

Digital money - “An emerging payment system in India”

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Abstract: *The development and adoption of the technology in the banking industry is considered to be the key to the growth of economy. India’s banking and financial sector is expanding rapidly with the potential to scale greater heights in the near future. In this context, this paper attempts gauge the growth of plastic money in India in the light of slew of measures undertaken by RBI and the government of India in order to make India a less-cash society. It is found that the digital payments have recorded impressive growth. As the debit card to credit card ratio stand at 27:1 the debit card appears to be the most sought after one compared to credit card. Despite the fact that the credit card numbers have fallen, their usage at point of sale terminals have shown stupendous performance. However, the average use of debit card at ATMs account for almost 85% of the overall debit card transactions meaning debit cards are highly underutilized at Point of sale terminals. Further, found that in term of volume of transaction one-third happens through cards but in value terms ninety five percent of digital transactions among retail segment take place under the electronic fund transfers and the balance through card payments. The growth in card usage, electronic fund transfers and other channel attest the fact that the digital share of personal consumer expenditure continues to expand.*

Keywords: Banking, Electronic Payments, Digital money, Retail Segments

Introduction

Economic growth is the ultimate goal of every economic unit in the country. One of the important determinants of economic growth of the nation is the development of banking and financial system. A well developed financial system leverages growth and its absence leaves the economy unattractive. The economic growth of a country and development of financial system are mutually dependent. It is presumed that there is an association between financial development and economic growth as development of the banking and financial services sector accelerates economic growth and improve overall economic efficiency. The growth of financial sector in India at 8.5% per year represents the growth of Indian economy too. It is not an exaggeration that the Indian economy has flourished steadily over the past two decades due to measures kicked off to connect it with the global peers. The banking industry has witnessed tremendous progress due to technology up- gradation and innovative methods of payment avenues. Economic historians, Patrick and Richard, opined that the most successful economics tend to be ones that developed sophisticated financial systems at an early stage. With the opening of the financial market in India, variety of products and services were introduced to suit the need of banking customers. The development of the technology based sophisticated systems relating

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to the financial transactions could be considered to be the key to the growth of the sector. India's banking and financial sector is expanding rapidly with the potential to become the fifth largest banking industry in the world by 2020 and third largest by 2025 (KPMG-CII report, 2013). The Indian Banking industry is currently worth Rs. 81 trillion (US \$ 1.31 trillion_Resham Beri).

Electronic Banking Piquancy

Banks, in the past, present and in the future are identified as a financial unit that accepts deposits from customers and lends money. Banker's main purpose then was to manage the savings of people through the mobilisation of funds (Deva, 2005). The nature and quality of banking services have changed over time in response to the changes in the business environment which has been constantly revolutionized by the technological innovation in the twenty first century. Computer together with internet enabled businesses to economies their operations and helped to scale greater heights. Banking industry was a forerunner in adopting technology that paved the way for electronic banking in India since 1991. Various sophisticated products have been launched by banks since then which helped them to meet the basic and latent requirements of their customers. With the entry of tech savvy private sector banks and foreign banks, the competitive environment has emerged in banking sector. Public sector banks that have large network of branches introduced E-banking services on par with private and foreign players. Nevertheless, with the help of information technology, it has now become possible for banks to deliver products and services efficiently and to improve customer base without opening new branches. Now E-banking is the buzzword and underling service that makes the height of competition among Indian banks. Amidst new generation banks and foreign players are trying to compete with them on the basis of adoption of new technological services like plastic cards, Electronic Funds Transfer (EFT), Internet banking, mobile banking etc. to approach the maximum customers in spite of having less physical branches (Venkatesan and Kumar, 2007).

Need for Electronic Payments

“The idea of abolishing cash is an abomination” – an activist against the proposal of a cashless society in Germany (India Today, November 16, 2016). However Sweden, Norway, Denmark, Belgium, France, UK are some of the countries which have achieved cashless society. An overwhelming majority of population opt for cashless transactions as they embraced digital banking. “Cash remains an important mode of payment in the Indian economy, notwithstanding the persistent decline in the share of currency. During 2015-16, the demand for banknotes and coins remained high notwithstanding the growing shift towards non-cash modes of transactions. At end-March 2016, the value of banknotes in circulation was Rs.16,415 billion showing an increase of 14.9 per cent as against 11.4 per cent in 2014-15. The volume of banknotes increased by 8.0 per cent as against 8.1 per cent in 2014- 15. (RBI Bulletin 2016).

Cash as a mode of payment is an expensive proposition for the Government especially in a highly populated country like India. The central bank's spending on printing notes with special security features is increasing. The task of overcoming the problem of counterfeit notes is an yet another vital function. In order to obviate all these menace the country needs to move away from cash-based towards a cashless payment system. This will help reduce currency management cost, track transactions, check tax avoidance / fraud etc., enhance financial inclusion and integrate the parallel economy with main stream (Ashish Das & Agarwal, 2010). Furthermore as the card usage crosses the boundaries of big cities and gains popularity into the hinterland, the electronic payment system will generate huge volumes of data on the spending behavior of persons in these

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areas. This information will help the Government in its objective of getting more and more person under the financial inclusion net by designing products that meet the spending behavior of individuals. Over time when card payments grow and represent a significant part of retail sales, the card payments data could also be used as a quick estimate of private consumption. On taxation front VISA estimates that India’s cost of cash is 1.7% of GDP and foregone tax revenues from the ‘shadow’ economy account for 3.2% of GDP. Perhaps, it is perceived that expanding the use of electronic payments across all sectors will have positive results in the Indian economy by wiping out “black economy” and combating tax evasion too. Moreover, Report on the Cost of Cash in India states the reserve bank of India and commercial banks face a total of Rs. 21,000 crores (us \$3.5 billion) in currency operations costs annually.

