growth and governance.

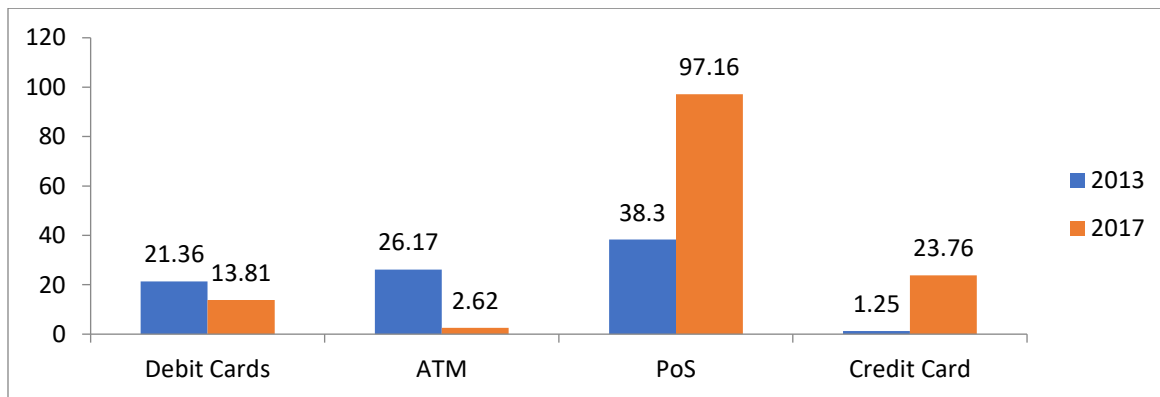
**Emergence of Alternative Payment Mechanisms:** Demonetization has shaken the age old habits of dependence on cash for all transactions. Consumers have started searching and utilizing alternative ways of doing financial transactions. Payment through mobile, card has shown increase with entry of new apps and growing acceptance of apps that existed prior to demonetization. Bharat Interface for money (BHIM) app has been downloaded over 1 million times. Unified Payment Interface (UPI) has shown 582% increase in volume (2 million), 686% increase in value (711 crore). USSD Unstructured Supplementary Service3 Data increased 10 times in value and volume. Overall electronic payments increased 40% in volume (939 million) and 10% in value (10 lakh crore). Two crore new accounts have been opened and 3 lakh crore deposited in these new accounts.

**Leads to Uncover Black Money:** Central Board of Direct Taxes has indentifies undisclosed income of Rs. 9334 between 9<sup>th</sup> November 2016 and February 2017. Operation clean money has led to identification of 60000 persons for cash sale after demonetization (Indian Express, 2017).

**CHALLENGES:**

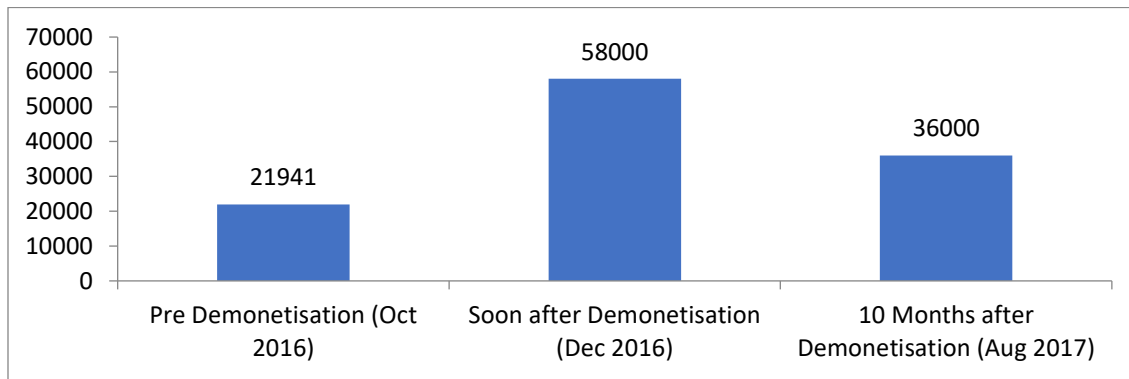
The Pos and credit cards have shown significant year on year growth in 2017, whereas debit cards and ATM's shown growth of 13.81%and 2.62% only.

