

UPI - THE GROWTH OF CASHLESS ECONOMY IN INDIA

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Abstract

The paper is about UPI and the growth of cashless economy in India. The aim of the study is to examine the cashless economy and its performance in India. A cashless economy is stated to be an economy whereby financial transactions are not conducted with money in the form of physical banknotes or coins, but rather through the transfer of digital information (usually an electronic representation of money) between the transacting parties. November 2016 was a period Indians would never be able to forget for the bold decision taken by the government to demonetize the Indian currency in particular the 500 and 1000 rupee notes. Its impact was far-reaching and every citizen was invariably involved in the transition. The step was necessary in the government's efforts to push India into a digital economy. There is a deliberate shift to cashless economy focusing on minimum use of paper currency and more reliance on electronic transactions. This could happen only with widespread acceptance of credit cards, debit cards, net banking, e-wallets by the people of India. But, it was the UPI which proved to be the major game changer. It is evident that the usage of digital transactions has picked up and it is only a matter of time before most of the transactions happen electronically. This hopefully will also pave the way for an economy which will be more transparent.

Keywords: Digital Economy, Demonetization, Payments, UPI, Growth of Cashless Economy.

Introduction

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. "Faceless, Paperless, Cashless" is one of professed role of Digital India. The demonetization of the highest denomination currency notes is part of several measures undertaken by the government in its push for reform but also to a cashless economy. But to promote digital economy, facilitating faster payment services is mandatory. Availability of convenient, trustworthy and reliable payment systems would drive people to adopt digital transactions over paper transactions.

Literature Review

Ashish Das and Rakhi Agarwal (2010), Cashless Payment System in India, a Technical Report, "The country needs to move away from cash-based towards a cashless payment system. This will help reduce currency management cost, track transactions, check tax avoidance, fraud etc, enhance financial inclusion and integrate the parallel economy with mainstream". Bappaditya Mukhopadhyay (2016), Understanding cashless payments in India, "the most crucial enabler of cashless payments is inflows of funds into the accounts." Ms.Pranjali A. Shendge, Mr. Bhushan G. Shelar (2017), Impact and Importance of Cashless Transaction in India, "The financial safety over the digital payment channel is important for pushing the cashless economy idea. A major obstacle for the quick adoption of alternate mode of payment is mobile internet penetration, which is crucial because point of sale terminal works over mobile internet connection, while banks have been charging money on card-based transaction which is seen in hurdle."

Objectives of the Study

- To study the present system of electronic payments.
- To analyse the performance and the growth trend of Electronic Payment System - post demonetization period.
- To examine various service facilities offered by UPI-BHIM technologies.
- To examine various government initiatives towards digital India.
- To study the digital payment transactions using UPI-BHIM by e-commerce companies.

Methodology

Research Design: The study employs analytical method of research, and it is based on secondary sources of information such as journals, news articles and business magazines. Government websites have been a major source of information. The study attempts to examine the growth of the cashless economy especially post demonetization. The period of study consists of one year starting from November 2016 - November 2017 (Post Demonetisation Era).

Cashless Payment System

There has been a silent revolution that has been sweeping the country. It is about the payment systems in India. That is because, the payment systems have been evolving and changes have been continuous over the last 35 years, it has rarely got noticed as a revolutionary change. With the developments in the information and communication technology, world over, different kinds of payment instruments and innovations in the instruments and the payment systems evolved. Today, India can boast of a strong retail payments framework in the country comparable to that of any advanced country, and perhaps even better than some of them in terms of the variety and efficiency. Various types of payment instruments exist to meet the requirements of different users in different circumstances - bank accounts, cheques, debit and credit cards, prepaid payment instruments, etc. There are various systems to meet the remittance requirements of users depending upon their time criticality and cost sensitivity - National Electronic Funds Transfer (NEFT), Immediate Payment Service (IMPS), Aadhaar Enabled Payment System (AEPS) and recently Unified Payments Interface. The need for making bulk and repetitive payments is met by systems such as Electronic Clearing Service (ECS), National Automated Clearing House (NACH) and Aadhaar Payment Bridge System (APBS).

Unified Payment Interface

Everything was in place for the economy to seamlessly switchover to digital transactions when the demonetization was announced in the month November 2016. Although there were teething troubles and criticisms, India managed to pass through this difficult phase with many citizens voicing support to the government's plans and encouragingly moving on to other methods of payments. Usage of credit cards, debit cards picked up. E-wallets such as Mobikwik, Paytm, and Freecharge were eagerly accepted by the people as well as the merchants. But, the real winner was the Unified Payments Interface, introduced almost silently but gathered pace after the demonetization.