Objectives of the Study

The purpose of this paper is to study the growth of plastic money in India and examine the intensification of various forms of payment methods. However it specifically intends;

1. To trace out the origin and development of plastic money
2. To study the trends and composition of electronic payments in India
3. To analyse the growth pattern of digital payment methods.

In addition, attempts also have been made to record the composition of digital payments by retail segment.

Materials and Methods

This is a descriptive research paper. In this study secondary data are used. The data on digital transactions have been culled out predominantly from the Reserve Bank of India’s online data base “Payment System Indicator”. Besides, data on electronic payments were also sourced from RBI’s Annual bulletin and reports. For the purpose of analysis, the collected data were summed up to an annual basis for study period from the financial year 2004-05 to 2016-17. The data were available in terms of volume and value of digital transactions. Since the purpose of the study is to examine the growth pattern in electronic payments, the changes in the volume of transactions are considered to be the true representative of growth. The volume also represents the true potential of the system as higher volumes mirrors more technology adoption among banking customers. The annual data on E-payments have been analysed and presented by way of tables, pie diagram, bar charts and line graphs. In this study special reference also has been made to uncover digital payments made by retail consumer segment.

Review of Reforms by the Central Bank

The Reserve Bank of India played an active role in facilitating the growth and development of financial sector via the Payment and Settlement Systems Act, 2007 which empowers the central banker to authorize and regulate entities operating payment systems in the country. The vision document for Payment and Settlement Systems of the RBI has placed importance of building a ‘less-cash’ society by promoting and nurturing the growth of various modes of electronic payments including the prepaid payment instruments, card payments, mobile banking etc. (RBI, 2014). Since mobile phones have attained increased importance, central bank brought out a set of operating guidelines on mobile banking for banks in October 2008. In July 1, 2013, RBI issued a Master Circular on Credit Card, Debit Card and Rupee Denominated Cobranded Prepaid Card operations of banks which encompass guidelines on credit card Interest rates and other charges, Wrongful billing, Protection of Customer Rights, Redressal of Grievances, Internal control and

monitoring systems to combat frauds as well as orders on some aspects of debit cards such as security, risk mitigation, transfer of funds between domestic debit, prepaid and credit cards, and merchant discount rates. In 2011 guidelines were issued to all banks on issue of credit/debit cards with all security features such as EMV (Europay, MasterCard and Visa) chip on cards, real time fraud monitoring system, use of PIN, and limit on transactions with a view to guarding cardholders against cyber frauds and other misuse.

The Origin and Development Plastic Money

Plastic money are the alternative to the cash or the standard 'Money'. Plastic money is the generic term for all types of bank cards, credit cards, debit cards, smart cards, etc. Plastic cards have changed the way that customers pay for goods and services and today the generic term "plastic money" predominantly refers to the hard plastic bank cards that are issued to account holders for their everyday use in lieu of hard cash or cheques. The idea of using a card to make purchases was first thought of by Edward Bellamy in 1887. The first universal modern credit card, which could be used at a variety of establishments, was introduced by the Diners' Club, Inc., in 1950 aimed at diners; the plastic payment cards operated as charge cards where the customer will have to pay off the entire amount billed by the due date. The first card was issued in India by Visa in 1981. A year before economic reforms kicked off in 1991, Citibank stole a march ahead of its competitors and became the first bank to launch a credit card in India (Rajesh Kothari, 2008). Fifteen years later, the pioneer has been upstaged by a homegrown bank, ICICI Bank, which has raced to the top position in less than four years with more than 3 million cards. The credit card market in India could continue to register the current blistering growth in the medium to long term. That should be music to the ears of banks looking for a slice of an increasingly affluent Indian consumer (Rajesh Kothari, 2008). The credit card is a frilled product since it provides quick credit, although at high cost, as against a tedious process of getting a personal loan. Many banks upgrade cards for the existing customers to higher category e.g. to platinum from silver / gold, which attracts higher interchange fee. This type of card will permit the card holder to withdraw cash from an ATM or purchase goods and services directly from stores that accept the type of card up to the "credit limit" of the card. The money withdrawn from this type of card is basically a form of short-term loan to the card holder.

Debit Cards are electronic plastic cards that are used as a substitute for cash. The first Debit Card may have hit the market as early as 1966, according to a report by the Kansas City Federal Reserve. These are cards that do not have a loan facility tied to them but will directly debit money from bank account when they are used to purchase goods and services, but they are linked to a customer's available credit balance in their bank account. Using a debit card, a customer cannot transact beyond balance that is marked as "available" on their account. The discovery on card front brought smart cards that contain an electronic chip which is used to store cash. This is most useful when customer has to pay for small purchases, for example bus fares and coffee. No identification, signature or payment authorization is required for using this card.

