

## ***Study on E-payment system in Nepal***

### ***What is Electronic Payment System?***

Electronic Payment System(e-Payment) is a type of payment conducted via electronic or online mediums. Online payment systems eliminate the need for cash or cheque payments. It is a unique payment method that allows you to conduct online transactions via digital wallets, bank cards and internet banking systems. The funds are directly debited from your bank account.

### ***Common Methods of E-payment***

As there is number of ways to carry out an electronic payment. Some of the most common methods are:-

- ❖ **Credit or Debit Card Payments** - When paying by card, an electronic payment device initiates the online payment transfer. The consumer will have to fill out their card details and have their transfer cleared by their bank.
- ❖ **Internet Banking** - This is done by digitally transferring funds over the internet from one bank account to another. This method tends to be used by smaller businesses or freelance workers.
- ❖ **Direct Debit** - Direct debit transactions transfer funds from a customer's account with the help of a third party.
- ❖ **E-wallets:** An E-wallet is a form of prepaid account where the customer's account information is stored electronically. This means you can quickly and seamlessly pay for goods online without having to constantly fill out your information.
- ❖ **Store Credit Card** - A store credit card is a card that has a prepaid monetary value. A more common name for this type of payment is a gift card.

Electronic Payment Transactions are divided into two types:

1. **One-time Vendor Payments** - These are commonly used on e-commerce websites such as Amazon, Shopify, and Etsy. A cardholder will type in the card or banking information when they reach the store's checkout page. This information will then be approved by their bank if the information is correct and they have sufficient funds.
2. **Recurring Customer Vendor Payments** - These payments are used when the cardholder is paying for goods or services on a regular basis. Instead of entering your details each time, you enter them once and opt-in for a recurring billing option. This tends to be used for subscription services, paying for bills or for businesses such as insurance agencies.

### ***E-Payment System in Nepal***

It has been more than a decade since digital payments were first introduced in Nepal, with **Kumari Bank being the pioneer in 2002**. At present, there are more than ten digital payment platforms established that have been operating digital payment services. Similarly, the majority of banks have e-banking services as well. Nepal's journey from a traditional cash-based economy to a burgeoning digital payment ecosystem is a remarkable transformation that holds significant implications for the nation's economic development; with Nepal Rastra Bank(NRB) reporting significant growth in digital . Between **Mid July 2021-Mid August 2021**, the NRB recorded approximately **1.3 million QR-based payments**, totaling NPR 5.1 billion. Fast forward to 2023, and this figure has surged to 11.2 million transactions, amounting to approximately NPR 30 billion, marking a sixfold increase in just two years. This exponential growth underscores the remarkable journey of Nepal's digital payment system, driven by the concerted efforts of various stakeholders.

## **Historical Perspective**

The roots of Nepal's digital payment revolution can be traced back to a time when the country operated with a dual currency system, with Indian currency (INR) coexisting alongside the Nepali rupee. The establishment of the NRB in 1956 marked a pivotal moment as it aimed to eliminate the dual currency system and instill confidence in the Nepali rupee. This laid the foundation for the modern payment system that would gradually evolve in the coming decades.

The advent of information technology, particularly the discovery of personal computers and the internet in the 1980's and 90's, along with a more liberalized economic regime adopted in the 1990s created an environment conducive to digitalization. During this period, Nepal's banking industry embraced innovation by introducing card-based payment systems, internet banking, and SMS banking, facilitating the transition from a cash-dependent economy to a cashless one.

## **Future Challenges**

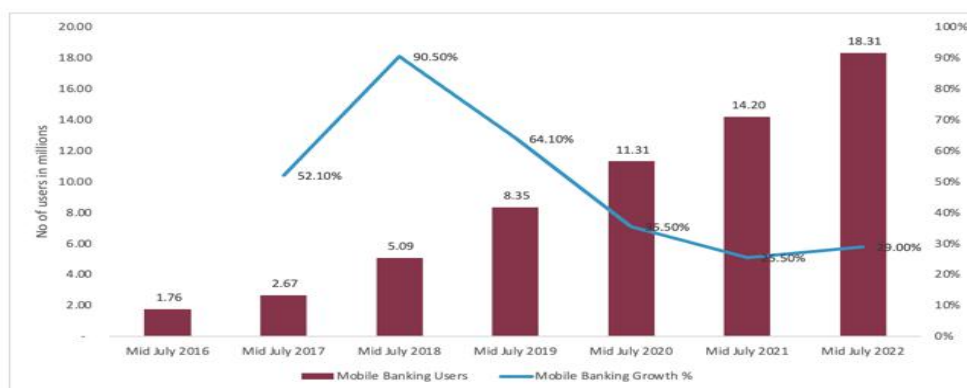
While Nepal's digital payment ecosystem has made remarkable strides, it still faces several challenges. Cybersecurity concerns and the need to protect data privacy remain paramount. Additionally, promoting digital literacy and awareness, especially in remote regions, is essential to ensure that all segments of the population can participate in the digital economy.

Expanding digital payment initiatives across borders and addressing regulatory challenges will be vital for sustained growth. Nepal has the potential to become a hub for cross border digital transactions, further enhancing its role in the regional economy.

## **Possibilities**

Amidst the transformative journey of Nepal's digital payment ecosystem, emerges a significant positive aspect. Recent data showcases a remarkable surge in mobile and broadband penetration, indicating the beneficial impact of the digital payment revolution on the country's financial landscape. Mobile money transactions, in terms of value, have witnessed substantial growth, surging from a modest **1.47 percent of GDP in 2019** to a substantial 10.97 percent in 2021. The expansion of the population with at least one deposit account in the Nepali financial system is a promising development. This metric rose from **60.9% to 67.3%** during the period spanning 2019 to 2021.

Figure 1: Mobile Banking Users over different time periods



Source: NRB, Payment Oversight Report 2021/22