UPI is a one-touch transaction for transferring money between any two parties using a 'unique virtual address' on a smartphone. The UPI-driven payments follow the IMPS (Immediate Payment Service) structure of payments. Since its launch, the technology has been adopted by various banks and other private fintech companies.

Soon after the launch of UPI, several payment companies came up with their own version of a UPI based mobile app. Among these were Trupay, Razorpay, MobiKwik and Flipkart-owned wallet PhonePe. In March 2017, the RBI also opened up UPI for digital wallets. This allowed users to directly send/receive money via digital wallets like Paytm, Freecharge without routing through the bank.

Internet Service Providers have played a major role in the implementation of UPI. The launch of Jio made the availability of Internet in mobile phones at a cheap rate, enabling many to move over to smart phones. All the other service providers have also followed and now Internet is within the reach of the majority of the population. The linking of BHIM-UPI with mobile phone numbers was a game changer. It does not require a smart phone and can function with the push button phones also.

Bharat Interface for Money (BHIM) is an initiative to enable fast, secure, reliable cashless payments through mobile phone. BHIM is interoperable with other Unified Payment Interface (UPI) applications, and bank accounts. BHIM is developed by the National Payment Corporation of India (NPCI). In the last couple of months, many companies outside the payments space have also embraced the government's UPI and BHIM technologies. In June, messenger service Hike launched

its UPI-enabled digital wallet interface, while global chat service WhatsApp is in the process of getting clearance from NPCI to launch the wallet in partnership with SBI.

In August 2017, Uber India launched UPI integration in partnership with National Payments Corporation of India (NPCI) and banking partners Axis Bank and HDFC Bank. A month later, Google’s much-awaited UPI-enabled mobile payments app Tez was launched by the Finance Minister Arun Jaitley. Around the same time, Airtel Payments Bank reportedly boosted its digital platform with the integration of UPI. Most recently, global payments giant PayPal announced the launch of its domestic digital payment services in India in the first week of November. Around the same time, Paytm announced the integration of BHIM UPI on its platform, in a bid to double it’s the monthly user base in the coming two years.

As reported by NPCI, transactions via UPI have been on a steady rise over the last 12 months. Given the sector’s immense potential, increased government support and the emergence of new players, we can expect to see even higher numbers in the months to come. The growth of UPI since the rollout of demonetisation has been completely unprecedented. This is partly because UPI-based apps boast several advantages over conventional digital wallets. For instance, users of these apps can transfer funds from one bank account to another without any processing fee.

The transfer is also significantly faster than National Electronic Funds Transfer (NEFT), which until now was the preferred mode of transferring money. Unlike traditional methods, customers can add beneficiaries instantly on UPI, without having to provide their bank account details and IFSC code. Transactions via digital wallet, on the other hand, are more complicated, requiring users to first add money to their account before being able to send funds to other wallets. When it comes to transferring money back to the bank account, these platforms usually levy a fee.

A look at the statistics released by RBI bears evidence on the growth witnessed in the digital economy in the last one year and in particular the increasing acceptance of UPI.

In terms of volume, the overall growth rate in the last 12 months has been around 48.5% and in value terms at 28.8%. Although the usual RTGS, NEFT and IMPS have shown good growth, there has been a jump in UPI transactions which have been phenomenal. It can expect further growth in UPI in the years to come as many seem to prefer UPI over plain mobile banking.

Table – 1: Table showing the growth of Digital Economy From November2016-November2017.

Data for the period	Volume in Million			Value in Rs. billion		
	Nov-16	Nov-17	Growth	Nov-16	Nov-17	Growth
RTGS	7.87	10.83	37.5%	78479.24	98410.49	25.4%
NEFT	123.04	161.97	31.6%	8807.84	13884.00	57.6%
CTS	87.08	96.49	10.8%	5419.22	6652.97	22.8%
IMPS	36.16	89.49	147.5%	324.80	782.58	140.9%
NACH	152.51	197.49	29.5%	606.62	724.14	19.4%
UPI	0.29	104.84	36380.8%	0.91	96.41	10549.8%
USSD (in thousands)	7.04	182.44	2490.7%	7302.62	287287.81	3834.0%
Debit and Credit Cards at POS	205.53	244.62	19.0%	352.36	483.32	37.2%
PPI	59.01	91.20	54.5%	13.21	31.40	137.8%
Mobile Banking	72.35	50.89	-29.7%	1244.85	532.75	-57.2%
Total	671.50	997.10	48.5%	94004.19	121065.60	28.8%

Source: Electronic Payment Systems Representative Data released by RBI on 2nd January 2018.