At present, less than 5% of India's Rs.75 lakh crore consumption expenditures are made using digital payments. Consequently, India's average number of per-capita card transactions lags behind leading "less-cash" economies. In 2015, India had 10 transactions per capita compared with Brazil's 163, South Korea's 420, and Sweden's 429 (VISA report, 2016). While the growth in non-cash transactions in India is improving, it is still below full market potential. The 11 payment bank licenses granted by the Indian government in 2015 are an attempt to bring more dynamism to the market. India, with cash in circulation amounting to 13% of Gross

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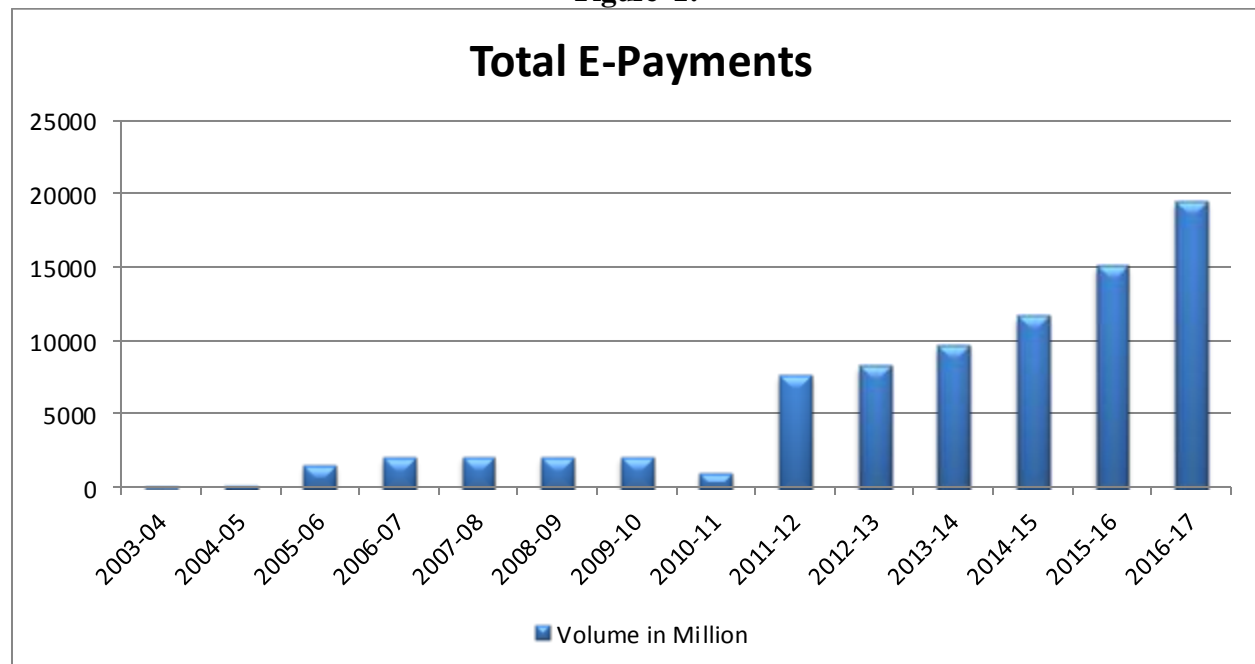
Domestic Product (GDP), remains a laggard when compared to developed countries. Sweden, where coins and bank notes constitute just 3% of GDP, is a global leader in moving towards a cashless economy (livemint, 2015). The US, Canada and Singapore are other notable examples where a majority of consumer spending already happens through electronic means encouraging the use of plastic currency to tackle the menace of black money. An analysis by VISA (2016) shows that in the area of electronic payments India’s performance lags behind Brazil, China, and Russia. India trails because of its limited progress on financial inclusion.

Data Analysis & Discussion

Total Electronic Payments

The payments methods among different economic agents change with the changing time and technology. Advent of technology coupled with modern methods of payment made banking customers to be aware of several risks of using hard cash or carrying large sums of money for day to day monetary transactions. Besides, the cash economy also imposes other hidden costs like the high risk of loss in the intervening period before it is banked and loss of interest income. Perhaps, of late Individual consumers have been embracing plastic money for the sake of convenience and comforts. The security features, risk mitigating system of banks and the invigorating role of the RBI have encouraged individuals and corporate to migrate steadily toward electronic methods of payment. The digital payments in India mainly consist of Real Time Gross Settlement, Retail electronic clearing services, Card payments, mobile banking and prepaid payment instruments. The global non-cash transaction volumes grew at 8.9% and India recorded 13.4% growth in 2014 (Sameer Govil, 2016). It is found that the volume of E-payments in India has been growing at a rate of 18.72% over the last 3 years.

Figure 1:



Source: RBI data base

The policy changes introduced by RBI in 2010 and 2011 in respect of National Electronic Funds Transfer (NEFT), Real Time Gross Settlement (RTGS) and Cheque Collections, appears to have influenced the trend in electronic payment. Figure 1 shows that the electronic payment system remained unattractive until 2011 but after RBI's guidelines were issued to banks with regard to the issue of credit/debit cards with all security features, use of PIN, and limit on transactions with a view to guarding cardholders against cyber frauds and other misuses. The growth of electronic payment that was creeping till 2011 has seen steady growth since then the central bank issued guidelines on the potential use of plastic money and digital payments. Figure 1 provides encouraging trend in term of volume of electronic transactions carried out for payments. Since 2011 the number of transaction at an average growth rate of 20%, attest the growing trust among the participants in digital system and display the institutional support and integrity. The unprecedented investment by the banking industry in bringing the state of the art technology, the growing popularity of digitalization, and increasing customers' education on modern payments is likely to augment the growth of E-payments in the future. The above trend in E-payments suggests that any tangible reforms from the central bank will result in increased intangible payments.

Electronic Clearing Services (ECS)

The financial transactions viz., payment / receipt that are cyclical and periodic in nature are made through electronic clearing services. ECS debit is used by an institution for raising debits to a large number of accounts especially for equated monthly installment toward repayment of loans. Besides, debit is helpful for payment of telephone / electricity / water bills, tax collections, investments in mutual funds, insurance premium etc., ECS Credit enables payment of amounts towards distribution of dividend, interest, salary, pension, etc., of the user institution.

