



A STUDY ON THE IMPACT OF DIGITAL PAYMENT SYSTEM IN ENHANCING TRADING ACTIVITIES

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Abstract:

Also called as Electronic payment, a digital payment is nothing but the transfer of value from one payment account to another using a digital device such as a mobile phone, Point of sale (POSs) or computer, a digital channel communications such as mobile wireless data or SWIFT(Society for the worldwide Inter bank Financial Telecommunication). Depending upon how the transaction is initiated and how the payee receives the benefit of the transaction, the digital payment may be of three types: Partial digital, primarily digital or fully digital. The proposed research work will be an attempt to find out the present digital payment system, its relevance in the economy, the benefits offered by it to the stakeholders, and the suggestions or recommendations if any for the improvement in the system. The methodology would comprise mainly the use of secondary data. Collected data would be analyzed to bring conclusions and suggest recommendations if any.

Key words: Digital, payment, stakeholders, technology

Introduction:

World has undergone a lot of changes since time immemorial as far as the trading activities and its mode of payment is concerned. From the subsistence stage to barter system and from barter to modern trade, drastic changes have been witnessed. During the subsistence system, human needs were limited. All these needs were being fulfilled by the people themselves. Members of the society used to follow a certain set of practices to acquire food. Anthropologists classify subsistence into four broad categories: foraging, pastoralism, horticulture and agriculture. During this period, the presence of trading activities was almost nil. During the barter system, the needs of the people increased and as a result they found it necessary to exchange the commodities grown by them for the commodities which were being grown by others. But because of various drawbacks, the system lost its importance. But by the time it vanished, it had given way for the use of metallic money, paper money, plastic money, crypt o currency etc. In the form of media of exchange. In the meantime the concept of digital payment system developed making the conducting of trading activities simple and easy. On 8th November, 2016, the Government of India demonetized all Rs 500 and Rs 1000 notes of Mahatma Gandhi series and this gave rise to the coining of the slogan faceless, paperless and cashless economy. The present paper aims at throwing light on the DPS, its implications on the trading activities, how the DPS can be strengthened for the betterness of Trade and commerce etc.,

Review of Literature:

Lot of work has been done with respect to DPS. Various scholars have thrown light on the DPS in their works.

In their research paper titled “A Study on Factors Influencing Consumer Adoption of Internet Banking in India” Rakesh H M & Ramya T J (2014) tried to examine the factors that influence internet banking adoption. They have opined that perceived reliability, Perceived ease of use and Perceived usefulness are going to play an important role in influencing internet banking.

A.Martina Franciska & Dr S Sahayaselvi(2017), in their Research paper published in International Journal of Research, concluded that in future the digital payments are going to be a must and so the change in the habits of the people to accept the digital payment is also a must. The cashless transaction is not only safer than the cash transaction but is less time consuming.

K Suma Vally and others (2018) in their research paper published in International Journal of Pure and Applied Mathematics, stressing on the need to popularize the DPS, conclude that “Banks should take effective measures in creating awareness towards the effective usage of technology and security”.

In an article published in IOSR Journal of Business and Management (IOSR-JBM), Dorothy Sagayarani, raising the security issue of DPS, opined that “many people actually agree with the government on the usefulness of cashless economy as it helps to fight against terrorism, corruption, money laundering but one biggest problem in the working of cashless economy in India is cybercrime and illegal access to primary data”.

Mrunal Chetanbhai Joshi, in his research paper, has opined that people are proactively adopting the new modes of digital payments and also host new modes of digital payments over old digital payment modes.

Malusare Lalitha Babulal (2019) in their Research article published in International Journal of Scientific Research in Engineering and Management, stressing need to literate people in relation to digital transactions, have opined that Digital payment system is very easy to use for both the customers as well as the bank officials and various options are available in the financial system of India. But the digital literacy of the people is at a very low level.

The research works done hitherto, have highlighted on the factors influencing the digital payment system, importance of the system and the issues with regard to the Digital Payment System. Some have highlighted the need for educating the public literally. In this Research an effort will be made to know the effectiveness of the DPS in boosting trading activities. It is also going to be analyzed how the system has helped in enhancing the economic activities in the country in general and in Davangere District in particular.

DATA COLLECTION

The study mainly depends upon secondary data. The Internet, published books, and other relevant sources have been dependent on the information required. The collected data is analyzed to arrive at a conclusion.

