

DIGITAL PAYMENTS SYSTEM IN RURAL INDIA: ISSUES AND FUTURE PROSPECTUS

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ABSTRACT

In the present paper the introduction of Digital Payment System has seen as a right path towards the growth and development of the economy. The announcement by the Government of India in 2016 has seen as the major historical movement towards demonetization of currency notes worth Rs'1000 and Rs'500. After November 8th 2016, some changes took place in Indian economy. The objective of the present paper is to study the positive impact of Digitization of payment system, problems and challenges of Digital Payments in Rural India and appropriate suggestions for effective implementations of Digital Payments.

Keywords: Rural Economy, Digital Payment System, Demonetization, Digital Transactions.

1. Introduction

Rural development is vital to the development of the nation. Growth is never merely by chance; it is the result of forces working together. And in India, the forces are marching in the right direction to take the nation to new horizons. Rural development implies both the economic betterment of people as well as greater social transformation. Major part of India's rural economy is powered by cash transactions with a small number of people having bank accounts. In India, Agriculture is a highly cash centric activity as both the input and output channels work predominantly on cash transactions and sale, transport, marketing and distribution of harvest to mandis is also cash-dependent. India is a developing economy with focus on to achieve sustainable development. To achieve sustainable development, it is important that all sections of the society get equal opportunity and participate in nation building. Lack of awareness of digital financial literacy, especially among the rural population is a major challenge in the country, more so in light of the Government's recent demonetization and plans to make India a cashless economy. There is an urgent need to create awareness among the citizens, especially in rural areas regarding digital finance services and also enable/support in access to digital finance

services options. Technology is one of the key aspects through which large number of people especially from rural India can be reached. Common Service Centres (CSC) function as last mile delivery points of Government and public services for citizens in rural and remote areas of the country. Due to their spread and availability of ICT infrastructure, the CSCs have been given the mandate of spreading financial inclusion in rural and remote areas through services ranging from opening of bank accounts, banking facilitation, disbursing MGNREGS and various social security schemes entitlements, insurance and pension, etc. As such, CSCs can be leveraged to provide the rural population with awareness and access of Digital Financial Services to bring them under formal financial system

World Bank Development Research Group, in its report on August 28, 2014 reported digital payments in to the economies of developing nations and addresses the crucial issues of broad economic growth and individual financial empowerment about how digital payments benefits for both senders and receivers (**world Bank Report,2014**) .“The benefits of digital payments go well beyond the convenience of many people in developed economies associate with the technology,” said Dr. Leora Klapper, Lead Economist (**World Bank Development Research Group**). “Digital financial services lower the cost and increase the security of sending, paying and receiving money. The resulting increase in financial inclusion is also vital to women’s empowerment.” The vision of the Government is to establish the digital platforms and the regulatory assurance to pull the hundreds of millions of currently excluded people in to full participation in the modern economy. The digital payments market in India is expected to reach \$1 trillion by 2023. Incidentally, the global payments market itself is growing at a rapid rate and is expected to cross the \$2 trillion mark by 2020(**NASSCOM**). In an effort to transform the country into a “less-cash” society under the Digital India campaign, the Government of India has been promoting the use of digital payment methods such as banking cards, Unstructured Supplementary Service Data (USSD), mobile wallets, internet banking, mobile banking, Aadhar-enabled Payment Systems (AEPS) and micro ATMs. As part of the ‘Digital India’ campaign, the Government aims to create a ‘digitally empowered’ economy that is ‘Faceless, Paperless, and Cashless’. These methods are easy to make, more convenient and provide customers the flexibility to make payments from anywhere and at anytime. These are a good alternative to traditional methods of payment and speeded up transaction cycles.

2. Need of the Study

Financial inclusion is one of the foremost policy challenges facing India today. As of 2014, approximately 53% of India’s population had access to formal financial services.¹ since then; the Government has taken several significant steps towards including a greater percentage of India’s

population within the umbrella of formal financial services. The inception of the PMJDY has undertaken a commendable task of opening approximately 25.68 cr bank accounts.² In order to catalyze the process of attaining greater financial inclusion the goal of including over 90% of underserved sections of society in the ambit of formal finance by the year 2021.³ 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.

