

## Digital Economy in India: Prospects and Challenges

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### Introduction

Digital India is the dream project of the government and a blessing the citizens, could assist in connecting the dots of various projects, past and present to bring India to a global manifesto. Digital money India states that we now have many ways make money on the web they offer lots of good advices at their site. Digital money means of payment that exists purely in electronic form. Digital money is not tangible like a rupee bill or a coin. It is accounted for and transferred using computers. Digital money is exchanged using technologies such as Smartphone's, credit cards and the internet. It is also known as digital cash, e-currency e-money, digital currency, cyber currency; it refers to a system in which a person can safely and securely pay for goods or services electronically without visiting the bank. It is most dominant for the boost up the national economy it is encourage the digital payment system in India, that is more secure, more convenient, affordable and make e-commerce safer. The developed countries of the world, to a large extent, are moving away from paper payment instruments towards electronic ones, especially payment cards. In these countries for instance, it is possible to pay for a vending machine by simply operating internet. As per the World Bank report a 10% increase in mobile and broadband penetration increases the per capita GDP by 0.81% and 1.38% respectively in the developing countries. India is the 2<sup>nd</sup> largest telecom market in the world with 915 million wireless subscribers and world's 3<sup>rd</sup> largest market with almost 259 million broadband users. There is a vast economic opportunity in India as the digital manifesto. The government with the vision of 'Digital India Programme' has granted Rs. 5 billion to build high speed broadband highways, connecting all the villages, the improvement seems digitalization as a key driver in addressing the challenges in the millennium development goals primary through networking. According to a 2014 study by Tufts University, the cost of cash in India, cash operations cost the RBI and

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commercial banks about Rs. 21,000 crore annually. The government on its part is working at various levels to reduce the dependence on cash. Prime Minister Narendra Modi acknowledged the fact in his monthly radio programme “Mann Ki Baat” on Sunday that making the transition to cashless economy is challenging and hence has urged the public to move of less – cash society in other word digital money. Another report of (BCG) Boston Consulting Group and Google India, indicates that last year around 75 percent of transactions in India was cash based while in developed nations such as the US, Japan, France, Germany etc. it was around 20-25 percent. The depletion in cash due to demonetizations has pushed digital money and e-transactions of the forefront, e-banking, e-wallets and other transaction apps becoming prevalent.

### **Review of Literature**

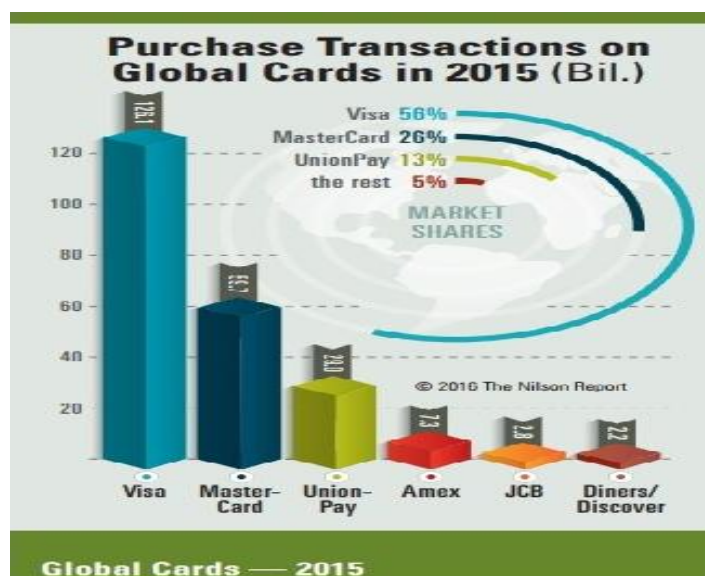
This review of literature is taken extensively on Dias & Silva (2000). So followed a more detailed discussion I suggest to look that research paper. Digital payment system grouped with safe cryptographic resources according to the American Banks Association (1996) has the lowest transaction cost. It has an estimated cost of US \$ 0.01. When compare that with traditional one make at the banks which is US \$ 1.075. The reduction of cost will make without doubt digital money a serious candidate to substitute of paper money. The digital money literature can be divided into two major categories. The first composed by those that argue in favor of maintaining digital money as like inside money, keeping its parity on digital money (Konvissor 1994). Here the monopoly of issuing paper money should be in the hand of Reserve Bank of India, the second, composed by those that defend more competitive (Chaum 1995). According to the, digital money is an outside money notes issued by private banks. Here the supervision cost of the private is transferred to consumers.

The center theme of the discussion between the two categories is about the seignior age. The seigniorage is between 1.5% - 3% of Government revenue for developed countries according to Cukierman, Edwards and Tabellini (1992). Digital India unleashing prosperity (2015) Deloitte, in his research paper suggested various aspects of digital money in India. The cashless policy in Nigeria – prospects and challenges (2013) Yaqub J.O. in his research paper reflected various issues of digital economy in Nigeria. Challenges and future prospects of plastic money (2016) P. Bama and K. Gunasundari in his research paper discussed and recommended various challenged faced by economy and future prospects of digital money.