Table 1:

Financial Year	ECS (Dr+ Cr)	ECS Debits to Credits ratio
2004-05	55.37	0.38
2005-06	80.18	0.81
2006-07	231.39	1.15
2007-08	231.05	1.69
2008-09	248.46	1.81
2009-10	247.43	1.52
2010-11	274.05	1.34
2011-12	286.24	1.36
2012-13	298.71	1.44
2013-14	345.45	1.26
2014-15	341.36	1.96
2015-16	263.75	5.76
2016-17	18.86	0.87

Source: RBI data base *Volume in Million

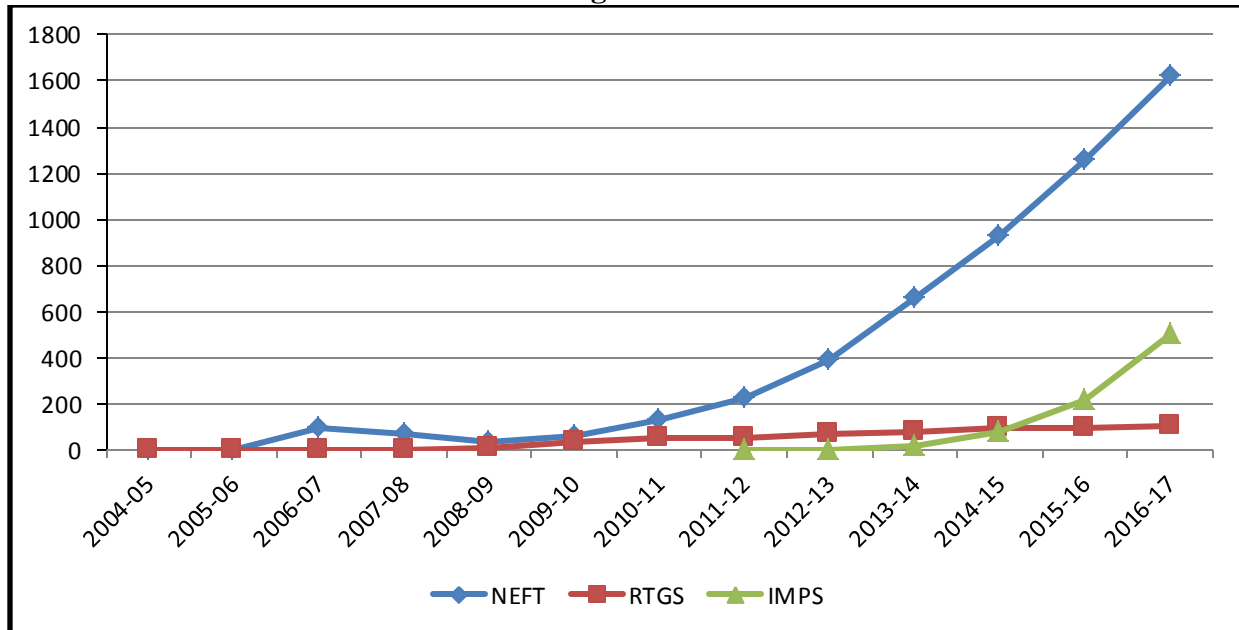
In the computer age, individuals and institutions embrace system which is reliable, convenient and economical. The data table 1 shows the increasing trend in the use of Electronic Clearing Services (ECS), both debit and credit. The directive from the Labour Department prohibiting Shops and commercial establishments paying salaries in liquid cash and mandatorily credit them to the bank accounts of their employees will contribute to the success of

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digitalization initiative of the government. It will introduce more transparency in the system, obviate black money and help achieve better governance.

Electronic Fund Transfers

Figure 2:



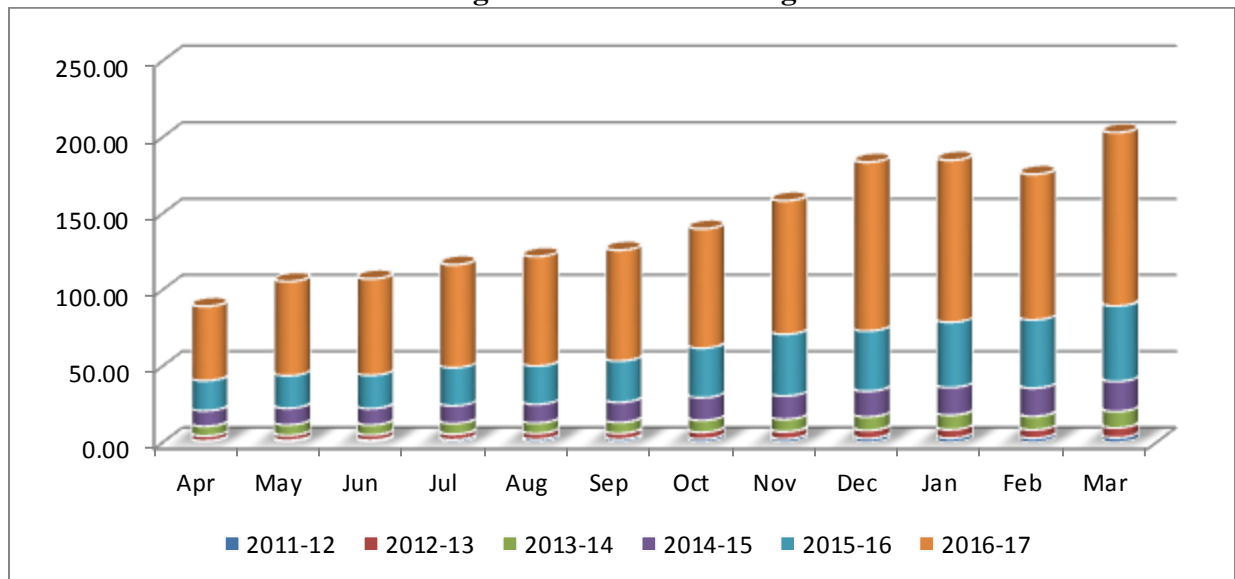
Source: RBI data base

Non-cash payment systems such as the Real Time Gross Settlement (RTGS), National Electronic Funds Transfer (NEFT), and National Electronic Clearing System (NECS) also witnessed rapid growth as channels for consumer payments in the same period, but such growth has typically benefitted the commercial sector more than retail clients (Benjamin et al., 2014). Figure 2 demonstrate the cost effective nationwide payment systems that emerges to have gained acceptance by beneficiaries who need not visit his / her bank for depositing the paper instruments and need not be apprehensive of loss / theft of physical instruments too. The customers segment seem to have increased the usage of National Electronic Fund Transfer and Immediate Payment Systems more welcomingly in response to the RBI roadmap to promote electronic transactions for ushering in a less-cash society in the country since 2011. The NEFT channel has recorded a growth of 35% in 2015-16 over 2014-15 and 29.4% in 2016-17 in term of the number of transaction and about 39% and 44% growth in value terms during March 2016 and 2017 respectively.

Mobile and Prepaid Debit Cards

On account of revolution in the cell phone industry mobile phones and the prepaid debit cards have immense potential in making cashless payment system successful. The growing penetration of smart phones has made technology applications much more accessible to users. This can change the way retail consumers' purchase and increase the ease of doing shopping. As of now 292 banks are permitted to provide mobile banking services and fifty four banks are licensed to issue prepaid cards in India.

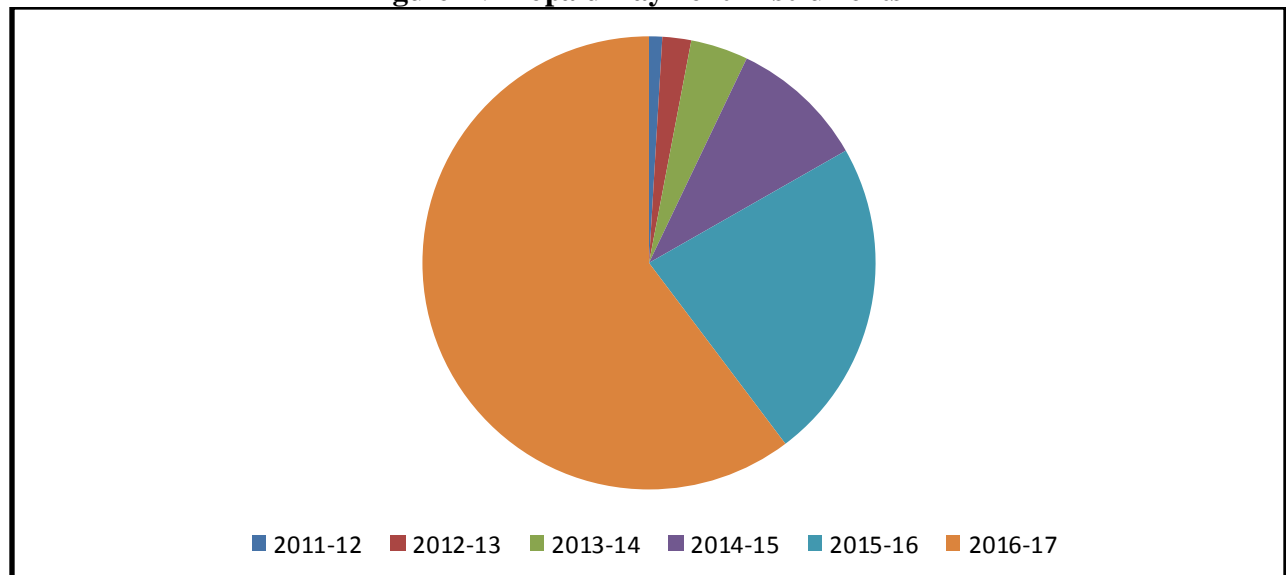
Figure 3: Mobile Banking



Source: RBI data base

Figure 3 presents the monthly trend in the volume of payment transactions via mobile phones from April 2011 to March 2017. It is observed that the numbers of mobile payments are month wise progressively increasing over the years. The revolutions in the mobile phone appear to have kindled the interest of people and contributing to revolution in the payments system as well.

Figure 4: Prepaid Payment Instruments



Source: RBI data base

The prepaid payment instruments have become outstandingly successful since inception. Figure 4 attest the effects of demonetisation too during the financial year 2016-17. Encouraging greater use of non-cash payments like prepaid cards not only reduces the costs associated with

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transacting in cash, but appreciably reduces the opportunity costs associated with the traditional forms of banking. Customers would prefer to use these cards as they need not wait in queue in ATMs or for purchase of travel tickets etc.,

Issuance of Debit Cards and Credit Cards

The Indian economy is expanding rapidly at more than 7 per cent per annum and the purchasing power of Indians especially the middle class has been gradually increasing. The banking & financial institutions believed and predicted that the use of plastic money in India will become very popular among the rich & the middle class population. A thriving economy, substantial increase in disposable incomes and consequent rise in consumer expenditure, growing affluence levels and consumer sophistication have all led to a robust growth in credit cards and there is no doubt that more and more middle class Indians are letting plastic money rule their day to day lives.

