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Digital Economy in India: Challenges and Prospects

Dr.Uma Shankar
Department of Management Studies,
School of Business Management and Economics,
Dilla University, Dilla, Ethiopia, Africa.

ABSTRACT:

India is an ardent effort to move towards a digital transaction economy by minimizing the use of physical cash. The leading advantage of building a digital economy is elimination of black money. Digitalization of transactions is the best way to move towards digital economy.

Such a digital economy is realizable by promoting electronic money instruments, developing financial infrastructure and spreading digital transaction habits among people. RBI's Payment and Settlement Vision document 2018 gives objectives and guidelines towards digital economy.

Keywords:

India, RBI, Digitization, Financial infrastructure.

INTRODUCTION:

Economic development across all sectors is among the foremost priorities of the government. This section takes you through the various policies and initiatives of the Government in this regard. How has Make in India boosted the manufacturing industry, what is Start Up India all about, what are the various inflation control measures taken by the government and what has been their impact, how did we achieve the current GDP growth rate [1-4], the reforms driving the FDI growth, financial inclusion. India continues to be driven by the use of cash; less than 5% of all payments happen electronically however the finance minister, in 2016 budget speech, talked about the idea of making India a digital society, with the aim of curbing the flow of black money [7]. Even the RBI has also recently unveiled a document — **"Payments and Settlement Systems in India: Vision 2018"** — setting out a plan to encourage electronic payments and to enable India to move towards a digital society or economy in the medium and long term [5].

DIGITAL ECONOMY IN INDIA:

A digital economy [6] is one in which all the transactions are done using cards or digital means. The circulation of physical currency is minimal. India uses too much cash for transactions. The ratio of cash to gross domestic product is one of the highest in the world—12.42% in 2014, compared with 9.47% in China or 4% in Brazil. Less than 5% of all payments happen electronically. The number of currency notes in circulation is also far higher than in other large economies. India had 76.47 billion currency notes in circulation in 2012-13 compared with 34.5 billion in the US. Some studies show that cash dominates even in malls, which are visited by people who are likely to have credit cards, so it is no surprise that cash dominates in other markets as well.

BENEFITS OF DIGITAL ECONOMY:

- Reduced instances of tax avoidance because it is financial institutions based economy where transaction trails are left.
- It will curb generation of black money [8]
- Will reduce real estate prices because of curbs on black money as most of black money is invested in Real estate prices which inflates the prices of Real estate markets

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- In Financial year 2015, RBI spent Rs 27 billion on just the activity of currency issuance and management. **This could be avoided if we become digital society.**
- It will pave way for universal availability of banking services to all as no physical infrastructure is needed other than digital.
- There will be greater efficiency in welfare programmes as money is wired directly into the accounts of recipients. Thus once money is transferred directly into a beneficiary's bank account, the entire process becomes transparent. Payments can be easily traced and collected, and corruption will automatically drop, so people will no longer have to pay to collect what is rightfully theirs.
- There will be efficiency gains as transaction costs across the economy should also come down.
- 1 in 7 notes is supposed to be fake, which has a huge negative impact on economy, by going digital, that can be avoided.
- **Hygiene** – Soiled, tobacco stained notes full of germs are a norm in India [9]. There are many such incidents in our life where we knowingly or unknowingly give and take germs in the form of rupee notes. This could be avoided if we move towards Digital economy.
- In a digital economy there will be no problem of soiled notes or counterfeit currency
- Reduced costs of operating ATMs.
- Speed and satisfaction of operations for customers, no delays and queues, no interactions with bank staff required.
- A Moody's report pegged the impact of electronic transactions to 0.8% increase in GDP for emerging markets and 0.3% increase for developed markets because of increased velocity of money
- An increased use of credit cards instead of cash would primarily enable a more detailed record of all the transactions which take place in the society, allowing more transparency in business operations and money transfers.

IMPLICATIONS:

1. **Improvement in credit access and financial inclusion**, which will benefit the growth of SMEs in the medium/long run.
2. **Reduce tax avoidance** and money laundering thanks to the higher traceability of all the transactions.
3. The increased use of credit cards will definitely reduce the amount of cash that people will carry and as a consequence, reduce the risk and the cost associated with that.

OBJECTIVES OF THE STUDY:

1. To understand the benefits of Digital Transaction System in India.
2. To identify the prospects and challenges of Digital Transaction System in India.
3. To find out the steps taken by the RBI and government to discourage the use of cash.

METHODOLOGY:

The present study is based on the secondary data. The secondary data is taken from selected government websites and RBI reports, literature from earlier published studies.

LITERATURE REVIEW:

Annamalai, S. and Muthu R. Iiakkuvan (2008) in their article "Retail transaction: Future bright for plastic money" projected the growth of debit and credit cards in thc retail transactions. They also mentioned the growth factors, which leads to its popularity, important constraints faced by banks and summarized with bright future and scope of plastic money [10].