Figure 3: Year on Year Growth (%) of Digital Payments



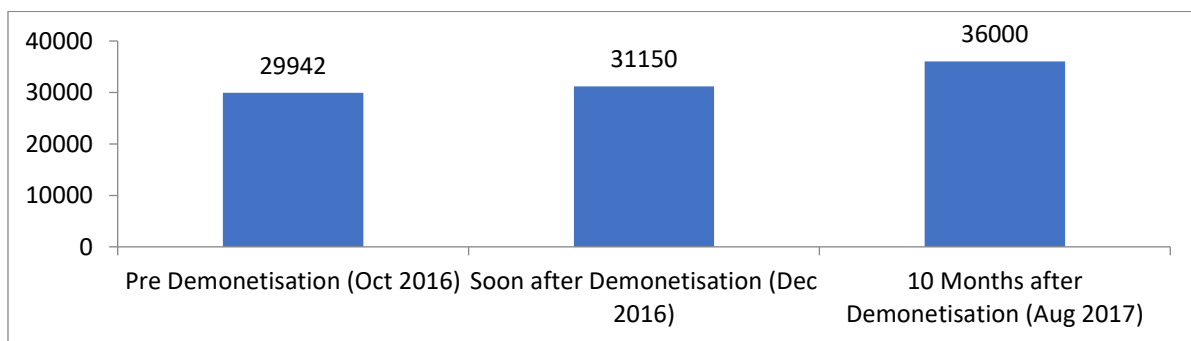
Source: Kishore, 2017

Figure 4: Transactions on Debit Card (Rs.Crore)



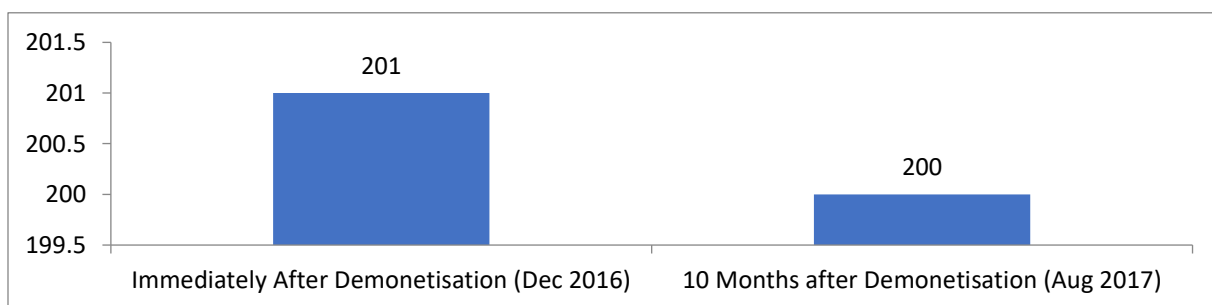
Source: Gupta, 2017

Figure 5: Trend of Credit Card Transactions(Rs.Crore)