The Future of Digital Payments in India

The modern technology had changed the entire dynamics the way banking was done in the country. With the government's continuous push towards digitalisation of the economy, the notion of cash being a predominant instrument was changing and the people were switching over to modern and better ways of doing things. Those who embrace technology would move ahead and those who would fail to accept it would feel isolated.

On 4th October, 2017, the Reserve Bank of India (RBI) announced that it would allow e-wallets of private firms to interoperate. So, users of one wallet app will now be able to transact with users of a different wallet app. This will spur the usage of wallets and payment banks as they are placed on par with banks for transfer of funds.

A recent report by the Centre for Digital Financial Inclusion (CDFI) shows a clear growth in the intent to go digital among the 600,000-odd traditional grocery retailers or kirana stores. 63% of the kirana stores, especially in the tier two-three markets and semi-urban areas want to go cashless. Around 45% of these stores are willing to buy POS (point of sales) machines. However, there has been a great surge in mobile payments. Not only are the kirana store owners opting to pay distributors and wholesalers through their mobile wallets, even consumers living in smaller towns are equally excited about buying using mobile wallets.

The digital payments segment in India has witnessed a sea change in recent times and is poised to reach \$500 Bn by 2020, according to a report by Google and Boston Consulting Group. Cashless transactions in the consumer payments segment are expected to double to 40% in the next three years. Already 81% of existing digital payment users prefers paying online to any other non-cash payment methods. Indian consumers are 90% as likely to use digital payments for both online as well as offline transactions.

The Government has also displayed initiative and switched over to electronic payments wherever possible. Electronic payments have already become operational in various interactions such as:

- i) **Citizens to Government (C2G) and Business to Government (B2G):** Departments deliver various kinds of services to citizens and businesses and collect payments against delivered services.
- ii) **Governments to Citizens (C2G):** Departments make payments to beneficiary of these schemes under various heads.
- iii) **Government to Businesses (G2B):** Government departments either procure goods/products or sub-contract projects/services to external agencies/persons and make payments for such procurements and projects
- iv) **Government to Employee (G2E):** Central Governments make salary, GPF and pension payments to employees through electronic means
- v) **Government to Government (G2G):** Central Government departments use Public Finance and Management for making payment against planned and non-planned schemes.

Towards a Complete Digital Economy

The earnest acceptance of the merchants has paved the way for consumers to make payments in methods other than cash. While credit cards and debit cards still rule, the other mechanisms are not far behind. E-Commerce websites like Amazon, Flipkart etc., have created their own payment mechanisms such as Amazon Pay and PhonePe, in addition to accepting payments through net banking, debit cards, credit cards and E-wallets. Mobile Service Providers have also not been behind in their transition. Airtel has got its own Payment Bank while Vodafone has M-Pesa. Digital wallets such as Paytm have gained massive acceptance and payments are being made by scanning QR codes at small outlets almost everywhere in the country. Banks have also latched on to the bandwagon by creating their own e-wallets. HDFC has brought out its Payzapp whereas ICICI has introduced Pockets.

There is a plethora of options available in the economy. There is really no justification for continued usage of paper money when a variety of simple and convenient methods are available. With almost a high penetration of mobiles and availability of internet to all, it is but a matter of time that the citizens of India will move on to a less cash economy.

Conclusion

It can be concluded that there will be wider usage of digital transactions by Indians in the future. With the growing banking sector pushing the acceptance of credit cards and debit cards, almost every Indian today has plastic money in his/her hands. Making payments and purchases online has made it necessary for Indians to accept cashless transactions as a way of life. Demonetisation has made India into a digital economy because of the government's efforts. It is a thoughtful move to cashless economy by minimizing the use of physical currency and more reliance on BHIM-UPI. It can materialize with pervasive approval of plastic money, online banking, and electronic wallets by the users. The practice of digital transactions has been picking up and in future most of the transactions will happen electronically. Although right now, the cashless transactions seem to be limited to amounts which are not huge, the day is not far off when any transaction will in all likelihood be only cashless. This hopefully will also pave the way for an economy which will be more transparent. The study can be extended in future by

the researchers in the areas such as the problems faced by the users of BHIM & UPI based payment system and also the service enhancements needed further by the users.

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