ORIGINAL RESEARCH PAPER

Economics

OVERWIE OF DIGITAL PAYMENT SYSTEM IN INDIA; OPPORTUNITIES AND CHALLENGES

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ABSTRACT

About 70% of Indians live in rural areas. Rural India has a major impact on the economic development of the country. Digital programs are designed for rural areas. The importance of improving the inclination of digital payment systems in rural India is of paramount importance when considering benefits such as the visibility of transactions. Transformation towards digital payments in the domestic economy is enabled. There is growth in the use of smart phone and internet in rural areas. There are many applications such as Paytm, mobikwik, Google pay and the Indian government introducing many UPI (united payment interface) solutions and BHIM applications for smooth transactions in the digital payment system. While 44% of urban customers have taken up digital payment channels, rural customers are a distant second, at only 16%. While traditionally all initiatives undertaken by banks have followed the urban-first philosophy, there seems to be a potential for adoption of digital payments among rural customers, in parallel with urban. This paper mainly focused on the growth and recent trends in digital payment.

INTRODUCTION

Digital payments in India have evolved into a multi-modal experience. In 2017, we had foreseen a shift of digital payments from physical cards and wallets to newer forms of payments such as Unified Payments Interface (UPI), BharatQR, Aadhaar Enabled Payment System, among others. Of these, UPI has seen a dramatic rise as both new entrants (including technology giants) and incumbents alike have brought UPI offerings to the market. The biggest enabler of this being the implementation of Aadhaar, and that it is the common KYC document between telcos and bank accounts. Trends notwithstanding, the current payment landscape is still evolving in the sense that there are multiple ways of payments, all seeking large-scale adoption.

The Indian economy has been dominated by cash. But the increased Smartphone adoption and favorable regulatory policies have created the baseline infrastructure required for a leapfrog growth in digital payments these have grown at a CAGR of 53% over the last five years, and expected to reach $1 trillion in value by 2023. Further, relentless innovation, easy-to-use payment products, interoperable payment platforms and customer awareness are expected to continue to drive the shift to digital payments from cash.

Objectives:

- Digitalization and rural India
- Opportunities and challenges digital payment system.
- recent trends in digital payments in rural areas in India

Digitalization and rural India

In India 70% of the population live in rural areas and they contribute a major part in the growth of the Indian economy. Earlier in urban areas the technology is very much more developed than rural areas. The rural areas lag behind those of urban areas in the use of the technology; they do not use the technologies in their works. Nowadays Literacy level of rural people is also increasing at the same time they use the latest technology, modern gadgets, internet facilities etc.

The necessity for increasing the trends of digital payment system models in rural India is very important considering the benefits like transparency in each transaction. Transformation towards digital payment system in the rural economy is empowered. This study is mainly focused on digital payment system adoption in the rural area of Ramanagar District. where most of the people engage in agriculture activities and the literacy level is increasing. They started using smart phones, internet facilities, mobile payment apps, latest banking facilities like e-banking, e-wallet, mobile banking, debit and credit cards etc.

Opportunities and challenges:

1. Consumers are yet to get rid of the cash based transaction habits, as for decades India has been cash based economy.
2. Digital divide in terms of awareness about using the digital solutions like smart phone based transactions, feature phone based transactions, usage of credit/debit cards at PoS solutions etc are some of the key issues.
3. The other significant issue of digital divide is the lack of bandwidth and reach of technology to various locations. Though, it is being sounded that every corner of India shall have ICT services in place, still in many of the locations where the installations were complete, services are not available for the customers.
4. For instance, as a part of Govt. Initiative from Rajasthan towards streamlining the ration supplies, bio-metric verification of Aadhar details at the dealership has been made mandatory; however, the dealers could barely have connectivity to ensure timely verification and the public face challenges.
5. Such instances signify that the digital payments modality can only be practical and true to nature, when the loop holes like connectivity, adequate PoS solutions and other such factors are addressed in quick turnaround time.
6. Slow Internet speeds: India is plagued with very low internet speeds, which continue to inch up but are lower than global benchmarks. As per the Akamai reports Q4 2016 the average internet speed in India is 5.6 Mbps which is still behind when compared to other countries in Asia Pacific region. India's global rank is 97, a little behind China and Indonesia out of 149 qualifying countries.