Table 2:

YEAR	CREDIT CARD*	DEBIT CARD *	Debit Card to Credit Card Ratio
2006-07	244.05	754.93	3.09
2007-08	305.4	1063.96	3.48
2008-09	317.97	1448.32	4.55
2009-10	258.32	1928.64	7.47
2010-11	222.28	2469.05	11.11
2011-12	211.84	3050.67	14.40
2012-13	222.35	3661.97	16.47
2013-14	227.3	4402.67	19.37
2014-15	240.41	5505.68	22.90
2015-16	271.71	7351.74	27.06
2016-17	325.95	8938.04	27.42

*Volume in Million- *Source: RBI data base*

The consumers in India tend to tread cautiously when it comes to purchases and demonstrate a credit-averse behaviour. Indians are frugal and conservative by nature about borrowing and desire to settle transactions immediately. It is learnt from Table 2 that the debit card to credit card ratio has increased from 3 in 2006-07 to 27 in 2016-17 meaning for every credit card 27 credit card was issued. The conservative retail segment prefers the use of debit card over credit card. The annual average growth in the issue of credit from 2006-07 to 2016-17 is 3.77 % whereas debit card growth recorded 28% for the same period. According to an estimate by the Reserve Bank of India (RBI), the use of cashless transactions through credit card usage among Indians is actually falling. The issuance of debit cards is much higher as compared to credit cards and they remain a preferred mode of transactions.

Card usage at Point of Sale Terminals

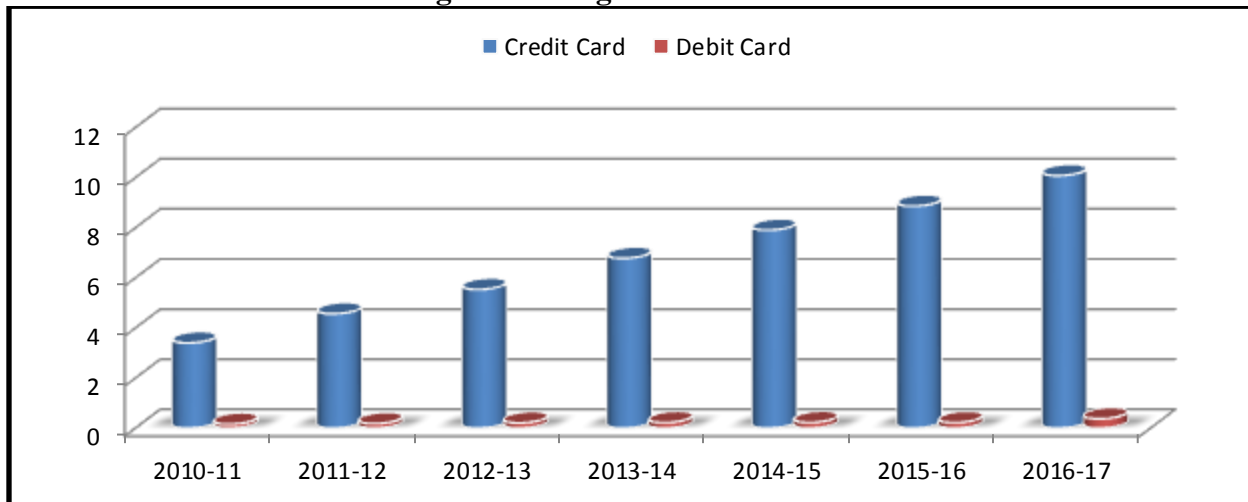
Cards are issued for withdrawing cash from ATMs and for paying by swiping for purchase of goods and services at merchant outlets. As shown in Table 3 the Debit card is the most sought after one among the retail segment intended for usage at ATMs for withdrawal. Of the total volume of transaction 87 % happened at ATMs in 2015-16 and due to the effects of demonetisation this ratio has fallen to 78.11% in 2016-17. The widespread use cards at ATMs point to high cost of cash.

Table 3: Usage of Debit Card

Financial Year	Usage at ATMs	Usage at POS
2014-15	89.64 %	10.35 %
2015-16	87.31 %	12.69 %
2016-17	78.11 %	21.89 %

Source: RBI data base

The success of the electronic payments depends on the extent of card usage at merchant establishments such Malls, Shops, Stores etc. Higher debit card usage at ATMs denotes desire for cash economy which goes against intend of digitalisation. It is clear that the Indian consumers prefer to use ATMs and withdraw cash to make payments than swipe their cards at merchant establishments. For instance, the average usage of debit cards of the past three years at ATMs account for nearly 85% of the overall debit card transactions. The popularity of debit card among customers failed to augment digital payments and remained as a device to service cash requirements of the target group.

