

Examining the Influence of Digital Payments on the Indian Economy with Special Reference to Covid-19

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Abstract

This perspective examines the potential impact of digital payments on the Indian economy, with a specific focus on how the COVID-19 pandemic has influenced consumer spending. Traditionally, cash has been the dominant payment method in India, with only a small percentage of transactions being conducted digitally through bank accounts. However, due to the rapid spread of the virus throughout the country, there has been a growing reliance on mobile applications to minimize direct contact with merchants and reduce the risk of viral transmission. This shift towards digital payments has created an opportunity to explore the economic implications of these transactions. The article also assesses the value of digital transactions in the payment industry and investigates the various methods of settling transactions within the economy. All banks in the country have embraced digital payment solutions to protect local businesses, supermarkets, and other sectors of society. Additionally, the perspective examines the impact of the nationwide lockdown on India's GDP growth rate. It analyses how the restrictions imposed during the lockdown period have affected the country's economic development.

Introduction

The banking sector in India has a rich history, dating back to the late 18th century. The Reserve Bank of India was established in 1935, and later in 1969 and 1980, significant private banks were nationalized by the Indian government. These nationalized banks play a crucial role in providing financial services in the Indian economy. However, traditional banking in India has been known for long queues and extensive paperwork.

The advent of the IT revolution had a profound impact on the Indian banking system, leading to the introduction of online banking. Banks began embracing technology to improve customer satisfaction, streamline transactions, reduce workload for staff, and drive digitalization across the country. Cash has traditionally been the dominant form of payment in India, with a majority of transactions conducted in cash. However, digital payments have been steadily growing in popularity over the years.

Credit and debit cards, the most widely used forms of cashless payments, have only been available for the past three decades due to infrastructure and connectivity limitations. The surge in digital payments gained momentum during the demonetization period, which disrupted the cash system

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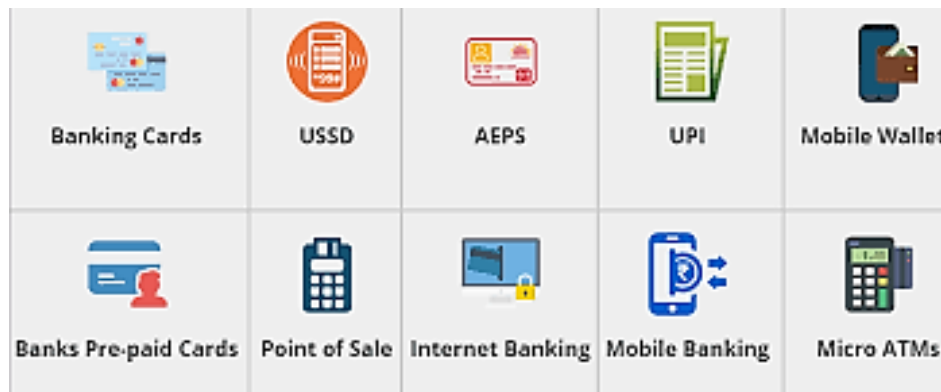
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temporarily. The acceleration of digital payments led to a significant increase in mobile payments, which are now twice as common as before. Currently, less than 5% of transactions in India are cashless. The government has made substantial efforts to promote mobile-based payment systems such as net banking, UPI, and Aadhar-based payments.

The main objective of digital banking is to create a user-friendly payment system that influences customer purchasing behavior. Mobile wallets like Paytm, Google Pay, and PhonePe have become essential tools, allowing customers to make payments by scanning QR codes or entering the seller's mobile number. These wallets also offer value-added services like bill payments and ticket bookings, which have contributed to increased consumer spending in India. Security is a critical concern for customers when choosing digital payment methods. Banks are addressing this demand by providing secure identification and payment options, such as generating one-time passwords, to protect customer information and instill confidence in electronic payments.

In summary, the Indian banking sector has witnessed a shift towards digitalization and the adoption of various forms of digital payments. While cash still dominates, the growth of digital payments has been significant, driven by factors such as demonetization and government initiatives. Mobile wallets and enhanced security measures are playing key roles in shaping the future of electronic payments in India.

Various Modes of Digital Payments in Offered India



India offers a wide range of digital payment modes to cater to the diverse needs of its population. Some of the popular modes of digital payments available in India include:

1. Unified Payments Interface (UPI): UPI is a real-time payment system that allows users to instantly transfer funds between bank accounts using their mobile phones. It enables seamless transactions between different banks and has gained widespread popularity in India.