Alvares, Cliford (2009) in their reports "The problem regarding fake currency in India**."** It is said that the country's battle against fake currency is not getting easier and many fakes go undetected. It is also stated that counterfeiters hitherto had restricted printing facilities which made it easier to discover fakes.

Ashish Das, and Rakhi Agarwal, (2010) in their article "Digital Payment System in India- A Roadmap" Cash as a mode of payment is an expensive proposition for the Government. The country needs to move away from cash-based towards a digital (electronic) 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 main stream.

Bansi Patel, Urvi Amin in their article "Plastic Money : Roadmap Towards Cash Less Society" the world glance as per technology changes suitable changes should be adopted by the economy. And among all the changes in economy lead to some drastic changes in to the transaction. Now days in any transaction Plastic money becomes inevitable part of the transaction. And with it life becomes more easy and development would take better place. Relating to Indian scenario how the plastic money took place in the banking world would be focus by the researcher over here. And along with the plastic money it becomes possible that control the money laundry and effective utilization of financial system would become possible which would also helpful for tax legislation [11].

Nayak, Tapan Kumar and Manish Agarwal (2008) in their paper "Consumer's behaviour in selecting credit cards" discussed about the factors influencing the selection of credit cards among consumers. The major factors points out by them are service offers, promotional offers, interest benefits, cash benefits, ease of payments, payment charges, card benefits and time benefit.

R. Shenbagavalli, A. R. Shanmugapriya, and Y. Lokeshwara Chowdary, in their studies "Risk Analysis of Credit Card Holders" time has come were the customers need to know the degree of risk involved in the usage of plastic money, and the study had helped to identify the factors and the degree of risk exposed and the protective measures available to minimize the financial and operational risk. It's clear from the study that the awareness of the customer is comparatively less and the credit card issuing banks are processing a strategy to educate the users of credit card [3].

Reddy, Ramakrishna (2006) in his article "Card products in India", commented about the reasons for not attaining full growth potential among card products and suggest remedies for growth in this field for the benefit of all players.

Saha,Tapash Ranjan (2006) in the article "Debit cards overtaking creditcards in India", provided comparative features of both credit cards and debit cardsand its volume of transactions from 1995 to 2005, shows that debit cards growthis out placing the credit cards.

Srinivas, N. (2006) in his study "An analysis of the defaults in credit card payments", has tried to analyse the socio-economic profile of the defaulters of credit cards, to identify the set of factors which contributed to such defaults and suggest relevant measures to minimize the default cases. Analysis of reasons indicated that economic hardship is the major reason identified by majority of the sample units follows by rigid payment structure and loss of job/business. The main suggestion is that the banks concerned should redesign the payment structure of credit card defaulters in a flexible and affordable installment.

V. Vimala, in her studies "The Impact of Credit Cards on HDFC Bank Customers in Shimoga – An Evaluative Study" the role of credit card services and its impact in the development of credit card services was analyzed. The banking products and services is the key activities for the development of the Banking

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sectors. The study contributes to increase the quality services and usefulness from the innovations of banking products in India [7].

CHALLENGES AND PROSPECTS FOR DIGITAL TRANSACTION ECONOMY:

Government's demonetization drive is also supposed to benefit digital economy. Still there are several constraints as well as prospects in the journey towards digital economy.

CHALLENGES:

1. Currency dominated economy: High level of cash circulation in India. Cash in circulation amounts to around 13% of India's GDP.
2. Transactions are mainly in cash: Nearly 95% of transactions takes place in cash. Large size of informal/unorganized sector entities and workers prefer cash based transactions. They don't have required digital and fintech literacy.
3. ATM use is mainly for cash withdrawals and not for settling online transactions: There is large number of ATM cards including around 21 crore Rupaya cards. But nearly 92% of ATM cards are used for cash withdrawals. Only low level of digital payment using ATM cards [5]. Multiple holding of cards in urban and semi-urban areas show low rural penetration.
4. Limited availability of Point of Sale terminals and poor transaction culture in POS: According to RBI, there are 1.44 million POS terminals installed by various banks across locations at the end of July 2016. But most of them remain in urban/ semi-urban areas.
5. Mobile internet penetration remains weak in rural India: For settling transactions digitally, internet connection is needed. Bu in India, there is poor connectivity in rural areas. In addition to this, a lower literacy level in poor and rural parts of the country, make it problematic to push the use of plastic money on a wider scale.
6. There is also vested interest in not moving towards digital economy.
7. India is dominated by small retailers. They don't have enough resources to invest in electronic payment infrastructure.
8. The perception of consumers also sometimes acts a barrier. The benefit of digital transactions is not evident to even those who have credit cards. Cash, on the other hand, is perceived to be the fastest way of transacting for 82% of credit card users. It is universally believed that having cash helps you negotiate better.
9. Most card and cash users fear that they will be charged more if they use cards. Further, non-users of credit cards are not aware of the benefits of credit cards.
10. Indian banks are making it difficult for digital wallets issued by private sector companies to be used on the respective bank websites. It could be restrictions on using bank accounts to refill digital wallets or a lack of access to payment gateways. Regulators will have to take a tough stand against such rent-seeking behaviour by the banks.

