



A STUDY OF DIGITAL PAYMENT SYSTEM: CHALLENGES AND REMEDIES

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ABSTRACT

In the last year NDA lead Government and Prime Minister Mr. Narendra Modi, announced to making India digital country and introduced concept of “Digital India” after few days before PM Mr. Modi made announcement of demonetization and withdraw Mahatma Gandhi series big denomination currency notes of Rs. 500 and Rs. 1000 and introduced new currency notes of Rs. 500 and Rs. 2000, Mahatma Gandhi series. With this policy Government of India and Reserve Bank of India demonetized 15.44 lac crore value currency notes from Indian economy, but production of new currency note currently unable to fulfill the requirement of Indian economy. After the demonetization, Government of India and Reserve Bank of India introduced new policy of Digital Payment System for India i.e. Cashless India. It means people of India require to fulfilling their financial needs through digitally and it works. People of India try to learn and use digital gadgets to fulfill their financial needs. For that Government of India and Reserve Bank of India promote this scheme in urban as well as rural India with providing training of digital transaction through Customer Service Point (CSP). With the help of this programme Ministry of Electronics and Information Technology, Government of India provide training to more than 1 crore people of India as well as 3.5 lac shop owners and retailers in 2275 Blocks of 476 District of India and 60% people of rural India try to use digital, online or mobile cash transaction through using Debit Card, ATM Card, UPI, Paytm, etc. But the financial and economical background is that, India known as agro-based country as well as country of poor people and vulnerable group and 70% population dwells in rural area, more than 40% people of India, still illiterate, smart phones

and internet connectivity not reached in rural India. Therefore these paper focuses on policy of introduced for cashless India and its challenges as well as opportunities for cashless India.

Keywords: Digital India, demonetization, digital payment, cashless transaction, etc.

Introduction

After the decision of demonetization of currency notes of Rs. 500 and Rs. 1000, people of India suffering from cash problem, due to non-availability of cash they could not fulfill their basic needs, therefore this period known as period of cash crunch, to solve problem of cash crunch, Government of India and Reserve Bank of India issued new policy and introduced digital financial transaction with new concept “Cashless India”. For that Government of India and Reserve Bank of India promote this scheme in urban as well as rural India with providing training of digital transaction. With the help of this programme Ministry of Electronics and Information Technology, Government of India provide training to more than 1 crore people of India as well as 3.5 lac shop owners and retailers in 2275 Blocks of 476 District of India and 60% people of rural India try to use digital, online or mobile cash transaction through using Debit Card, ATM Card, UPI, Paytm, etc. But they are facing problems because India known as agro-based country as well as country of poor people and vulnerable group and 70% population dwells in rural area, more than 40% people of India, still illiterate, smart phones and internet connectivity not reached in rural India.

Objectives of the study

- To know the concept of Digital Payment System
- To know the digital gadgets available for cashless transaction
- To study the cashless transaction in India
- To know the challenges for cashless financial transaction
- To suggest remedial measures

Importance of the Study

After the demonetization, Government of India announced and introduced new mission “Cashless India”, to facing problem of scarcity of cash and Government of India, Ministry of Electronic & Information Technology, provide “Digital Transaction Training” though Common Service Centre. With the help of this programme Government of India provide training to more than 1 crore people of India as well as 3.5 lac shop owners and retailers in 2275 Blocks of 476 District of India and 60% people of rural India try to use digital, online or

mobile cash transaction through using Debit Card, ATM Card, UPI, Paytm, etc. But they are facing various problems because India known as agro-based country as well as country of poor people and vulnerable group and 70% population dwells in rural area, more than 40% people of India, still illiterate, land line phone, smart phones and internet connectivity not reached in rural India. Therefore it is necessary to study, what opportunities and challenges facing by Indians after demonetization and cashless?