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2. **Mobile Wallets:** Mobile wallet apps such as Paytm, Google Pay, PhonePe, and Amazon Pay are widely used in India. These wallets allow users to store money digitally and make payments for various services, including utility bills, mobile recharges, online shopping, and peer-to-peer transfers.
3. **Internet Banking:** Almost all banks in India offer internet banking facilities to their customers. With internet banking, users can access their bank accounts online and perform various transactions, including fund transfers, bill payments, account statements, and more.
4. **Debit and Credit Cards:** Debit and credit cards are commonly used for online and offline transactions in India. These cards are issued by banks and allow users to make payments at merchant establishments, withdraw cash from ATMs, and conduct online transactions.
5. **Aadhaar Enabled Payment System (AEPS):** AEPS leverages the unique identification number, Aadhaar, to facilitate payments. It enables biometric-based authentication for transactions, allowing users to make payments without the need for cards or PINs.
6. **Bharat Bill Payment System (BBPS):** BBPS is an integrated bill payment system that enables users to pay their utility bills, such as electricity, water, gas, and telecom, through a single platform. It provides a convenient and centralized payment mechanism for multiple billers.
7. **National Electronic Funds Transfer (NEFT) and Immediate Payment Service (IMPS):** NEFT and IMPS are electronic fund transfer systems offered by banks in India. NEFT is suitable for non-time-sensitive fund transfers, while IMPS provides instant and 24/7 interbank transfers.
8. **QR Code Payments:** QR code-based payments have gained popularity in India. Users can scan QR codes displayed at merchant outlets or websites using their mobile phones to make payments directly from their bank accounts.

These are just a few examples of the various digital payment modes available in India. The country has witnessed significant growth in the digital payment ecosystem, providing convenience and flexibility to consumers and businesses alike.

Review of Literature

According to Balasubramanya (2002), the banking sector is undergoing significant changes driven by technological advancements. Technology has revolutionized the industry, enabling banks to enhance profitability through improved product delivery. However, banks must also understand the risks associated with technology and have backup plans in place to ensure uninterrupted customer service.

Jadhav Anil (2004) describes various channels of e-banking services, including ATM, internet banking, and mobile banking, along with their features. This study focuses on exploring the opportunities and challenges of e-banking, as well as the security aspects related to conducting banking transactions online.

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Akinola (2012) emphasizes the security and reliability aspects of a cashless society. While a cashless society offers numerous advantages, such as reducing corruption and crimes, it also has the potential to significantly increase government revenue. However, ensuring security and reliability in electronic payment systems is crucial.

Dr. Indrajit Sinha and Sangita Roy (2014) highlight the tremendous growth of e-payment systems in India but acknowledge that there is still room for further improvement and increased usage. Currently, the majority of transactions in India are still conducted using cash. The authors identify four factors that can strengthen the e-payment system: innovation, incentives, customer convenience, and a supportive legal framework.

Objective of Study

The objective of this study is to examine the impact of digital payments on the economy during the COVID-19 pandemic and understand the societal benefits of convenient one-tap transactions. The specific research goals include:

1. Investigating the challenges faced by customers in using digital banking services.
2. Identifying the digital payment modes that contribute most effectively to seamless transactions.
3. Analyzing the preference between cash and e-money as modes of transaction.
4. Assessing the demand for merchants to adopt digital payment applications to facilitate easy settlements.

The study aims to shed light on the challenges and benefits associated with digital payments, providing insights into customer experiences, transaction modes, and the adoption of digital payment applications by merchants.

Research Methodology

The research methodology employed for this study on digital payment in the economy with a special focus on Covid-19 is primarily based on secondary data sources. These sources include data from the Reserve Bank of India (RBI), research papers, newsletters, and online reports or publications. The study relies on existing information and analyses available in these sources to gather relevant insights and information related to the topic of digital payments and their impact on the economy during the Covid-19 pandemic.

