

# Challenges and Opportunities of Digital Payments in Rural India

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**Abstract** - India is known as rural India, Rural India has significant impact on the economic progress of the country, and with the emerging changes of market and the impact of demonetisation, alongside the digital initiatives carried out for rural segments, the need for improving the trends of digital payments model in rural India is very important. Considering the benefits like transparency in transactions, scope for curtailng parallel economy and improving the ease of business, it is very essential that the transformation towards digital payments, even in the rural economy is empowered. Some of the revolutionary developments in the recent past like launch of many digital wallets like – Paytm, Mobiwik, Free Charge etc. and government launching many UPI (united payment interface) solutions and BHIM app for smooth transition to digital payments, there are significant developments taking place. Despite the fact that the social trends are being very positive in rural segments for embracing the digital payments, still there are considerable challenges too in succeeding the paradigm shift. The futuristic steps like enabling digital payment transactions based on Aadhar numbers could be a game changers if handled effectively. In this manuscript, the factors that impact and support towards digital transactions in rural economy is reviewed taking stock of current trends, market analysis, readiness of the infrastructure and the stakeholder accountabilities, to gain insights to the critical success factors to be addressed. It is imperative from the review of research reports, statistics over the digital payment trends, that if some of the key macro challenges, business limitations and consumer related issues are addressed, there could be potential developments envisaged in the process.

**Keywords;** Demonetization, Market penetration, Digital Transactions, Digital Payment, Rural Segments

## I. INTRODUCTION

Indian economy is one of the fast growing economies of the world. Despite of global turbulences of economic conditions, Indian economy has been focusing on development. In the recent past, there are

significant developments that have taken place in the Indian financial system, which has led to huge transformations, trends and changes in the business dynamics. Though the government of India has been focusing on the digital transactions initiatives since last few years, the actual impact of digital payments has taken place in India in significant manner post the demonetization period. India economy has the intrinsic structure of rural and urban economic developments. Majority of the Indian economy depends on rural economy, and only when the digital payment methods become an integral part of rural economic development, the digital initiatives could be considered as successful. In the recent past, digital payments has gained momentum in the country, both in the case of rural and also the urban segments

India has predominantly been a cash driven economy and the culturally the deep rooted trends of cash based purchases has widely been the economic culture. In wake of the government initiatives towards transformation towards digital economy, and many private companies emerging in the space of digital transaction solutions like the EWallets, Mobile app solutions (UPIs) , payment bank licenses issued by RBI, it is imperative that the market is gearing up towards more transparent and compliance based system, and of digital trends.[For successful implementation of digital transactions and digital banking system, certain key processes that are very essential are net/mobile banking, more of ecommerce presence in rural segments, digital transaction solutions like the PoS solutions usage in merchandise, usage of plastic currency etc. considering the opportunities and challenges according to the existing scenario. In this paper, the emphasis is on gaining insights in to the opportunities and challenges that are envisaged in the digital payments system penetration in to rural segments

## 2. DIGITAL PAYMENTS IN RURAL SECTOR

Rural sector holds significant importance in the economic development of the country, and in the recent past, many fin-tech companies are focusing on rural markets to increase its operational base. For instance, many of the mobile wallets and ecommerce companies are focusing on the rural locations and are adapting strategic approach towards attaining a good market share. Also, some of the recent developments like the demonetization and its related impacts have led to huge transformation in the market dynamics. Unlike the pre-demonetization period where very few merchants and consumers from rural segments were using the digital payment solutions, post-demonetization has seen exponential growth in the number of users using PoS and digital payment interface. Timed issuance of payment banks, easing the norms of mobile wallet. Fuelling such growth of digital payments depends on varied factors. There are many opportunities and challenges that are envisaged by the key stakeholders in the digital payments environment

## 3. LAUNCH OF MORE DIGITAL PAYMENT SOLUTIONS

Though India is cash based economy, slowly the transition has started towards digital economy.

- RBI issuing payment bank licenses to many fintech companies like Paytm and many competitive mobile wallet solutions emerging from existing banking companies lead to foray of digital payment options available for stakeholders like merchants and consumers
- Strategic launch of UPI solutions like BHIM by Government of India, to enable hassle free digital transactions on a government platform leads to more secured platform for consumers.
- Aadhar based payment solutions that are emerging strongly in to the Indian market signifies potential scope of carrying out digital payments even with feature phones.

## 4. BENEFITS TO CONSUMERS

- Many private digital wallet companies are offering value added services to the customers,

- Consumers are offered value proposition in terms of ease of usage, cash back offers, discounts for using their mobile wallet platforms etc.
- Government announcing various incentive schemes and reward programs for the consumers, to attract them towards digital payments.
- RBI reducing or terminating the cross transaction cost for the bankers and UPI solutions to encourage them reduce the cost of transaction to the end users.
- More PoS solutions being procured and made available to the merchants are significant step towards improving the system.
- Launching awareness programs, and encouraging as many feasible ways ( like feature phone based digital transfers facilitated using Aadhar card etc.) has led to way where more number of shops and establishments considering the digital payment solutions in rural sector
- Incentives allotted by Govt. as discounts for fuel purchase using the digital payments like debit/credit cards in the outlets signify the strategic approach towards encouraging digital transactions