Figure 5: Usages at Point of Sale

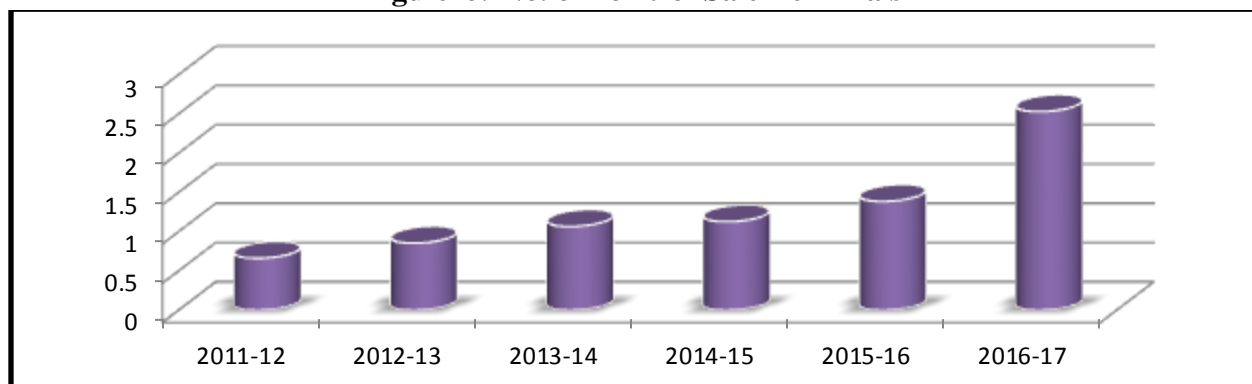
Source: RBI data base

Although the number of valid debit cards is currently 27 times higher than the number of valid credit cards, the number of transactions at POS per debit card and per credit card for the year ended 2016-17 is 0.34 and 10 respectively. Figure 5 portrays the ratio of usage of cards in proportion to the total number of cards outstanding till date. Nevertheless, there has been a steady increase in the number of debit and credit card transactions at point of sale in merchant establishments, the usage of debit card in proportion to the total number of debit cards issued is much less than credit card usage. Despite the fact that the credit card numbers have fallen, their usage at POS terminals have shown stupendous performance. Thus both from the merchants and customers viewpoint, debit card usage at POS terminals are being highly underutilized. An overwhelming majority of debit cards are used only at ATMs and not actively used as digital money. The rationale of encouraging plastic money via debit card appears to be defeated. This may be due to slow growth in point of sale terminals, higher cost and merchant's preference of cash to debit cards. However, there is a tendency by the banks to attach frills to debit cards as they do for credit cards. Such frills are in the form of facilities like cash back, free airport

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lounges, reward / loyalty points, discounts at specified restaurants, and other goodies like movie tickets and petrol vouchers. The cost for such frills is borne by merchants. In order to balance, merchants try to recover this cost by incorporating the cost in their selling price. It can be learnt that the main reason for higher utilization of credit card is mainly due to the provision of credit which enables customers to make purchases and pay latter without having enough money available in their account. The increasing trend towards less cash society and growing malls in smaller town have contributed positively in the usage of credit card at point of sale terminals.

Figure 6: No. of Point of Sale Terminals



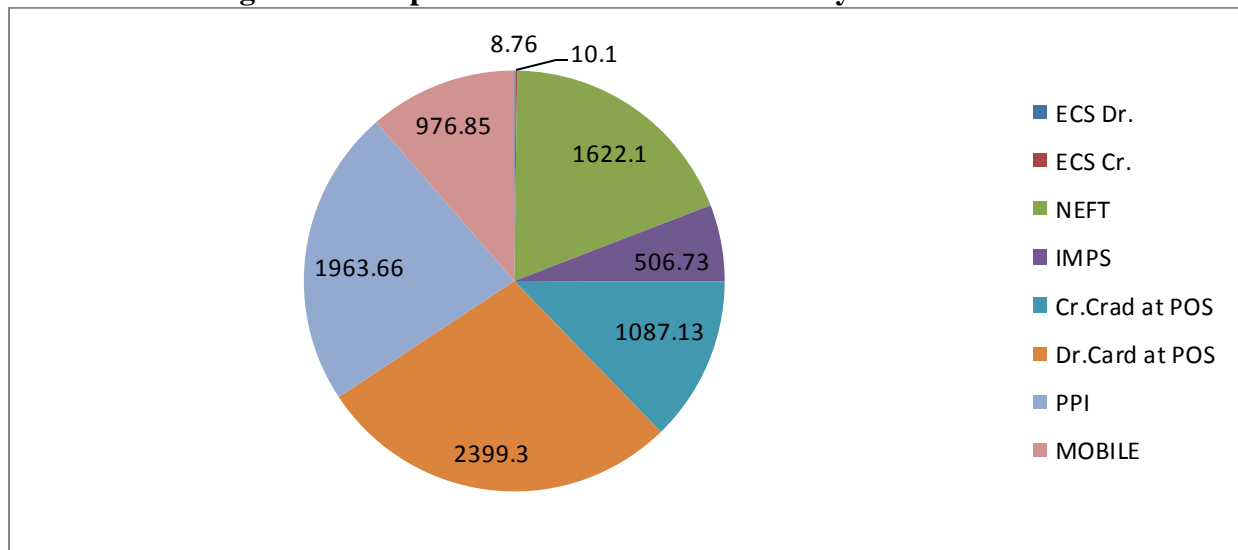
Source: RBI data base

As shown in figure 6, while the number of point-of-sale terminals (POS) has roughly doubled since 2011-12, there were only 1.07 million POS terminals nationwide at the end of March 2014 (RBI, 2014), and even after demonetisation the terminal strength was only 2.5 million compared to more than 10 million retail businesses nationwide. There has been steady increase in the installation of point of sale units in the retail outlets over a period from 2011-12 to the demonetisation period. The growth has accelerated during the demonetisation exercise in the financial year 2016-17. For the period ending March 2017 the growth in average number of point of sale units has witnessed a whopping 67.26% as compared to those units in October 2016. In India, the penetration of electronic payments (PoS and Cards) also stands abysmally low compared to developed nations. PoS Terminals is 684 per million populations as against 5245 in China and 17020 in USA (Deloitte, 2014). However, the growth of merchant establishments has also contributed a lot in the growth of debit cards usage in India.