OBJECTIVES OF THE STUDY:

- 1) To understand the meaning of Digital Payment.
- 2) To examine the impact of the digital payment system in enhancing trading activities.
- 3) To examine the perception of the customers as well as the traders towards the DPS .
- 4) To find out loopholes in the DPS, if any.
- 5) To suggest measures to overcome the loopholes in DPS.
- 6) To find the measures to make the people literate digitally.

Digital Payment System:

Whenever transactions occur between seller and buyer, there are usually two modes of payment, viz., cash and credit. While in cash mode, the payment is made immediately by the buyer through cash, in credit mode, the payment will be agreed to be made in future that too mostly in the form of cash. To these two modes of payment, one more mode has been added in recent times and that is Digital Payment.

Digital payments are the payments done through digital or online modes. The characteristic feature of the Digital payment System is the non involvement of the hard cash. Popularly known as electronic payment(e-payment), DP is the transfer of value from one payment account to another. Here the payer and the payee use such a digital device as mobile phone, computer, or a credit or debit or prepaid card. There are some prerequisites for the DPS to operate. They include:

- 1) Both the payer and payee could be either business persons or business and individuals.
- 2) Both the payer and payee must have a bank account.
- 3) They must have a device from which they can make the payment.
- 4) There must be an intermediary between them in the form of a bank or a service provider.
- 5) Whether the payment is to be made to a far off payee or a nearest payee Internet is a must.

Based on five parameters, the RBI has constructed the Digital Payment Index (RBI-DPI) to measure the extent of digitisation of payments across India. The different parameters and the percentage weightage given under RBI-DPI is as follows.

Parameters	Weightage	Sub parameters included
Payment Enablers	25%	Internet, mobile, aadhaar, bank accounts, participants, merchants
Payment Infrastructure-Demand Side Factors	10%	Debit and credit cards, PPIs, customers registered in mobile and internet banking, FASTags
Payment Infrastructure-Supply side Factors	15%	Bank branches, BCs. ATMs, PoS Terminals, QR codes, Intermediaries
Payment Performance	45%	Digital payment volumes, value, unique users, paper clearing, currency in circulation, cash withdrawals
Consumer Centricity	5%	Awareness and education, declines, complaints, frauds, system downtime

(Source-RBI Press Release: 2022-2023/602)

The DPI from 2018-2022 is as follows.

Digital Payment Index

Year	DPI
March 2018	100
March 2019	153.47
Sept 2019	173.49
March 2020	207.84
Sept 2020	217.74
March 2021	270.59
Sept 2021	304.06
March 2022	348.30

(Source-RBI Press Release: 2022-2023/602)

It is evident from the above table that the Digital Payment in the year 2022 has increased by 248.3% when compared to 2018 which is the base year.

IMPACT OF DIGITAL PAYMENT ON THE INDIAN ECONOMY

With a population over 1.3 billion, India has a huge potential for digital payments. As of October 2021, India has around 1.18 billion mobile connections, 700 million internet users, and about 600 million smartphones. These numbers are growing rapidly each quarter. With about 25.5 billion real-time payment transactions, the country ranked first in the world in terms of number of transactions in 2020.

Retail transactions in terms of volume from FY 2010-11 to 2019-20

Retail Transaction Methods	FY 2010-11	FY 2019-20
Paper	60%	3%
Card Payments	22%	21%
Retail Electronic	18%	61%
PPIs	-	15%

(Source: RBI data)

From the above table, it is evident that the Digital Payment has increased in recent years. While 60% of the retail transactions were done through paper in FY 2010-11, it reduced to 3% in FY 2019-20 while the retail electronic transactions increased from 18% in FY 2010-11 to 61% in FY 2019-20 while the Payments through cards remained more or less the same. This shows the increase in the demand for Digital Payment modes.

NEED FOR DIGITAL PAYMENT

Instead of making payments through cash, why do we go for Digital pay? Answer is simple. Digital pay results in so many benefits to both the buyer and the seller. Particularly to the small businessmen. Digital Payment System is a boon to the economy because of the following reasons:

- 1) Cash management is eliminated resulting in low risk of theft which further results in reduced cost of security and storage.
- 2) It helps in having quick transactions which avoids queuing and boosts sales.
- 3) For both the seller and the customer, online payments save a lot of time.
- 4) The trading activities can be held across the length and breadth of the country easily.
- 5) People can pay for goods and services at any time of the day from any part of the world
- 6) The customers are also relieved of the problem of carrying the cash in hand.
- 7) It boosts up the banking sector because the DPS can only work through the inter mediation of banks and other agencies.
- 8) Receipts and payments involved in trading activities can be made in exact amounts, This results in no loss either to the seller or to the buyer.
- 9) The biggest advantages of having online payment gateways is that businesses can operate globally and have a customer base irrespective of geographical limitations. Over 56% of online shoppers prefer to shop cross-border.