## 5. DRIVING FORCE BEHIND DIGITAL PAYMENT SYSTEM AT RURAL INDIA

- It is imperative from the recent reports that there is significant development in the case of digital payments that are taking place. Some of the key and influencing factors that are supporting the digital transaction processes are:
- Compared to the earlier trends, in the current scenario the process of mobile banking, IMPS solutions and other such related developments has got simplified.
- Increasing number of ecommerce companies offering their services in the rural segments also are the other key element that is driving the digital transaction solutions.
- Direct and indirect initiatives from government towards improving the banking ease, compliance standards and other such factors play a key role in the process.
- Few of the significant initiatives like issuance of “RuPay cards” linked with Jan Dhan accounts (Zero balance accounts) opened up in massive scale, Kisan Credit cards issued to the farmers,

drive in terms of enabling PoS solutions to rural merchants etc. has created fundamental platform that is essential for gaining momentum of digital payments in the rural segment.

#### 6. CHALLENGES OF IMPLEMENTING DIGITAL PAYMENT SYSTEM AT RURAL INDIA

Prior to the demonetization period, usage of digital payments was an option. However, in the rural market segment where cash was the king, the option of digital payments was exercised by very few retail outlets and also the consumers were wary of using such trends. Though, with the rampant penetration of ICT such trends has been changing, still the quantum of digital payments has gone up significantly post the demonetization period. Phenomenal developments has taken place in the process of digital payments and many mobile wallet companies, PoS service providers, ecommerce players, and government initiatives has been focusing on improving the digital payment solutions. But some of the significant challenges that is thwarting the desired growth and propelling the market towards digitization are:

#### 7. MACRO LEVEL CHALLENGES

- Consumers are yet to get rid of the cash based transaction habits, as for decades India has been a cash based economy
  - Digital divide in terms of awareness about using the digital solutions like Smartphone based transactions, feature phone based transactions, usage of credit/debit cards at PoS solutions etc are some of the key issues.
  - The other significant issue of digital divide is the lack of bandwidth and reach of technology to various locations. Though, it is being sounded that every corner of India shall have ICT services in place, still in many of the locations where the installations were complete, services are not available for the customers.
  - (For instance, as a part of Govt. Initiative from Rajasthan towards streamlining the ration supplies, bio-metric verification of Aadhaar details at the dealership has been made mandatory, however, the dealers could barely have connectivity to ensure timely verification and the public face challenges)
- Such instances signify that the digital payments modality can only be practical and true to nature, when the loop holes like connectivity, adequate PoS solutions and other such factors are addressed in quick turnaround time.
  - Availability of PoS solutions has also become a challenging issue. As the demand for PoS solutions has raised in a compounding way, and the demand is not adhered too, fast track progress of digital payments are getting impacted in rural locations.

#### 8. CONSUMER CHALLENGES

- Trust factor is one of the integral challenges to growth of digital payments in rural sector. Irrespective of whether it is attributed to emerging information security challenges, or lack of awareness of the consumers, still the challenge of gaining the trust of consumers is one of the key challenges facing the mobile wallets, digital transaction service providers like banks, fin-tech companies etc.
- Secondly, the cost of transactions that are levied over the consumers is also a major concern. For example, over every debit card transaction, some retailers are charging the transaction cost from consumers and it is additional burden. To ensure that debit and credit cards are used prevalently, such transaction charges have to be evaded.
- Mobile wallet companies has certainly made the transaction process much simpler to the customers, but the costs charged over switching the money from wallet to bank accounts are again a key concern. As the mobile wallet companies are charging anywhere around 1% to 4% for transactions to bank accounts, consumers are wary of using mobile wallets for business transactions

#### CONCLUSION

India is among the fast emerging as one of the largest and strong economies. For sustained development and growth with robust economic development, certain integral factors like improved transparency, corporate governance and restricting the parallel cash based economy. Such developments could be feasible only

with rural India too embracing the digital payments and digital transactions. Considering the quantum of opportunities that are unfolding for market dynamics of digital payments, if the challenges that are discussed are addressed and improved solutions in terms of UPIs, mobile wallets, and digital transactions with more secured features, ease of transactions and reduced cost of managing the digital payments could lead to more potential developments and supporting in improved conditions of digital payments processing in rural sectors. In terms of capitalizing on the opportunities, it is very essential that the solutions has to be more robust and following are certain key policies that has to be in force for effectively implementing the digital payment solutions across the rural sectors

- Reducing the digital divide and increasing the awareness in the rural public
- Ease the complexities and enable end-of-day settlement process for the merchants (As small retailers and merchants need rotation of cash flow in quick turnaround time for their business operations)
- Reduce the transaction charges over the digital payments and discourage cash transactions

ICT infrastructure plays a vital role in successful adaptation of digital payments and hence there is intrinsic need to improve and offer requisite infrastructure for digital payments Emphasis on integrated system of digital payments that can reduce the existing challenges and support in quality outcome (For instance, ensuring more stringent laws for security breach, IT ACT for digital payment transactions etc.) The aforesaid factors are key developments that could be more effective for enabling more digital payments taking place in the rural sectors.

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