Retail Electronic Payment

The Vision-2018 framework of RBI, with a view to encourage greater use of electronic payments by all sections of society to achieve a “less-cash” society, emphasis on Leveraging 5Cs– Coverage, Convenience, Confidence, Convergence, Cost. It focuses responsive regulation, robust infrastructure, effective supervision and customer centricity. The retail electronic payment systems such as NEFT, IMPS, Card transactions, mobile banking etc. has gained significant growth in recent years. The true success of digital payment services lie in the intensification of volume of transactions taking place in the system which in turn depends on active participation by retail segment. The intention of the central bank is to bring larger proportion of the public in to the digitalization so that it obviates the use of paper currency.

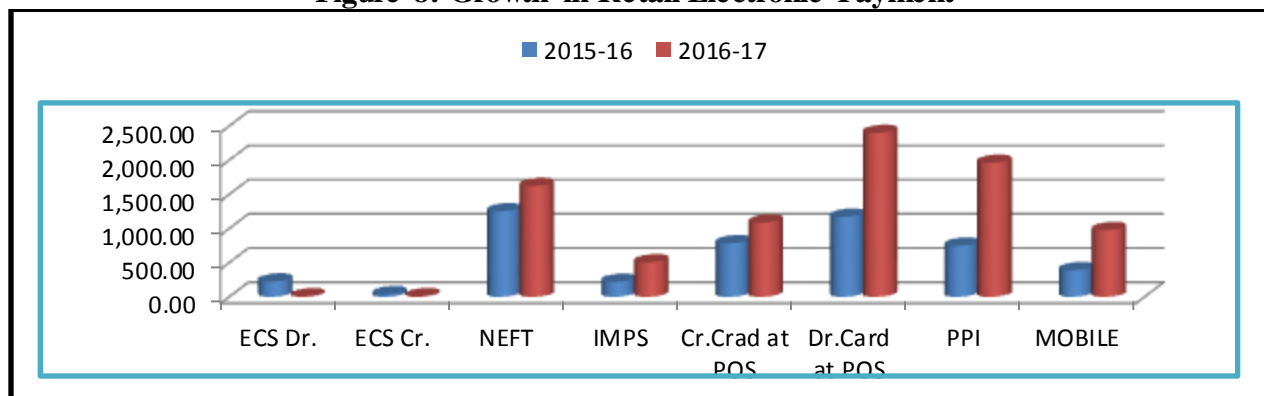
Figure 7: Composition of Retail Electronic Payment 2016-17



Source: RBI data base

Figure 7 portrays the makeup of retail electronic payments during the demonetisation year ending 31st march 2017, of the total volume of transactions among retail segments; the debit card usage at POS tops the list of retail electronic payments with 28% as against 24% in the previous fiscal year. The number of Prepaid Card payments account for 22% up from 15% in 2016 and the NEFT 18%. Mobile banking channel has puffed from 8 % in 2016 to 11% as on 31st march 2017. On contrary to the above, the composition in terms of value i.e., the total amount of transactions of electronic retail payments under various subheads provide different picture. It can be learnt that 95% of digital transactions among retail segment take place under the retail electronic clearing while card payments consists only the balance 5% of the retail transactions. In retail electronic clearing, NEFT is 86%, National Automated Clearing House consists 6% and IMPS is 3%. Meanwhile credit and debit cards are 2% each and PPIs contain 1% of the amount of transactions. The electronic fund transfers take lion’s share in view of the inconvenience in the payments system caused during demonetisation period.

Figure 8: Growth in Retail Electronic Payment



Source: RBI data base

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The Reserve Bank of India bulletin attest that the volume of retail electronic payments almost doubled in FY2016, while card payments grew about 56 per cent in the same period that dividends the regulator’s focus on migrating to a “less-cash” society. The central bank noted in its FY 2016 annual report that in volume terms, at end-March 2016 the share of electronic transactions in total transactions moved up to 84.4 per cent from 74.6 per cent in the previous year. It is found from Figure 8 that at the end of March 2017 the retail electronic clearing, which includes channels like NEFT and IMPS, among others, grew by 77 per cent to 8574.63 million. The debit card usage at point of sale terminals has more than doubled and the numbers of prepaid card usage and mobile banking have recorded an enviable growth of 1.62 times and 1.5 times respectively during the year ended March 2017. The demonetisation exercise may have leveraged the growth.

Conclusion

The growth of modern business is dependent, among other factors, on the existence of secure, user friendly and cost effective payment methods. Electronic payment system has become essential to companies looking for ways to serve customers faster and at lower cost. The rapid development and adoption of contemporary payment methods demonstrates the speed at which the payments landscape is changing in India. The most important factors for the growth of e-payments are user trust and consumers’ confidence. The growth in card usage, electronic fund transfers and other channel attest the fact that the share of personal consumer expenditure continues to expand. Needless to say, one-size-does not fit-all banking customers who constitute a divergent segment with varying needs. The success of “Digital Money for Digital India” campaign depends on increased financial literacy especially among the middle class in rural and semi urban areas. The commercial banks, operating in semi-urban centres through campaign, must win users trust and confidence which is so crucial because increased usage of credit and debit cards in the recent past has led to rise in frauds, especially in the case of lost or stolen cards. Also, there have been reports of data on cards being compromised and cards are skimmed /counterfeited. In this context the central bank should devise more focused means to incentivize electronic transfers and disincentivize use of cheques too. Of India’s 258.5 million households, despite more than 50 percent being banked, only about 5 percent of personal consumption expenditure is done digitally. This behaviour points starkly to the high use of cash (VISA, 2016). The slew of measures, like digital lottery schemes Lucky Grahak Yojana for consumers and Digi Dhan Vyapar Yojana for merchants, announced by the government of India, including discounts on digital payments on purchase of petrol, railway ticket and insurance policies, to incentivise cashless payments is a good start but a long road remains ahead for widespread use of digital payments.

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