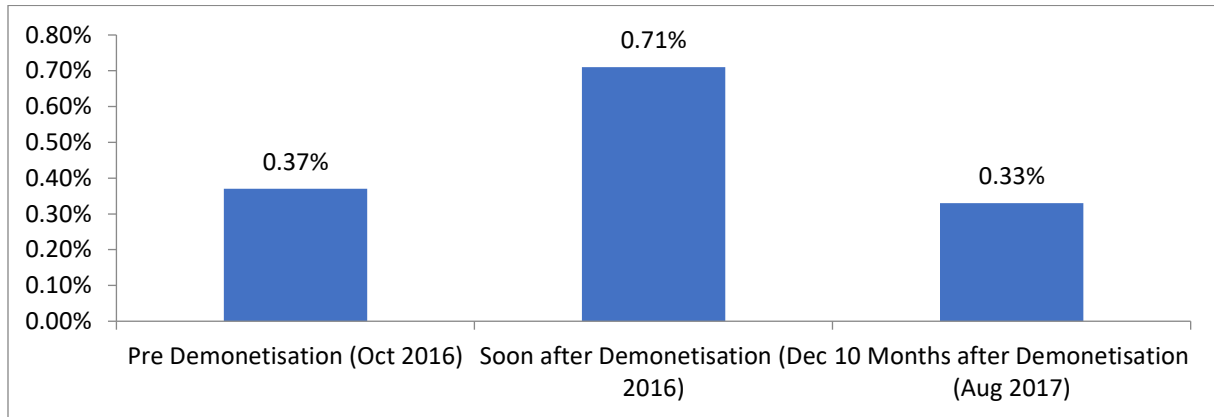
Overall electronic transactions have gone down 0.7% as compared to December 2016 from Rs 201 trillion to Rs 200 trillion in August 2017 (Chitra, 2017).

Figure 6: Overall electronic Transactions (Rs. Trillion)



Source: Chitra, 2017

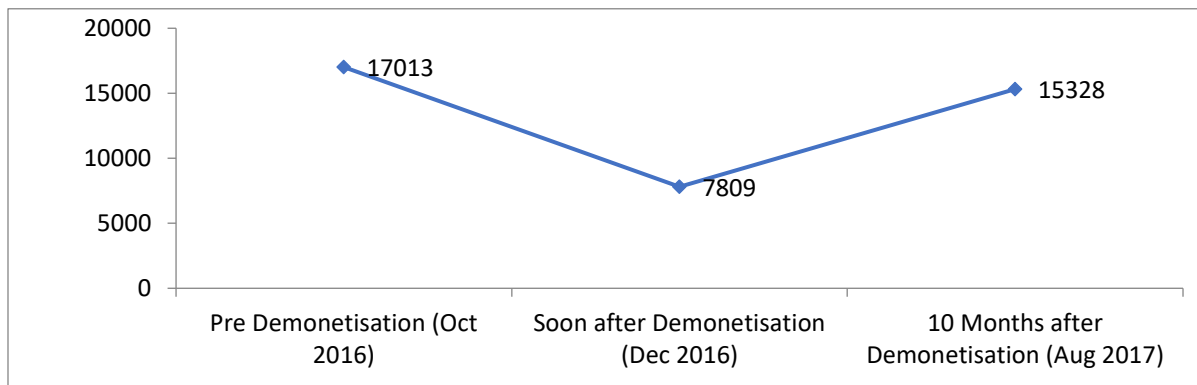
Figure 7: Market Share of Mobile Banking in Electronic Transactions



Source: Chitra, 2017

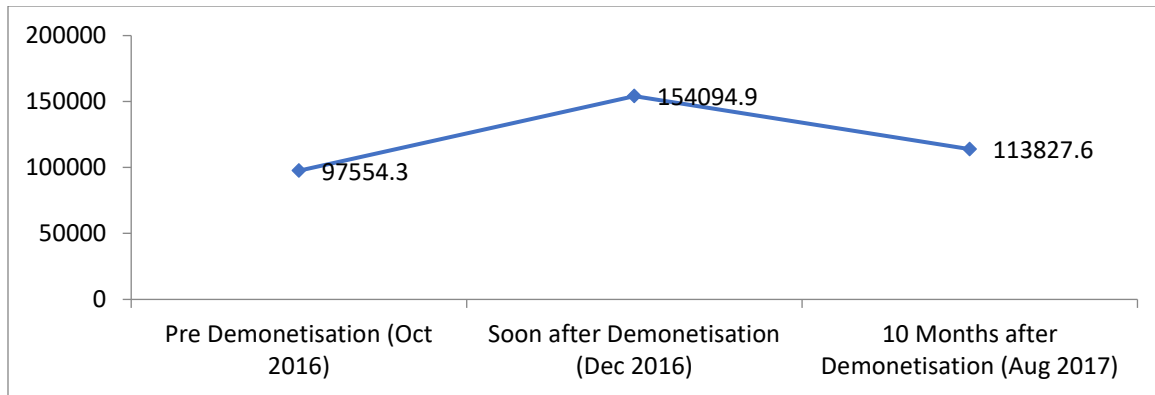
Total currency with public has also gone up close to pre-demonetisation levels as shown in figure