PROSPECTS:

The JAM (Jan dhan, Aadhar and Mobile) [6] infrastructure can encourage digital transaction culture: The JAM infrastructure is spreading to reach each remote corner of the country as well as to every citizen. Almost 24 JDY Accounts, 124 Aadhar identity cards and nearly 90 crore mobile phones. Similarly, 33 million internet users are in India. This means that the JAM infrastructure can be used to promote digital transactions. A large number of government transfers (DBT) are made through JAM mode. This will help people to get digital transaction awareness. The growth in volume and value of transactions using prepaid payment instruments (PPIs) issued by banks and authorized non-bank entities has also been significant.

NPCI promoted Aadhar enabled Payment System, IMPS etc and they have registered big turnover in transactions.

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Newly launched UPI (Unified Payment Interface) [2] is expected to give a big boost to digital transactions. Number of credit and debit cards is increased to 25.4 million and 691.1 million, respectively. The demonetization drive may encourage people to learn and settle transaction using online. RTGS and NEFT volumes increased almost threefold between 2013 and 2016 reflecting greater adoption of the system by all segments of users. As more people start using RuPay debit cards and Aadhar for digital payments, it will facilitate a less cash economy. With increasing mobile banking services, growth in e-commerce and use of mobile payment applications, the use of cash will decrease. The RBI has made several efforts to promote digital settlements. Most important of them are launch of a regulatory set up for Prepaid Instruments (PPIs). Similarly, encouragement to mobile banking and internet banking will help to reduce the use of physical cash.

STEPS TAKEN BY RBI AND GOVERNMENT TO DISCOURAGE USE OF CASH:

Licensing of Payment banks Government is also promoting mobile wallets. Mobile wallet allows users to instantly send money, pay bills, recharge mobiles, book movie tickets, send physical and e-gifts both online and offline. Recently, the RBI had issued certain guidelines that allow the users to increase their limit to Rs 1,00,000 based on a certain KYC verification Promotion of e-commerce by liberalizing the FDI norms for this sector. Government has also launched UPI which will make Electronic transaction much simpler and faster. Government has also withdrawn surcharge, service charge on cards and digital payments

THINGS TO DO:

Open Bank accounts and ensure they are operationalized. Abolishment of government fees on credit card transactions; reduction of interchange fee on card transactions; increase in taxes on ATM withdrawals.

Tax rebates for consumers and for merchants who adopt electronic payments. Making Electronic payment infrastructure completely safe and secure so that incidents of Cybercrimes could be minimized and people develop faith in electronic payment system. Create a culture of saving and faith in financial system among the rural poor. The Reserve Bank of India too will have to come to terms with a few issues, from figuring out what digital payments across borders means for its capital controls to how the new modes of payment affect key monetary variables such as the velocity of money. RBI will also have to shed some of its conservatism, part of which is because it has often seen itself as the protector of banking interests rather than overall financial development. The regulators also need to keep a sharp eye on any potential restrictive practices that banks may indulge in to maintain their current dominance over the lucrative payments business. Though it will take time for moving towards a complete digital economy, efforts should be made to convert urban areas as digital areas. As 70% of India's GDP comes from urban areas if government can convert that into digital it will be a huge gain. Therefore different trajectories need to be planned for migration to digital for those having bank account and for those not having.

CONCLUSION:

India is gradually transitioning from a cash-centric to digital economy. The benefits of the digital economy have now started trickling in with more and more people switching to digital modes of receiving and making payment. Digital transactions are traceable, therefore easily taxable, leaving no room for the circulation of black money. The whole country is undergoing the process of modernization in money transactions, with e-payment services gaining unprecedented momentum. A large number of businesses, even street vendors, are now accepting electronic payments, prompting the people to learn to transact the digital way at a faster pace than ever before.

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The digital transaction system is reaching its growth day by day , as soon as the market become globalized and the growth of banking sector more and more the people moves from cash to digital system. The digital transition is not only safer than the cash transaction but is less time consuming and not a trouble of carrying and trouble of wear and tear like paper money. It also helps in record of the all the transaction done. there are difficulties in implementing the idea of digital economy in a vast country like India where a large number of people are living under misery and poverty, yet a beginning had to be made someday. Today, there is a sea change in the mindset of people with regard to digital means of monetary dealings which are safe, easy, convenient and transparent. There is no place for black money or counterfeit currency in digital India.

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