3. Objective of the Study

1. To know the problems and challenges of digital payment in rural India.
2. To offer an appropriate suggestions for an effective implementation of digital payment.

4. Research methodology

The study based on secondary information/data. Different journals, newspapers, books and relevant websites have been consulted in order to make the study an effective one. The present study is an attempt to examine the Digital payment system in India.

Conceptual Framework

5. Digital Financial Services

Digital access to and use of formal financial services by excluded and marginalized sections of society. There are three key components of any such digital financial services: a digital transactional platform, retail agents, and the use by customers and agents of a device, usually a mobile phone, to transact via the platform.

Cards : Meaning and Advantage

Usually issued by banks and can be classified on the basis of their issuance, usage and payment by the card holder.

- To withdraw cash from ATM.
- Purchase of goods and services at Point of Sale (POS) and online purchase.
- To pay all kinds of utility bills.
- To pay for any service at any location where there is a Card reader / POS machine.

Major Types:

1. Prepaid Cards:
2. Debit Cards
3. Credit Cards

Prepaid Cards: Uses

- Can be used for limited amount of transaction.
- Can be recharged like mobile recharge.
- Safe to use

Debit Cards: Uses

- User can use this card to withdraw cash up to the limit present in his/her bank account.
- It can also be used only for domestic fund transfer from one person to another.

Credit Cards: Uses

- Used domestically and internationally.
- Unlike debit cards, in case of credit cards, a customer can also withdraw beyond the amount of money present in his bank account. But there is a limit for each credit card up to which extra money can be withdrawn.

USSD (unstructured Supplementary Service Data):

Meaning and Advantage:

It is a service which aims to take banking services to every common man in the country. The service allows every customer to access banking services with a single number.

- Simple and easy to use.
- GPRS Connection not required.
- More secure than SMS

Uses:

- Link your mobile number to your bank account.
- Get Mobile Money Identifier (MMID) and Mobile Pin (MPIN).

AEPS (Aadhar Enabled Payment System) :

Meaning and Advantage:

It is a payment service empowering a bank customer to use Aadhaar as his/her identity to access his/ her respective Aadhaar enabled bank account and perform basic banking transactions.

- Eliminates the threat of any fraud and non-genuine activity.
- Easy to use, safe and secure payment platform to avail benefits by using Aadhaar number.
- Facilitates inter-operability across banks in a safe and secured manner.

Uses :

- Cash Withdrawal
- Balance Enquiry
- Cash Deposit
- Aadhaar to Aadhaar Funds Transfer
- Purchase at Fair Price Shops with AEPS.

UPI (Unified Payments Interface) :

Meaning and Advantage:

It is a system for instant, electronic payments through user's smart phone. It is an advanced version of Immediate Payment Service (IMPS) which was used to transfer money between bank accounts. Like IMPS, UPI will facilitate round-the-clock funds transfer service.

- Very simple application and can be used by anyone.
- Instant and secure authentication and can be initiated anywhere.
- Opens up the pathway for a completely cashless digital society.
- Can be used to send a request for money, like an invoice.

Uses:

- Eliminates the need to share User's name, bank account number, IFSC code, or bank branch.
- UPI also eliminates the use of physical tools like debit cards.
- No need to use multi-step processes like net-banking.

E- Wallet (Electronic wallet):

Meaning and Advantage:

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.

Uses: It has two components, Software and information.

- Software component stores personal information and provides security and encryption of the data whereas
- Information component is a database of details provided by the user which includes their name, shipping address, payment method, amount to be paid.

e-wallet used for

- Bank Account
- Smart phone
- 2G/3G/4G connection
- A free wallet ap

6. Prospects of Digital Payments:

- I. Promoting financial inclusion through cash less payment instruments which are awareness, availability, acceptability, affordability, and accessibility.
- II. To create awareness about cashless/ banking transactions, Government should ensure basic necessities in Rural Areas. Financial literacy is a must for bringing more and more people to the digital platform.
- III. Digitalizations of payments ultimately help all forms of Govt. Central, State and Local Govt. to earn more income for developmental and social activities and to reduce generation of black money and block the circulation of fake currency will bring more transparency to the economy.
- IV. Digital payment methods provides more economic freedom, give an opportunity to establish new technologies and developments of industries, more employment opportunities, increase in per capita income and improve quality of life of the people.

