

DIGITALIZATION AND ITS IMPACT ON FINANCIAL TRANSACTIONS IN INDIA

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Introduction:- Digital cash eliminates various problems associated with physical cash, such as misplacement or the potential for loss or damage. Additionally, digital cash can be traced and accounted for far more accurately in cases of disputes. As consumers find an increasing number of purchasing opportunities at their fingertips, there is less need to carry physical cash in their wallets. Other indications that demand for digital cash is growing are highlighted by the use of peer-to-peer payment systems such as PayPal and the rise of untraceable cryptocurrencies such as bitcoin. Almost anything imaginable that can be paid with physical cash can theoretically be paid with the swipe of a bank card or mobile wallets. The problem is that the technology is still not omnipresent. The concept of an all-digital cash economy is no longer just a futuristic dream but it's still unlikely to outdate physical cash in the near future. Digital banks are possible as a consumer option, but people may still have a need for physical cash in certain situations. ATMs help banks cut overhead, especially if they are available at various strategic locations beyond branch offices.

Objectives:-

- To understand what digitalization all is about.
- To find out the benefits of digitalization from both buyers and sellers point of view.
- To understand the present status of digitalization in financial transactions in India.
- To understand the pitfalls associated with digital financial transactions.

Context:- India has ushered in a new era in financial transactions by adopting digitalization. It made our lives easy, hassle free and much less complicated. Demonetization by the government gave it the fillip it required. In this context, this article is an attempt to understand how much progress India has made in adopting this new platform for financial transactions.

Digitalization:- Digitalization is the use of digital technologies to change a business model and provide new revenue and value producing opportunities. It is the process of moving to a digital business.

Benefits of digitalization of financial transactions for service providers:

i) Business efficiency - Not only do digital platforms improve interaction with customers and deliver their needs more quickly, they also provide methods for making internal functions more efficient. While banks have been at the forefront of digital technology at the consumer end for decades, they have not completely embraced all the benefits of middleware to accelerate productivity.

ii) Cost savings - One of the keys for companies dealing in financial transactions is to cut costs through automated applications that replace redundant manual labor. Traditional financial transaction process is costly, slow and prone to human error, according to McKinsey & Company. Relying on people and paper also takes up office space, which runs up energy and storage costs. Digital platforms can reduce costs through the synergies of more qualitative data and faster response to market changes.

iii) Increased accuracy - Traditional firms dealing in financial transactions that rely mainly on paper processing can have an error rate of up to 40%, which requires reworking. Coupled with lack of IT integration between branch and back office personnel, this problem reduces business efficiency. By simplifying the verification process, it's easier to implement IT solutions with business software, leading to more accurate accounting. Financial accuracy is crucial for firms to comply with government regulations.

iv) Improved competitiveness - Digital solutions help manage marketing lists, allowing companies to reach broader markets and build closer relationships with tech savvy consumers. CRM platforms can track customer history and provide quick access to email and other forms of online communication. It is effective for executing customer rewards programs that can improve loyalty and satisfaction.

v) Enhanced security - All businesses big or small face a growing number of cyber threats that can damage reputations. Several financial organizations and tech firms have been hacked in the recent past. Companies can benefit from extra layers of security to protect data.

Benefits of digitalization of financial transactions for customers:

- i) **Convenience** - The ease of conducting financial transactions is probably the biggest motivator to go digital. People no longer need to carry wads of cash, plastic cards, or even queue up for ATM withdrawals. It is also a safer and easier spending option during travelling.
- ii) **Discounts** - The recent waiver of service tax on card transactions is one of the incentives provided by the government. Similarly, saving on rail tickets, highway toll, or purchase of insurance can help cut costs. Add to these the cashback offers and discounts offered by mobile wallets like Paytm, as well as the reward points and loyalty benefits on existing credit and store cards, and it could help improve people's cash flow marginally.
- iii) **Tracking Spends** - If all transactions are on record, it will be very easy for people to keep track of their spending. It will also help while filing income tax returns and, in case of a scrutiny, people will find it easy to explain their spends. It will have a good impact on budgeting.
- iv) **Budget discipline** - The written record will help you keep tabs on your spending and this will result in better budgeting. "Various apps and tools will help people analyze their spending patterns and throw up good insights over a couple of years.
- v) **Lower risk** - If stolen, it is easy to block a credit card or mobile wallet remotely, but it's impossible to get cash back. In that sense, the digital option offers limited security. This is especially true while travelling, especially abroad, where loss of cash can cause great inconvenience. Futuristic technologies like use of biometric ID (fingerprints, eye scan, etc.) can be extremely difficult to copy, making it a very safe option.
- vi) **Small gains** - Another plus is that people can pay the exact amount without worrying about not having change or getting it back from shopkeepers.