Figure 8: Currency with Public (Rs Billion)



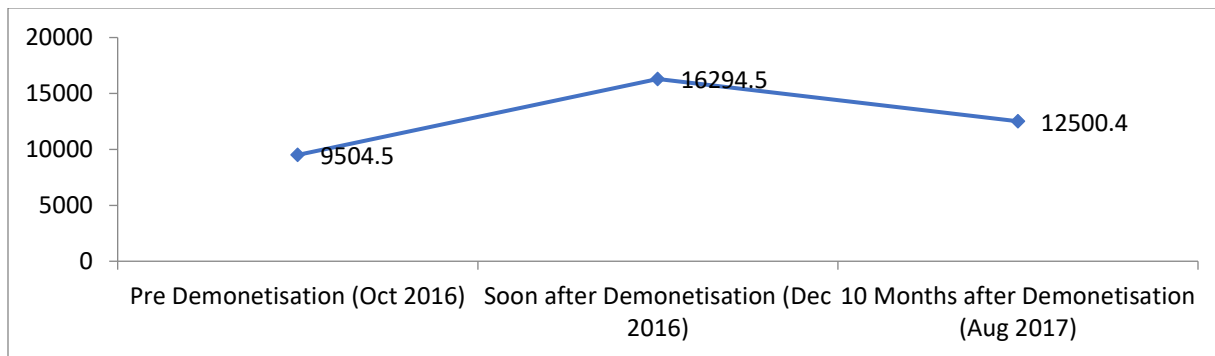
Source: Chitra, 2017

Figure 9:RTGS Transactions (Rs. Billion)



Source: Chitra, 2017

Figure 10: NEFT Transaction (Rs. Billion)



Source: Chitra, 2017

**Failure to Reduce Black Money:**

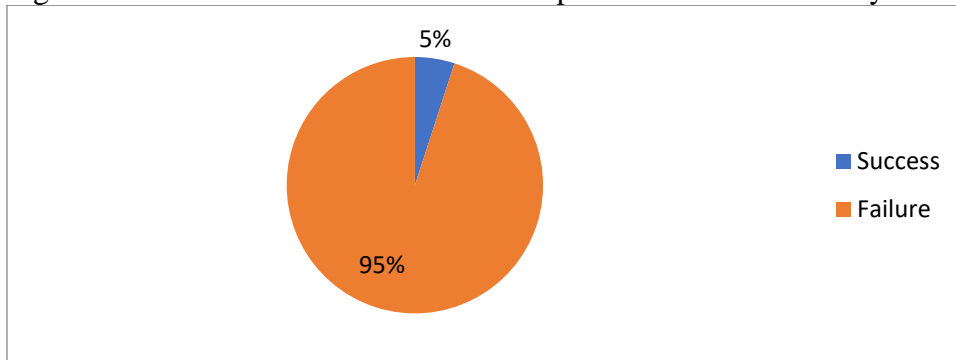
The demonetization may not significantly reduce black money, as cash component in black money is 5%. In income tax probes between April and October 2016 identified Rs. 7700 crore as black money, but cash component was just 5% (Rs. 408 crore). Non cash modes of black money were more prevalent. Investment in business, stocks, real estate, benami bank accounts and shell companies are used to store black money. Physical logistics also makes holding black money in cash non feasible. The weight of Rs. 100 crore if stored in Rs 1000 notes would be 1.3 tons (Appu, 2017).