Digital Payment System

Government of India declared “Digital India” mission two years back and try to promote digitalization in various sectors, few months back Prime Minister of India Mr. Narendra Modi announced banned on use of big currency notes of Rs. 500 and Rs. 1000. After announcement of demonetization Government of India and Reserve Bank of India suggested that, the citizens of India try to do financial transactions digitally and promote various modes of digital payment in India, like Paytm, UPI, BHIM App and other modes online transactions including Credit Card, Debit Card, PoS, etc. Before the demonetization Airtel, Vodafone, etc telecommunication companies also provide financial transaction digitally and i.e. Airtel Money, Vodafone MPesa, mobiwik, freecharge, rechargeitnow, etc. these are major source of digital payment. Now every nationalize as well as private Bank also trying to promote digital payment system set a target to every employee should train and motivate minimum 50 customers to use digital payment system.

Concept of Cashless

India known for cash dependent economy, 97-98% adult population doing their financial transactions in form of cash, but after demonetization Government of India and Reserve Bank of India promote Digital Payment System and Cashless transaction to face scarcity of cash and non-availability of cash and promote cashless transactions. “Cashless transaction means doing financial transactions without using hard cash” doing receipt or payment of amount through using digital gadgets, internet, E-wallets, various banking apps, etc.

Modes of Digital Payment System

- Banking Cards: ATM Cards, Debit Cards, Credit Cards, Cash Cards, Travel Cards, etc.
- USSD: Unstructured Supplementary Service Data

- AEPS: Aadhar Enabled Payment System
- UPI: Unified Payment Interface
- Mobile Wallets: Paytm, Mobikwik, Pockets, BHIM App, etc.
- Bank Prepaid Cards: Wallets or Mobile Wallets, etc
- PoS: Point of Sale (EFTPOS)
- Internet Banking, Online Banking, etc.
- Mobile Banking, SMS Banking, etc.
- Micro ATM's: It is device used by millions of BC's (Business Correspondents) to deliver basic banking services to customer.

Statistics of Cashless Transaction

Households in India availing banking services: **246692667 and 58.7% (NITI Ayog)**

Sr. No.	Modes of Cashless Transaction	Up to 8 th Nov, 2016	8 th -26 th November, 2016
1	Rupay Card (in Lakh)	3.85	21.00
	Daily Transaction (Rs. In Crore)	39.17	282.00
2	E-Wallet (in Lakh)	22.00	75.00
	Daily Transaction (Rs. In Crore)	88.00	293.00
3	UPI (in Lakh)	3721.00	76681.00
	Daily Transaction (Rs. In Crore)	1.93	35.00
4	USSD	97.00	4796.00
	Daily Transaction (Rs. In Lakh)	1.00	57.00
5	PoS (in Lakh)	50.20	98.10
	Daily Transaction (Rs. In Crore)	1221.00	1751.30

(Source: Daily News paper "Lokmat" dated 1st January, 2017)



From the above statistics, it is found that only 58.70% of India’s household availing banking services, so, it is clear that still more than 40% of India’s household not availing banking services.

It is also found from the above table that, Indian banks already introduce digital payment system in India to initiate cashless transaction before demonetization and introduction of digital payment system to promote cashless transaction in India. Other non-banking companies like Airtel Money, Vodafone MPesa, Paytm, Mobikwik, rechargeitnow, freecharge, etc. also trying and working in this direction, but result of that in direction of cashless society it is very poor and creation of awareness in the society from Government of India and Banks not done properly or not initiated on large scale, which taken after demonetization and introduction of digital payment system.

After the demonetization and induction of digital payment system Government of India and Reserve Bank of India taken initiative with the help of banks trying to promote various

modes of digital payment system in India to create cashless society in India and result of that number of digital transactions has been increased after demonetization.