METHODS OF DPS

The faceless, paperless and cashless movement in India took its momentum through the demonetization of Rs 500 and Rs 1000 notes on 8th November 2016. This movement aims at encouraging trading activities without the coming together of the buyer and seller, without the use of paper through the assistance of computers and internet and avoiding the handling of cash. Digital payments can be made through any of the following mediums.

1. **Unified Payments Interface (UPI):**
2. **UPI 123PAY:**
3. **UPI Lite:**
4. **Cards (including Ru Pay Debit Cards)**
5. **Immediate Payment Services (IMPS)**
6. **Aadhaar Enabled Payment System (AePS):**
7. **Bharat Bill Payment System (BBPS):**
8. **National Electronic Toll Collection (NETC) FASTag**
9. **Unstructured Supplementary Service Data (USSD) / *99#:**
10. **e-RUPEE**

LOOPHOLES IN THE DPS:

The Digital Payment System mainly suffers from the following issues.

- 1) **Technical Issue:** In the same way as any other software depending upon technology suffers, DPS also suffers. Sometimes, it can cause frustration among online shoppers., especially when it takes place without prior warning.
- 2) **Security Issue:** DPS mainly suffers from security issues. If proper measures are not taken, fraudsters can easily hack important financial information and data.
- 3) **Limitations on amount and time:** Some banks limit the number of transactions one can do in a day or the maximum amount one can transfer in a day.
- 4) **Service fees and other additional costs:** For making payments through online gateways, some services may demand setup costs or even processing fees for customers using those facilities.
- 5) **Loss Of smart cards:** Most of the online payments are done with the help of credit/debit cards, ATM cards, or identity cards. If the card holder loses any of these, automatically, his online payment accounts that are linked to his cards will be at risk too.
- 6) **False identity:** Unlike physical transactions, there are no ways to identify if the person making the online payment is the one he/she is claiming to be. Since there are no verification methods like photographs or signatures, most online payments are done behind a veil of anonymity. This can lead to a considerable amount of forgery and identity theft.
- 7) **Internet Access Issue:** Even though all other requirements are met, the non availability of Internet may pose problems in the implementation of the system.

- 8) **Low Internet bandwidth:** A solvable yet common issue, low internet bandwidth is responsible for failed online payments. No matter how advanced the virtual presence is, low internet bandwidth can be a critical concern especially if we use an integrated payment gateway.
- 9) **Multi-currency transactions:** Nowadays it is possible even for a small trader to reach a global audience. But in that case there is the problem of such transactions becoming slow and expensive.

Measures to strengthen the Digital Payment System:

To overcome the disadvantages of the DPS and make it effective, following measures may be taken:

1. **Ensuring a safe and secured online payment system:** While good products pull customers to a website, good experiences retain them. A seamless checkout and payment system is a crucial part of that customer experience.

2. **Tackling internet bandwidth issue:** For this, those who want to make use of DPS have to ensure that the website, mobile app, and the payment gateway that they have chosen can work seamlessly even with slow internet. It is always better to have a light version of the site or app to ensure the connection continues uninterrupted.

3. **Attending card data security issues:** For ensuring card data security, one has to use a payment gateway that is Payment Card Industry Data Security Standard (PCI DSS) compliant. PCI includes a set of regulations that all payment gateways have to follow while handling card payments.

4. **overcoming multi-currency transaction issues:** By partnering with a trusted payment gateway that supports international transactions, we can overcome the problem of multi-currency transactions.

5. **The government should take proper measures to extend internet facilities throughout the country so that the DPS can be boosted up.**

Conclusion:

With the help of digital technology, many businesses have been successful in maintaining a steady growth curve. But at the same time, many others are just starting to explore its potential. As technology continues to advance and determine the success of every online business, merchants need to be equally aware of the products available that can turnaround their businesses. As far as the challenges of online payments are concerned, a robust payment gateway can potentially minimize most of the issues and significantly improve the customer experience.

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