- V. Digital payment is an effective and modern payment system is positively correlated with economic growth. In the growth of Global economy, digital currency has a key role for transaction of money for businessmen, consumers and governments around the world

7. Challenges of Digital Payment in Rural India:

- I. Awareness programme would be conducted in rural area about using the digital payments like Smartphone based transactions, feature phone based transactions, usage of credit or debit card as majority of the Indian people buying goods and services only for cash based transaction habits in rural area and called cash based economy.
- II. ICT services are not available in many locations and proper services are not available for the customers in rural areas.
- III. There is a need of online payment training for operating accounts and conducting transactions. For easy accessibility ATM centres should be provided within at least at a distance of 2 kms.
- IV. The other major issue is that of multiple holding of cards in urban and semi urban areas show low rural penetration.
- V. Poor connectivity and lower literacy level particularly in rural parts of the country makes it problematic.
- VI. As for decades India has been cash based economy and majority of the people in rural areas prefer cash transactions and do not wish to accept digital payments system either through using debit card or credit card or any other. There are other barriers too like mindset, habits and language. Most of the digital transactions have English as a medium of transaction, thus making it difficult for the rural people to comfortably use the mobile or internet banking facilities.
- VII. The challenge of gaining the trust of customers is one of the key challenges faced by the mobile wallets, digital transaction service providers like banks, fin-tech companies etc.

8. Suggestions:

- I. Educationist such as school teachers, village Development officers, health workers and anganwadi workers, etc. must educate the people about the financial inclusion and digital economy.

- II. The Digital India Campaign twice or thrice in a year in a mass scale can be conducted in the country. It is an appropriate way to propagate the digital India campaign both in rural as well as urban areas.
- III. Public and private sectors can converge around a payments platform, and enable innovation and competition in additional financial services. Governments should make clear vision to ensure that the private sector is an effective, competitive, transparent, and efficient partner.
- IV. Make a strong regulator for digital payments for proper coordination and implementation. Make all banks responsible to form a training team at branch level with bank staff and skilled volunteers to train the local merchants and public in digital payments.
- V. The self help groups (SHGs) can be of great help to the people in the promotion of digital banking systems in the rural areas. More and more SHGs must be given the charge of Bank Mitras (friend) who can extend their help to the bank, post offices and Bank corresponding for proliferation of digital economy.

9. Policy implication and Scope for further Research:

Priorities should be to Large scale awareness campaigns, enhanced national education websites and curriculums, digital financial literacy, road shows and programmes, financial and digital empowerment seminars and exhibits. National financial education programmes, paying particular attention to the needs of the most vulnerable target groups. Ensure that consumers are aware of their potential exposure to digital crimes, and their rights and responsibilities in relation to these. The role of digital payments in driving financial inclusion and economic opportunity has come to global prominence in recent years. The progress of many countries and demographic groups, has been substantial, as policymakers have moved to create inclusive and accessible digital payments ecosystems. However, policymaking in this area can be challenging for a variety of reasons, including the rapid evolution of new technologies and consequent business models, as well as market-specific factors. This note is intended to offer suggestions to policymakers to help them to achieve the further benefits that digitizing payments can offer. The advantages are not only financial inclusion and improved individual living standards for the most vulnerable, but also include vital macro-economic growth drivers like enhanced productivity and economic participation. This note leverages and adds significantly to a growing body of detailed knowledge about key policy steps that will underpin success. While government officials are the primary audience, it is crucial to recognize that successful policymaking requires close and genuine collaboration, as well as knowledge-sharing between public and private sectors.

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