The Income tax department has only 5% success rate in black money cases. In 2014-15 out of 669 cases put up for prosecution by incometax department, success was achieved only in 5%, 34 cases (Bhattacharjee, 2017). Poor success rate fails to create a fear among the black money



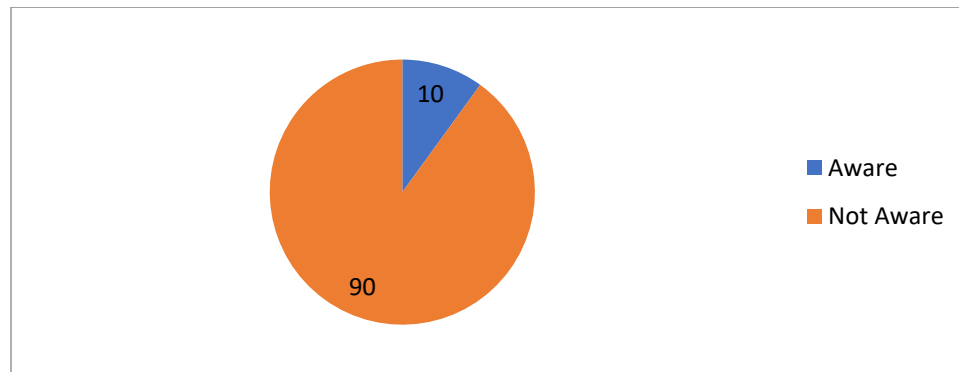
hoarders. They are happy to treat income tax department investigations as temporary hassle, which can be managed.

Figure 11: Success Rate of Income Tax Department in Black Money Cases



Source: Bhattacharjee, 2016

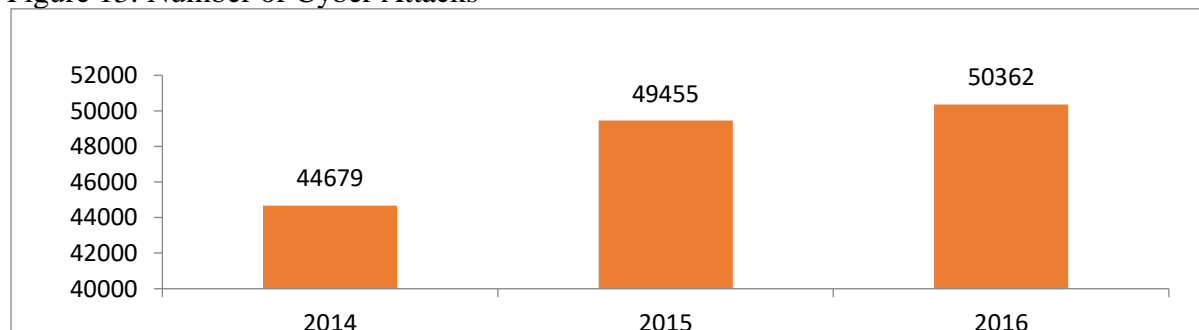
Figure 12: Awareness about Cashless Transactions Lessons



