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DIGITAL PAYMENTS FOR RURAL INDIA - CHALLENGES AND OPPORTUNITIES

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Abstract

Indian economy is one of the fast growing economies of the world. Despite of global turbulences of economic conditions, Indian economy has been focusing on development. In the recent past, there are significant developments that has taken place in the Indian financial system, which has led to huge transformations, trends and changes in the business dynamics. Though the government of India has been focusing on the digital transactions initiatives since last few years, the actual impact of digital payments has taken place in India in significant manner post the demonetization period.

Keywords: Digital Payment, Digital Wallet, Challenges and Opportunities.

Introduction

Indian economy is one of the fast growing economies of the world. Despite of global turbulences of economic conditions, Indian economy has been focusing on development. In the recent past, there are significant developments that has taken place in the Indian financial system, which has led to huge transformations, trends and changes in the business dynamics. Though the government of India has been focusing on the digital transactions initiatives since last few years, the actual impact of digital payments has taken place in India in significant manner post the demonetization period.

India economy has the intrinsic structure of rural and urban economic developments. Majority of the Indian

economy depends on rural economy, and only when the digital payment methods become an integral part of rural economic development, the digital initiatives could be considered as successful. In the recent past, digital payments has gained momentum in the country, both in the case of rural and also the urban segments. India has predominantly been a cash driven economy and the culturally the deep rooted trends of cash based purchases has widely been the economic culture. In wake of the government initiatives to transformation towards digital economy, and many private companies emerging in the space of digital transaction solutions like the E- Wallets, Mobile app solutions (UPIs) , payment bank licenses issued by RBI, it is imperative that the market is gearing up towards more transparent and

compliance based system, and of digital trends.

But the crux factor that has to be taken in to consideration is about how effectively the system is adaptable in the rural segments of the country, considering the opportunities and challenges according to the existing scenario. In this research paper, the emphasis is on gaining insights in to the opportunities and challenges that are envisaged in the digital payments system penetration in to rural segments.

Opportunities for Digital Payments

Digital payments in India are at nascent stage, and there is a push from varied quarters towards adapting the platform of digital payment solutions. Some of the reverent steps that have been incorporated in the recent past towards improving the scope of digital payments are:

Limiting the scope for cash payments

RBI has regulated the cash payments in a phased manner. For example, imposing restrictions and tax on cash purchase of jewellery beyond a prescribed value. Imposing transaction charges for cash payments for payment to vendors, suppliers and services etc. Imposing higher transaction charges for banking dealings like cash with draws, deposited. More scrutiny over the cash transactions. Launch of More Digital Payment Solutions. Though India is cash based economy, slowly the transition has started towards digital economy.

RBI issuing payment bank licenses to many fin- tech companies like Paytm and many competitive mobile wallet solutions emerging from existing banking companies lead to foray of digital payment options available for stakeholders like merchants and consumers. Strategic launch of UPI solutions like BHIM by Government of India, to enable hassle free digital transactions on a government platform leads to more secured platform for consumers. Aadhar based payment solutions that are emerging strongly in to the Indian market signifies potential scope

of carrying out digital payments even with feature phones. In a recent report published in collaboration by CII and Deloitte, the study emphasize that there issignificant raise in the demand from consumers for digital payment modes. Many merchant creations are keen on using the digital payments as the solution for retaining the customer base.

Incentivising Consumers

Many private digital wallet companies are offering value added services to the customers. Consumers are offered value proposition in terms of ease of usage, cash back offers, discounts for using their mobile wallet platform etc. Government announcing various incentive schemes and reward programs for the consumers, to attract them towards digital payments. RBI reducing or terminating the cross transaction cost for the bankers and UPI solutions to encourage them reduce the cost of transaction to the end users.

More PoS solutions being procured and made available to the merchants are significant step towards improving the system. Launching awareness programs, and encouraging as many feasible ways (like feature phone based digital transfers facilitated using Aadhar card etc.) has led to way where more number of shops and establishments considering the digital payment solutions in rural sector. Incentives allotted by Govt. as discounts for fuel purchase using the digital payments like debit/credit cards in the outlets signify the strategic approach towards encouraging digital transactions.

Market Drivers

It is imperative from the recent reports that there is significant development in the case of digital payments that are taking place. Some of the key and influencing factors that are supporting the digital transaction processes are: Compared to the earlier trends, in the current scenario the process of mobile banking, IMPS solutions and other such related developments has got

simplified. Increasing number of ecommerce companies offering their services in the rural segments also are the other key element that is driving the digital transaction solutions.

Direct and indirect initiatives from government towards improving the banking ease, compliance standards and other such factors play a key role in the process. Few of the significant initiatives like issuance of “RuPay cards” linked with Jan Dhan accounts (Zero balance accounts) opened up in massive scale, Kisan Credit cards issued to the farmers, drive in terms of enabling PoS solutions to rural merchants etc. has created fundamental platform that is essential for gaining momentum of digital payments in the rural segment.

Challenges of Applying Digital Transactions in Rural Markets

Prior to the demonitization period, usage of digital payments was an option. However, in the rural market segment where cash was the king, the option of digital payments were exercised by very few retail outlets and also the consumers were wary of using such trends. Though, with the rampant penetration of ICT such trends has been changing, still the quantum of digital payments has gone up significantly post the demonetization period.

Phenomenal developments has taken place in the process of digital payments and many mobile wallet companies, PoS service providers, ecommerce players, and government initiatives has been focusing on improving the digital payment solutions. But some of the significant challenges that is thwarting the desired growth and propelling the market towards digitization are:

Consumer Challenges

Trust factor is one of the integral challenges to growth of digital payments in rural sector. Irrespective of whether it is attributed to emerging information security challenges, or lack of awareness of the consumers, still the challenge of gaining

the trust of consumers is one of the key challenges facing the mobile wallets, digital transaction service providers like banks, fin-tech companies etc. Secondly, the cost of transactions that are levied over the consumers is also a major concern. For example, over every debit card transaction, some retailers are charging the transaction cost from consumers and it is additional burden. To ensure that debit and credit cards are used prevalently, such transaction charges has to be evaded.

Mobile wallet companies has certainly made the transaction process much simpler to the customers, but the costs charged over switching the money from wallet to bank accounts are again a key concern. As the mobile wallet companies are charging anywhere around 1% to 4% for transactions to bank accounts, consumers are wary of using mobile wallets for business transactions.

Conclusion

India is among the fast emerging as one of the largest and strong economies. 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.

Thus, it can be concluded that there is enormous potential that rural economy in India can become a cashless economy. The rural population is ready to learn, with one

person receiving benefit soon the rest of the village will follow. Keeping the consumption patterns and the recent trends into mind the government can plan for implementation of basic support system like, incentivizing the use of internet through free data and smart phones, distribution of laptops to students taking higher education in nearby towns. Undisturbed internet connectivity and better availability of POS should be ensured through sound infrastructure. Another way is by creating awareness about digital transactions and financial literacy among rural people by partnering with different educational organisations and NGO's. It can also provide multi-lingual online payment platforms i.e. mobile apps in regional languages for ease of transactions. Finally, by using the

schemes and policies implemented by Ministry of Rural Development to bring the population under electronic payment system, the government can make the cashless rural economy a reality from dream.

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