The Digital India programme by government: Digital India is a campaign launched by the Government of India to ensure connecting rural areas with highspeed Internet networks and improving digital literacy. The main goal is to make Government services available to citizens electronically by improved online infrastructure and by increasing Internet connectivity or by

making the country digitally empowered in the field of technology. The initiative includes plans to connect rural areas with high-speed internet networks. Digital India consists of three core components, (a) development of secure and stable digital infrastructure, (b) delivering government services digitally, and (c) universal digital literacy.

Launched on 1st July, 2015 by Prime Minister Narendra Modi, it is both enabler and beneficiary of other key Government of India schemes, such as BharatNet, Make in India, Startup India and Standup India, Industrial corridors, Bharatmala, Sagarmala, Dedicated Freight Corridors and UDAN-RCS. The Government of India specifically targets nine 'Pillars of the Digital India' as follows: i) Broadband Highway, ii) Universal Access to Mobile connectivity, iii) Public Internet Access Programmed, iv) E-Governance, reforming Government through Technology, v) E-Kranti, electronic delivery of services, vi) Information for All, vii) Electronics Manufacturing, viii) IT for Jobs, ix) Early Harvest Programmes.

Some of the facilities which will be provided through this initiative are Bharat net, Digital Locker, e-education, e-health, e-sign, e-shopping and national scholarship portal.

Major platforms for digital transactions: Digital payment platforms have eased cashless transactions and have been especially popular since demonetization. These platforms are capable of making payments in online as well as in offline mode. However, their features differ and citizens of the country should make the best use of them while making payments. Below are some of these cashless transaction making platforms and their features:

- i) **Mobile Money Identifier - MMID** is a seven-digit unique number which is issued by the bank once a mobile number is registered. A person who wants to send money and the person who wants to receive that money should have MMID for the particular interbank funds transfer. However, through MMID, only a small amount (around Rs 10,000) within a day can be transferred. Almost all banks are providing this facility of making small payments.
- ii) **UPI App based payments platform - UPI** has come up with a unique feature of creating virtual address through which money can be transferred without disclosing account number and IFS code to the receiver. UPI works on a real time basis which means the money is transferred instantaneously. UPI also supports the other medium of doing funds transfer.

UPI facility is available with all the banking apps and almost all the other private and public banks. Now, most of the banks are embedding their UPI feature within their mobile banking app only.

- iii) **QR Code based payments system - QR code** is again a different mechanism of making the transfer of payment where payers only need to scan the QR code of the merchant and do the transfer of payments. It is being mostly used by all the digital payments app like BHIM, other banking apps to make the transfer of payments easily. The black square holds the information about the items whereby scanning the code information gets transmitted automatically through the smartphone and payments get done. Bharat QR code has been launched by the government to push the digital payment initiative in all the way round.
- iv) **Aadhaar enabled payment system** - The Aadhaar payment app works on an Aadhaar Enabled Payment System (AEPS) facility, which is a bank-led model offering multiple financial services through Aadhaar number. Multiple bank accounts can be linked through Aadhaar Payment Bridge (APB) platform by which payments can be made from any of the customer's accounts to the merchant. To make the best use of it, Aadhaar number needs to be linked with bank accounts.
- v) **Net banking payments platform** - As the name suggests it simply means getting banking services online. This facility can be availed through mobile banking too. Net banking allows customers to carry out transactions without visiting the bank. Net banking helps in payments from anywhere using mobile banking app or just by logging in to banking websites. It provides three modes of payments. Firstly, NEFT, which takes time while transferring money. It runs the process in batches hence the time consumption is slightly more. If the receiver is not in a hurry to get funds then they can use NEFT. Secondly, IMPS helps in getting funds transferred on real time basis. When the required amount for transfer is bigger, RTGS facility can be used.
- vi) **Digital wallet payment system** - Money is loaded in digital wallets through this platform. However, the constraint is that fund can be transferred to the same wallet only. Some other e-wallets in the digital marketplace are Mobikwik, Free charge, Oxigen, Reliance Money, PayPal, Buddy, Lime, Payzapp, Pocket, Yes Pay, etc.
- vii) **Magnetic stripped cards** - These are magnetic strip cards in the form of debit or credit cards. People use these cards quite often for making payments. These cards can provide

benefits of reward points per transaction and other cashback offers. These cards are usually offered by banks which are mainly powered by VISA, MasterCard or Rupay in case of India.