Challenges for Digital Payment System

1. **Habits of Cash transaction:** India known for agro-based country as well as country of villages therefore in India almost all the people of India using hard cash for payment. As per the sources available 97-98% of people using cash for their financial transactions and this is the big hurdles for cashless India.
2. **No. of Bank Accounts:** As per the NITI Ayog statistics only 58.7% households of India having bank accounts, in other words almost half of the total adult population don't have their bank accounts.
3. **Financial Illiteracy:** 70% of Indian population dwells in rural India and as per census of 2011 almost 40% of population still illiterate and as per NITI Ayog 41.3% of adult population still bank less. So, on the basis of above statistics, it is found that half of the total adult population still not access banking services.
4. **Retailers Approach:** Most of retailers not accepting the cards because of they don't have any infrastructure and they are not ready to install this type of infrastructure. Their approach regarding digital payment system is negative.
5. **Approach of General Public:** People of rural India still unable to perform cashless transactions as well as they are not ready to perform cashless transactions. In India most of urban younger population trying to use digital payment system to fulfill financial transaction but elder educated people still afraid to do this type of transactions. People using smart phones and internet but when we thought or talked about digital payment they are rejected to do transactions. These people dominated by currency and depended on cash transactions.
6. **Poor Infrastructure:** India known for agro-based economy and mofusial area, after the Independence of India, Government of India trying to push up and promote banking business in rural India, but still half of Indian villages still unbanked. As per statistics provided by World Bank on 18 ATM's available for 100000 people of India. Retailers also not prepared to install PoS for their shop.
7. **Mobile Users:**As per the data available 90 crore mobile phones actively working in India, but out these only 17% of mobiles are smart phone and only 22% of mobile users using internet on mobile, so, it is found that the compatibility of mobile phones for using

digital payment system is very low and most of mobile phone users not able to use digital payment system.

8. **Internet Users:** Only 22% population of India using internet and in urban area most the representative of younger generation using internet perform basic banking utility services on mobile. Overall less than the $\frac{1}{4}$ populations are internet savvy, still more than $\frac{3}{4}$ of population required to be attached or literate internet to perform these transactions.
9. **Cyber Security:** Cyber security is the major challenge for digital payment system in India, recently hackers hacked the banking data all over world and most of the banking business the word suffering from this hacking problem. ATM machines and CBS system affected on large scale due to Ransom ware (Virus).
10. **Retain the Customer:** After the introduction of digital payment system, most of the mobile users or card users trying to perform financial transaction digitally, but many times this type of transactions failed, in that case customer afraid to lose their money, customer feeling unsecured to perform this type transaction again. So, it is a big hurdle to retain customers after transaction failure.
11. **Use of ATM's:** After the demonetization and induction of digital payment system Government of India issued order to Banks to issue ATM cum Debit Cards to the account holder and 22 crore Rupay Debit cards issued by the banks. But 92% of card holders using this card to only for withdrawals of cash. Indian economy is known for cash dependent economy and overall 13% of GDP value of cash currently in circulation in economy of India.
12. **Internet Connectivity:** Due to poor infrastructure of telecommunication system, still most of the part of India still detached from internet connectivity, due to this problem digital payment system not working properly. Mobile users also facing this problem of failure of digital transaction. Most of cases due poor connectivity of the internet transactions will be failed and due to this problem customer could not ready to do this transaction again. This problem affected on customer mindset negatively.
13. **PoS Machine:** PoS machine is the one the best source of e-commerce for digital payment system, but most of the merchants are not ready to install this system or they given a priority to cash transactions and another thing is that after introductions of digital payment system most of merchants in urban area trying to install this machine but due to poor internet connectivity this machine cannot working properly and in rural India most of the merchants willing not interested to install PoS machine.

14. **Fear of Tax:** Most of the merchants not ready to perform transaction digitally of cashless, if the customer want to purchase any goods or service and trying to make payment through card or cheque, in that case merchant willing afraid to customer for extra tax up to 12-15% on MRP and if he make a payment in cash, merchant will ready to allow discount up to 15-20% on MRP. This is the scenario of the market and the situation occurred with researcher. So, in these case customer willing or unwillingly preferred cash transactions.
15. **Service Tax:** most of customers and merchants not ready to perform digital payment or using cashless transaction due to service tax on digital transaction or card transactions.
16. **Lack of Knowledge for Card Utility:** Every customer of the bank has ATM or Debit card but they don't have any knowledge about card utility except withdrawal of cash or balance enquiry. They don't use this card for another purpose like online shopping, mobile or dth recharge, reservation, etc.
17. **Educated people:** Most of the educated peoples are little bit wise, they are also source of misunderstanding, they are willingly or unwillingly spread the rumors about digital payment system e.g. service tax, bank account will be hacked, extra bank balance will be deducted, etc.