Challenges Faced by Customers in Using Digital Banking Services

Customers face various challenges when using digital banking services. Some of the common challenges include:

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1. **Technological Barriers:** Not all customers are technologically savvy, and they may face difficulties in navigating digital banking platforms and understanding the functionalities of different features. Lack of digital literacy and technical skills can hinder their ability to use digital banking services effectively.
2. **Security Concerns:** Customers often have concerns regarding the security of their personal and financial information when using digital banking services. They worry about the risk of identity theft, fraud, and unauthorized access to their accounts. Building trust in the security measures implemented by banks is crucial to address these concerns.
3. **Connectivity Issues:** Reliable internet connectivity is essential for accessing digital banking services. In areas with poor network coverage or limited internet access, customers may encounter difficulties in carrying out transactions or accessing their accounts online.
4. **Complex Processes:** Some customers find digital banking processes complex and overwhelming. This could be due to complicated user interfaces, multiple security steps, or a lack of user-friendly design. Difficulties in understanding and navigating through the banking applications can deter customers from adopting digital banking services.
5. **Customer Support:** Prompt and efficient customer support is vital for resolving queries and issues faced by customers. Inadequate customer support channels or delayed responses can frustrate customers and hinder their experience with digital banking services.
6. **Trust and Reliability:** Customers may have concerns about the reliability of digital banking platforms, such as system failures, transaction errors, or delays in processing. Building trust in the reliability and robustness of digital banking systems is essential to encourage customers to embrace digital banking services.

Addressing these challenges requires a multi-faceted approach involving user-friendly interfaces, robust security measures, enhanced customer support, and efforts to improve digital literacy among customers. By overcoming these challenges, banks can create a more inclusive and seamless digital banking experience for their customers.

Digital Payments and their Impact on the economy during the Covid-19 pandemic.

Digital payments have had a significant impact on the economy during the Covid-19 pandemic. Here are some key ways in which digital payments have influenced the economy:

1. **Contactless Transactions:** With the need to minimize physical contact and reduce the risk of virus transmission, digital payments have become a preferred method of conducting transactions. Contactless payment options such as mobile wallets, QR code payments, and online transfers have gained popularity, allowing consumers to make purchases without handling cash or touching payment terminals.

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2. **Shift from Offline to Online Commerce:** As lockdowns and social distancing measures restricted physical retail activities, businesses and consumers turned to online platforms for their buying and selling needs. Digital payments facilitated these online transactions, enabling businesses to continue operations and consumers to make purchases from the safety of their homes. This shift to e-commerce has contributed to the growth of the digital economy.
3. **Financial Inclusion:** Digital payments have played a vital role in promoting financial inclusion, especially during the pandemic. Individuals who previously relied heavily on cash transactions now have access to digital payment options, allowing them to participate in the formal financial system. This inclusion opens up opportunities for financial services, access to credit, and participation in the digital economy.
4. **Data-driven Insights:** Digital payments generate vast amounts of data that can be analyzed to gain insights into consumer behavior, spending patterns, and economic trends. This data can be leveraged by businesses, financial institutions, and policymakers to make informed decisions, develop targeted marketing strategies, and understand the economic impact of various measures taken during the pandemic.
5. **Government Support:** Governments have actively promoted digital payments as a means to enhance transparency, reduce corruption, and facilitate financial transactions during the crisis. Initiatives such as Aadhaar-based payments, mobile banking, and digital wallets have received support and incentives from authorities, leading to increased adoption of digital payment methods.
6. **Boost to Fintech Industry:** The pandemic has accelerated the growth of the fintech industry, with startups and innovative digital payment platforms gaining traction. This has not only provided alternative payment solutions but has also created employment opportunities and contributed to economic growth in the fintech sector.

Conclusion

Digital payments have played a crucial role in maintaining economic activity, promoting financial inclusion, and adapting to the challenges posed by the Covid-19 pandemic. The convenience, speed, and safety offered by digital payments have made them a vital component of the economic landscape during these unprecedented times. This paper aims to address the challenges faced by the Indian economy during the Covid-19 pandemic, with a particular focus on the banking sector. The research highlights the importance of digital payments in facilitating safe and secure transactions, especially during a time when physical contact should be minimized. The analysis emphasizes the use of digital payment methods, such as scanning QR codes, as a preferable alternative to swiping e-cards to reduce the risk of infection and transaction losses. The study also explores the security and ease of payments, highlighting its effectiveness in handling digital transactions. Additionally, the research notes that the low level of transactions has had a negative impact on the economy's GDP growth rate,

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emphasizing the need for recovery measures in the coming years. The paper acknowledges the importance of educating individuals with limited knowledge about digital transactions and building their confidence through advertisements promoted by the Reserve Bank of India (RBI). While acknowledging that there may be both positive and negative impacts on the economy, the study concludes that digital payments have been a boon for the common people during the Covid-19 pandemic. Digital payment methods have been widely adopted by various segments of the population, ensuring safer financial transactions and contributing to a more secure lifestyle.

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