Factors responsible for rise in digital payments over the last 12 months in India:

- i) **Embedding of offline space in the business growth strategy** - Offline space has evolved into the most recent battlefield for payment service providers. Banks have deployed almost 29 lakh POS terminals across the country, up by almost 95% from pre-demonetization level. This space has also attracted the attention of UPI and PPI players, and many of them have developed innovative solutions to assist large merchant outlets, micro-merchants, cash on delivery payment facilitators of e-commerce firms, etc., in accepting payments seamlessly over mobile phones. Customers facing issues with cash availability post the note ban began to experiment with these digital payment modes.
- ii) **Building of ecosystem around digital payments:** Quite a few players rolled out multiple solutions allied with digital payments, which further helped in their adoption. A notable few were: ☐ Integration of enterprise resource planning (ERP) of corporates with the UPI solution for real-time management information system (MIS) updates ☐ Disbursement of instant loans based on the footprint generated by digital payments.
- iii) **Promotional efforts by players:** Several payment processing firms and FinTech companies leveraged demonetization to penetrate the market. In an effort to expand their market share, quite a few of them offered loyalty points, instant cashbacks and referral rewards to users. While some may have doubts about the long-term sustainability of such offers, the promotional efforts definitely provided an impetus to users considering a switch to digital payments.

Growth of digital transactions in India- Results of the financial inclusion drive: According to data released by the Reserve Bank of India (RBI), digital transactions in the country have reportedly crossed the 1 billion mark in December, 2017 after recording nearly 1.06 billion transactions. There was a hike of about 6.5 percent in comparison to November 2017 which had 998 million total digital transactions up to that point.

Demonetization decision in November 2016 and widespread use of UPI (Unified Payment Interface) and other e-wallet services are strong driving factors of this jump in digital transactions in the past year or so.

The RBI data shows that UPI alone has raised transactions by up to 40 percent month-on-month after it saw nearly 145.5 million transactions in December as compared to 104.8 million done in November.

IMPS (Immediate Payment Service) also grew by 10 percent to see nearly 98 million transactions as compared to 9.5 million in November 2017 said the report. Also, traditional transactions via card grew by about 8 percent month-on-month after debit and credit cards recorded nearly 264 million transactions in December as compared to 244.6 million in November 2017.

However, according to the RBI, the highest amount of card transactions has been 311 million transactions and they were carried out in December 2016 post the cash-crunch period. This number is yet to be surpassed.

The RBI report says that UPI transactions were only 2 million in December 2016 and by December 2017 that number had risen to 145.5 million. E-wallets like Paytm, PhonePe, Google's Tez and the BHIM app have played a big hand in shaping the economy from a cash-strapped one to progressively pushing it towards a digital one.

Despite of all the digital push, the cash dependency among Indians is still relatively high. Industry experts blame this on a lack of adequate payments acceptance infrastructure, especially in villages and small towns, in spite of doubling of card payment terminals over last year. Overall, cash in circulation increased to Rs 16.3 lakh crore in January 2018 from about Rs 13.2 lakh crore in April 2017 signaling regaining preference for cash payments.

Payments technology riding on Jan Dhan, Aadhar, and Mobile (JAM trinity) has been touted to emerge as mode of choice for people without credit or debit cards and driving digital transactions in rural India.

Drawbacks of digital transactions:

- i) Higher risk of identity theft** - The biggest fear is the risk of identity theft. Since we are culturally not attuned to digital transactions, even well-educated people run the risk of falling into phishing traps. With the rising incidence of online fraud, the risk of hacking will only grow as more people hop on to the digital platform.
- ii) Losing phone** - Since digital transactions are dependent on phone for most of the transactions on the move, losing it can prove to be a double whammy. It can not only make people susceptible to identity theft but can also make people helpless in the absence of physical cash or any other payment option.
- iii) Difficult for non tech-savvy** - It is a problem for the older people, who may suddenly find themselves locked out of their accounts if they cannot download an app or do not have cash. The digital medium may prove to be a challenge for the tech-unfriendly people, who will need more time to adapt or the availability of other options to conduct transactions.
- iv) Overspending** - While there is no denying the convenience of card or mobile wallet transactions, it could open a spending trap for an unsuspecting population. According to behavioral finance theorists, the pain of parting with money is felt more acutely if physical cash is used instead of a card. Hence, using digital payment mechanisms could lead to overspending.

The growth streak of digital payments is likely to continue in the future. The next push to the adoption of digital payments could come from relatively slow adopters such as the rural economy and the small and medium-sized enterprises (SME) sector. Government incentives such as discounts on digital GST payments and set-up of accelerator programmes will provide an added boost. A few specific cases may emerge in the space of business to business (B2B) payments, Electronic Clearance Service (ECS) mandates, equated monthly installments (EMIs), person to government payments (P2G) in smart cities, etc. These are likely to have a positive impact on transaction volume size going forward.

Conclusion:-

In order to minimize and control the effects of demonetization, we are adopting modern approach of digital money with the aim of constructing cashless society.

India being 2nd largest internet consumer in witnessing such a condition and we are stepping towards digital money with the main motive of transparency and accountability through banks and ensuring the safety or security of people's hard-earned money.

The benefits are endless and with the introduction of demonetization this has gained much more popularity and the economy is developing by means of favoring government policies and at the same time ensuring sustainable development of natural resources by saving on paper, fuel etc.