These are the major challenges for digital payment system or cashless transactions in India due to this hurdles people of India or merchant are not ready to perform transactions digitally.

Remedial Measures to Improve Digital Payment System

1. **To change mindset of the people:** Most of the population known for cash dependent, after the induction of digital payment system many people trying to using digital payment system, most of the population still unknown for digital payment system. Government of India, launch campaign for digital payment but not actively working on this, so, it is suggest that the Government of India and Banks should be continuously working to change mindset from cash to cashless. Government should implement this campaign in rural India because 70% population lives in rural area of India as well as in slum urban area.
2. **To Increase number of Bank Accounts:** As per the NITI Ayog only 58.7% of Indian households having bank accounts and still 41.3% of Indian households still bank less, bank need to reach every household of India, who have bankless and need to provide and promote basic banking services to these people especially in rural India. After 2000

most of the banks doing well in this area in head of financial inclusion, but still 50% (approx.) of villages are branchless or bank less. After the demonetization and induction of digital payment system many Government of India and many banks set target and also working on this, but still most of population are cash dependent. So, it is needful look on this matter make a compulsory to every bank account holder to perform digital transactions.

3. **Financial Literacy:** After the demonetization and and induction of digital payment system Government of India and most of banks trying to spread awareness in the society about digital payment system, but still 40% (approx.) of population still illiterate and bankless, so, it is became needful to make them aware about financial transactions to perform financial transactions digitally and make India 100% digitally.
4. **Retailers Approach:** Most of the retailers still not ready to install PoS machines at their shops, so, it is became necessary to make compulsory to every retailers of India to install PoS Machine or perform every financial transactions digitally.
5. **To improve infrastructure:** India known for agro-based country as well as country of villages and 50% (approx.) of villages still bank less or branchless. After the financial inclusion plan (2000) Government of India and most of the public sector banks trying to reach rural India and also trying to banking services through CSP (Customer Service Point) or KIOSK, but still 50% (approx.) villages bankless. So, it is become needful to spread bank net in unbanked villages with necessary infrastructure and connectivity. It became helpful to spread digital payment system in rural India.
6. **To create awareness in mobile users:** As per the data 90 crore mobile phone using in India out these 17% of people using smart phone and most of the younger generation using these phones and those who are using this smart phone they are not have right to do financial transactions in family therefore most of these people not using mobile to perform digital payment or transactions. In most of the cases older generation having the rights of financial transaction but most of them not much aware about use of smart phone or digital financial transactions. So, in this case it is become necessary to create awareness in older generation to perform digital transactions on mobile.
7. **To increase Internet users:** As per the data available only 22% of population using internet in India, in this case it is became necessary to enhance internet connectivity on large scale make people literate and internet savvy on large scale to perform digital transactions. In rural India due to poor infrastructure and connectivity of internet, people of rural India not much aware about internet and therefore they could not

perform digital transaction other than receipt or payment. So, Government of India and telecommunication companies' look in this matter and try to improve infrastructure required for good internet connectivity, with the help of this people of rural India get good internet they became internet literate and also trying to learn digital payment concept and trying to use this.

8. **Cyber Security:** It is the major hurdle in India for digital payment system. So, it is become necessary to Government of India as well as bank should look in this matter and assured to the customer about digital risks. Proper mechanism should be established to avoid this problem. If people of India feeling secure about this risks, they are willingly and easily accept this system.
9. **Assured Customers to refund:** After failure of online transaction customer afraid to do online transaction again, he is not readily accepting the situation. In this case merchants or bank assured customers to refund their deducted within very short period, most of cases it will take 7-8 days or in some cases it will takes 45 working days. So, banks need reduced this time span and make availability of refund as soon as possible. If customers assured about this, they are become always ready to use digital payment again and again.
10. **Use of ATM:** Almost 92% of ATM card users using ATM cards only for withdrawals of balance enquiry, they are not using other functions of ATM, like card to card transfers, mobile recharge, dth recharge, etc. So, bank need to make aware ATM card holders to another utility of this card to enhance digital transaction rate.
11. **Improve Internet Connectivity:** Due to commercialization most of the telecommunication companies install their infrastructure in urban area and very less number of companies going to rural area and provided their services to rural people with poor connectivity. So, here it is suggested that to Government of India and telecommunication companies to go in rural as well as outskirts area of the country with modern technology and try to provide better service with improved connectivity facility. With the help of this people of rural area also access internet and trying to do financial transaction digitally.
12. **Installation of PoS Machine:** After the initiatives of cashless payment system Government of India as well as various banks promotes various types of electronic services to its customer to provide platform for cashless payment system, and it seems in urban area most of businesses and retailers already install PoS machines at their business center to promote cashless payment system. But in rural and outskirts area the