Source: KPMG, 2017

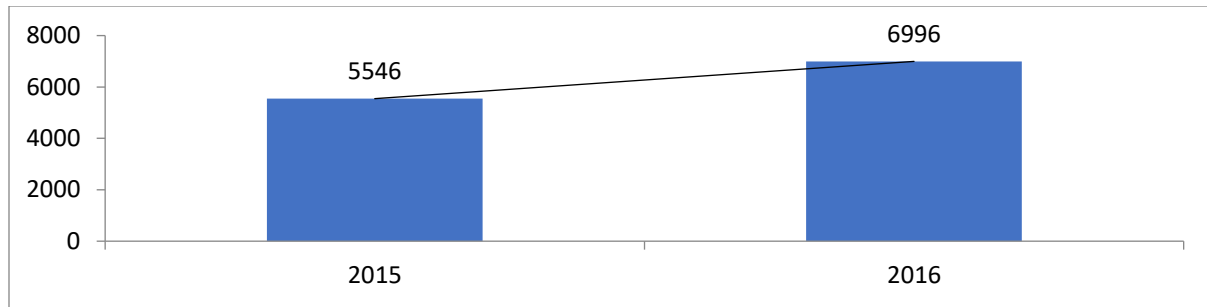
### Cyber Crime:

Figure 13: Number of Cyber Attacks



Source: News18, 2017

Figure 14: Number of ATM Fraud Cases



Source: News18, 2017

### Recommendations:

After review of the challenges it is observed that the solution to overcome the challenges must be comprehensive, integrated, responsive and proactive. To overcome the challenges 8 C Model is proposed.

### 8 C MODEL FOR IMPLEMENTATION OF DIGITAL PAYMENTS:

1. **Coverage:** Demonetization will be successful only if it covers the rural households and they start getting the facilities of electronic payments. The rural merchants should be provided with POS machines.
2. **Confidence:** The growing incidents of cybercrime frauds develop a sense of confidence among people while using cashless modes of payment. Strict punishment should be given to those indulging in cybercrimes. The security systems should be made robust enough to thwart any attack by cyber criminals and safeguard the people against any case of fraud involving cashless payment systems.
3. **Cost:** Government should strengthen its own payment infrastructure to provide low cost electronic payments through Aadhar based tools and save the economy from 1% commission charged by card companies. This will save Rs. 6000 crore for the consumers collectively. The estimated size of digital transactions is about Rs. 6 lakh crore and is expected to grow to Rs. 90 lakh crore (Sunja et al. 2017). Government should eliminate transaction charges on all electronic payments up to Rs. 2000.
4. **Compatible:** The mobile based payment systems should be designed in such a way that they have features to be used by any kind of mobile handset. India had only 300 million smart phones in 2016 (Mukherjee, 2017). Most of the digital payments are used by people having smart phones or debit, credit cards. The poor penetration of smart phones is a challenge.

5. **Convenience:** The use of cash is seems to be more convenient to people who have been using cash for payments, since decades. Use of electronic payments first time is a challenging task for the users. To overcome the mental barrier, the user friendly methodologies should be adopted to make it convent and easy to use by people of all age groups and educational backgrounds.
6. **Convince:** Start promotional campaign and one to one contact using different institutional frameworks to create awareness and clear the doubts of people about use of digital modes of payment. The promotional campaigns should focus on urban, semi urban, rural areas separately to motivate people to do cashless payments. Incentive schemes should be launched in semi urban and rural areas to motivate people to go for cash less payments.
7. **Communicate:** Communicate with the people through multiple channels to create awareness about the usage of making cash less payments. Though government has launched digicashtelelevision channel, but 90% people are not aware of it. Sports, Film personalities and other celebrities should be motivated to become brand ambassador to create awareness about cash less payments.
8. **Compel:** Make digital payment mandatory for operating business and any type of financial transactions after ensuring availability of adequate infrastructure. Make it mandatory to payments in educational establishments and public utilities, gradually moving from urban, semi urban and rural areas respectively.

### **Conclusion:**

The liberalization and globalization reforms led to new wave of economic growth, followed by information technology revolution in Indian economy. Demonetisation was a bold move towards cashless economy. But as the trends indicate the sudden increase in digital transactions after demonetization have gradually slowed down. The bottlenecks should be removed and a comprehensive approach is required to develop an ecosystem to move to cashless economy. The authors propose an eight C model; coverage, confidence, cost, compatible, convenience, convince, communicate and compel to improve electronic transactions.

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