Recent trends rural digital in India:
1. Increasing Smartphone penetration;

There is an exponential increase in the rate of smart phone penetration in India which was estimated to be 54 percent in 2020 and hiking towards 96 percent by 2040, which is almost everyone equipped with a smart phone. Mobile payments have been a joy for customers urban and rural ever since its inception. Players in the Fintech arena are constantly in the innovation race to facilitate more financial inclusion by developing new products and features for easy payments. Nonbanking, Fraud Detection, Buy Now Pay later, QR embedded bill payments, virtual wallets are some of the trends seeing many users everywhere.

2. Digital payments have broken 'traditional banking' shackles;

The newer-generation in rural India is quick to adapt to innovation. This trend is naturally occurring because digital payments have become customer-friendly and just eases out

the conventional pain points of banking cash transfers. A big good-bye to olden days of banking where the smallest fund transfer includes the hustle and bustle for collecting tokens, moving on the queue and befriending cashiers.

3. Raising momentum of rural stores collecting digital payments ;

Digital payments on technology-powered offline store apps is a major trend that provides payment collection via dynamic QR payments, Static QR payments, debit/credit cards also inclusive of so many features like Digital Ledger, Inventory, e-Point Of Sale and Neobanking. Neobanking single-handedly raises the bar of rural digital adoption, since most rural populations engage in B2C businesses involving layers of payment cycles towards vendors and stakeholders. Neo-banking in a store's payment collection app includes bulk/individual payouts, list of inward/outward transactions, some with options even for availing loan and insurance. Pricings are cheap, merchant paperwork, background checks and integrations needed are uber fast and simple. A classy merchant dashboard with notifications of activities happening on the digital payment app is crucial.

4. Simplicity;

Most rural mobile app users need it simple. The outlook of the app needs to be uncluttered, simple and self-explanatory. The navigation, workflow and concluding acknowledgements, although internally complex, should look simple and straightforward to the user while not forgetting the presentation of the app in a minimum of 6 to 7 regional languages.

5. Speed;

Those few seconds between 'send payment' and 'paid' are deemed high-on-human-anxiety and so very crucial. The psychology of the rural human mind says, the more time taking digital payment is, the more unreliable it could be. Rural-India is big, almost 70percent of the country and it is a sector where money is earned largely in forms of labour through sweat and blood and this kind of money-lost-panic is a can't complain issue. Speed increases the sense of security in the minds of rural merchants.

6. An edifying campaign that digital payments is secure and risk free;

The news of Digital Fraud is increasing and awareness about the security in digital payments is key. Fintechs are incorporating defensive mechanisms for fraud detection and risk prevention and rural merchants are feeling a sense of security in depending on digital payments. But more than the problem of infrastructure it is the people's distrust towards sophisticated technology. There is a quote that says, "A superlatively advanced technology equals magic". While there are many advantages and amazing features that come with digital technology adoption, it also brings in a certain fear factor. The convenience, operability, and speed provided by fintech solutions is conceived like, "known devil is better than unknown angel".

This is where the Ministry of Electronics and Information Technology (MeitY) has taken necessary action to set up Common Service Centers (CSCs) which are manned digital financial hubs to spread word on the transparency and reliability that a digital world can bring in. Also it holds the power to cater to the questions and fears of the rural population and explain that digital banking comes under governmental policies and digital finance options laid down for rural citizens. The government has invested more than Rs 65 crore to promote digital financial services such as UPI, IMPS, Bank PoS machines, etc in the rural sectors of the country.

CONCLUSION:

For sustained development and growth with robust economic development, certain integral factors like improved transparency, corporate governance and restricting the parallel cash based economy. Such developments could be feasible only with rural India too embracing the digital payments and digital transactions. Considering the quantum of opportunities that are unfolding for market dynamics of digital payments, if the challenges that are discussed are addressed and improved solutions in terms of UPIs, mobile wallets, and digital transactions with more secured features, ease of transactions and reduced cost of managing the digital payments could lead to more potential developments and supporting in improved conditions of digital payments processing in rural sectors.

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