situations seen completely opposite, Government of Indian and many banks trying to promote this system and help to make India cashless but, mentality of most rural retailers still not prepared, they are not ready to install PoS machine. So, here I would like to suggest that Government of India and banks continuously try and motivate to retailers to install PoS Machines with incentives on digital transaction and try to remove fear of tax from the mind of retailers.

13. **Eliminate Fear of Service Tax:** Most of the retailers as well as customers afraid to service tax on digital payment or transaction, due to these fear retailers not ready to initiate cashless transaction and customers also afraid to service tax on digital transaction. So, I would like suggest that fear of service tax on digital tax should be remove from the mindset of retailers and customers with removing all service taxes on digital transactions. It helps to promote digital payment system in India including rural area.
14. **Utility of Card:** After demonetization and introduction of digital payment system Government of India and Banks already working on spreading utility of ATM cum Debit Card, Credit Card and various digital payment apps like BHIM App, Pat, Aortal money, Vodafone Mesa, etc. but still maximum number of people don't know the utility of this cards or apps. So, it is required to spreading the awareness of utility this digital units a micro level with financial literacy programmer. Government of India already taken this step this step with the help of CSP (Customer Service Point), but now this system might be not working properly and not seen in current scenario. So, it is required to spread this literacy programmer at micro level like doorstep banking or door to door counseling and it might be works to improve digital payment system.
15. **To make compulsion to educated people:** It is observed that, most of Indian people not easily accepted any new change of the system and it also happened with digital payment system. As per the data available 92% of card holder using these cards only for withdrawals of cash and enquiry of balance only. Government of India took initiative to promote this system all over India with different incentives schemes but still most of population not using 100% utilities of cards or apps. So, here I would like insist and suggest various types' fees or payments should be accepted digitally with the help of cards or through various apps and also make a compulsory to all educated and working people to make all payments digitally or through cards including grocery payment above specific limit.

After the demonetization and introduction of Digital Payment System Government of India, Reserve Bank of India, All Banks and various institutions already taken initiative to promote digital payment system in India and they trying best to spreading awareness in all over India, but still I found some challenges for going smoothly to this system and trying to suggest some suggestion to improve conditions of digital payment system in rural as well as urban area of India.

Conclusion

Government of India initially introduced Mission “Digital India” to promote digitalization in various sector of India and a step ahead after demonetization Government of India introduced “Digital Payment System” to promote cashless transaction as well as cashless society and result of that Government of India, Reserve Bank of India, Commercial Banks (Nationalized as well as Private Sector Banks), Non-Banking Financial Institutions and Mobile companies trying to motivate this scheme by introducing various motivational and incremental scheme to promote digital payment system in India. But India known for agro-based country, country of villages and country of poor people, in short heterogeneous group of people dwells in India. So, in this situation it is hard to push cashless transactions in India, in the way of this various types of hurdles which create barriers in the promotion of cashless society like rural area, poor infrastructure of banks, poor connectivity, illiteracy rate, financial illiteracy, fear of tax, burden of tax, fear of transaction failure and finally mentality of Indian people is the main obstacle in the way of cashless transaction. But promoting digital payment system in India it is the long term process and it requires time to settle this system in India for that purpose Government of India and Bank should take care of these hurdles and try to improve situation and should take proper action to overcome these challenges and try to convert cash dependent society to cashless society.

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