



# Digital Payments

Move towards a less cash economy

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India witnessed a first-of-its-kind phenomenon on November 8, 2016, when the government banned Rs 500 and Rs 1,000 denomination notes. This was done as a key step to curb the growing parallel economy in the country, which was inhibiting economic growth.

Demonetisation has had a significant impact across various sectors in India. With the country making the move from a cash-based economy to a cashless economy, business structures have changed significantly. As per the Reserve Bank of India, before demonetisation, the number of point of sale machines at merchant locations was approximately 1,461,672. However, post demonetisation, this number has increased manifold. Tax collection has also witnessed a significant rise. This is helping the government increase spending on essential sectors, thereby improving the standard of living of the underprivileged.

## Trends in mobile payment uptake

Mobile payments were the saviour during the demonetisation process when citizens found themselves paralysed with no money in hand and ATMs running out of

cash. During this period, mobile payment platforms witnessed an unparalleled spurt in usage, reaching as high as 435 per cent.

Mobile payment solutions are the right vehicle to ensure a smooth transition from a cash-based economy to an app-based economy, and are in line with the wider goal of making India a digitised country. Mobile wallet users can make instant purchases, transfers, etc., thereby making transactions extremely easy. With mobile payments, users do not need to stand in long queues at cash counters and ATMs.

Mobile wallets have led to a reform in the banking sector as well by bringing about a record increase in digital transactions. Needless to say, now banks can save on manpower for handling cash due to a reduction in footfalls at their branches. Businesses too benefit since mobile payments minimise the risk of handling cash.

Mobile payment companies have successfully capitalised on the demonetisation drive. They have invested millions to ensure that their operations and platforms are accessible by everyone from anywhere. Thus, from auto rickshaws to street vendors, everyone is using mobile

wallets successfully.

Oxigen Services registered transactions worth Rs 6 billion in November 2016 alone, compared to Rs 4.5 billion in the previous month. Most of these transactions were peer-to-peer payments. Mobile wallet Paytm registers 3.25 million transactions every day in the mobile wallet segment alone. If we consider non-wallet transactions as well, the total number would be more than 5 million, amounting to more than Rs 1 billion a day. Similarly, transactions on FreeCharge have risen nine times and those on MobiKwik by eighteen times post demonetisation.

Going forward, unified payments interface (UPI) is expected to be a game changer. Through UPI, mobile wallet customers can transfer money from their bank accounts to merchants and receive payments without disclosing their banking information. Seamless and fast transactions are the main reasons why UPI is gaining increasing popularity. Soon, UPI will extend to merchant transactions as well. Currently, 28 banks are under UPI, and this number will increase in the coming days.

## Conclusion

Most of the developed economies of the world are already cashless. In most cases, the transition was from paper money to plastic money and then to digital money. However, in the case of India, the interim stage of plastic money was completely skipped and the economy moved directly from paper money to digital wallets. The importance of mobile payment technologies is set to grow in the future. It has been estimated that the value of transactions through mobile wallets will leap from Rs 55 billion in 2015-16 to Rs 300 billion by 2022. The innovations in this space would be worth watching in the coming years. ▲

## Strengthening the mobile payments ecosystem

- The Rs 660 billion retail market can play a leading role in expanding the mobile payments ecosystem in the country as it can drive digital payments across supply chains, logistics and delivery networks.
- Greater private participation is necessary to boost merchant acceptance networks. Currently, only 1 million of the total base of over 12 million merchants accept card payments.
- Low-cost solutions by banks and fintech companies such as cloud-enabled merchant PoS machines are needed for mass deployment and rapid scalability.
- Customers should have a large number of choices in payment options – online as well as offline. Further, the existing payments solutions should have the ability to on-board new technologies like near-field communication, host card emulation and cloud.
- Lighter government regulations on payments will usher in faster innovations.
- UPI and Aadhaar-enabled payment systems can facilitate quick and seamless payments.