### **Future Prospects of Digital Economy in India**

The digital India announcement is one that can prove to be truly transformational for the nation. Tremendous opportunities lie ahead for creating a huge base for electronic money in India and introducing digital technologies and skills to change the fortunes of the undeserved segments of Indian society. Increasing

popularity of online shopping made vast usage of cards (like Debit and Credit) more than previous years. The bar diagram clearly indicated increasing trends the purchase transaction on Global cards in 2015.



Source: The Nilson Report April 2016/ Issue 1085

The use of debits and credit cards in India has rise from the last few years. For smooth and secure payment processes will assists to bring behavioral changes in users and faster adoption of digital payments. More players are certainly good for the changing dynamics of the payments industry, which is still influenced by cash with card contributing only 8 percent of the personal utilization expenditure. In developed countries, 40-60 percent of spends happen through cards. So there are huge development opportunities. The quick development of Smartphone, internet penetration and digital India programme is aggregating these, card payment volume shave been increasing in excess of 25 percent. I assuming this trend will continue, aided by the continued increase in debit card and credit card activation and usage. Debit card transactions have been increasing at 31 percent each year.

**Table1: Digital Drive Gathers Momentum**

			2017			2016		
			Jan	Feb	March	Jan	Feb	March
<b>Volume of Transactions (In Rs Million)</b>								
Debit Cards			1,040.97	944.32	981.28	817.51	796.69	844.59
IMPS			62.42	59.75	67.41	22.48	23.86	25.98
PPIS			295.8	280.02	342.09	65.25	65.37	72
<b>Value of Transactions (In Rs Billion)</b>								
Debit Cards			2,006.48	2,286.82	2,616.45	2,327.99	2,259.57	2,342.82
IMPS			491.25	482.21	564.68	165.59	169.67	198.73
PPIS			110.01	96.28	106.77	49.09	49.98	59.72

Source: RBI and Published in Economic Times dated May 27, 2017

Table 1 explicitly exhibited the increasing trend of volume of Digital transactions in India and also increasing trend in the value of transaction it reflects the better picture digital drive momentum of our economy in future. Global general purpose cards carrying visa, Union pay, Master Card, JCB, Diners club/ Discover and American Express Brands generated 227.08 billion purchase transactions at merchants in 2015, an increase of 16.1% over 2014, according to the Nilson Report, the top trade newsletter covering the card and mobile payment industries. Purchase transactions included all commercial and consumer credit, debit, and prepaid cards.

World line India is a leader in the payment and transactions services in the country. Alternative methods like mobile wallets and prepaid cash cards accounted for 9 percent of digital transactions during the year 2016. There are interesting dynamics and increasing trend plays vital role in the Indian payment industry. The opportunities in digital money manufacturing will be multiplied in digital healthcare, education, financial services and even just digital Government needs analysis and service design and delivery. A fully digital environment will create new value propositions in all sectors of the economy. The need of new breed of young entrepreneurs, ideally born in the digital era to see the terminals in existing services where new enterprises can be created, scaled and either sold to larger taken on to a global destiny. The emergency of digital money or cashless society poses a lot of advantages for the society. These important advantages are as highlighted hereunder:

- Digital money or cashless policy can assist deepen bank deposits thereby enlarging funds available for commercial.
- Digital cash in a fool proof way of guarding against illegal redistribution of intellectual property and material.
- For Government side, it increased tax collection and increased economic development of our nation.
- Digital payments which is an integral part of digital policy, acts as a gateway into the banking sector and as a powerful engine for growth. This system creates greater transparency and accountability, leading to greater efficiency and better economic performance in our country.
- Reduce the over reliance on cash for transactions.

#### **Challenges of Digital Economy Policy in India**

Cashless policy or digital money policy although its numerous advantages comes with its own challenges even in the developed countries. These challenges look with specific focus on Indian economy.

- The Indian economy is mainly cash based; people are accustomed to using cash for most of their transactions.

- The security issue is one of the major challenges in the development of digital money or cashless policy in India. Security issue mainly indicates the lack of confidence of the users.
- Internet and poorly developed telecommunication obstruct smooth development and improvement in e-payments and e-commerce in our country.
- Lack of efficient power supply is the key challenge for smoothly running e-payments and e-banking.
- The most dominant issue interacting by digital policy is that security, it is not safe and secures all the time, and there may be loss of data due to technical problem. So, the security issue is one of the major challenges in the development of cashless policy in India.
- Digital money policy or cashless policy facing services threat is that risk factor are associated with the part of client and host.
- Legal and security is the most crucial part of cashless policy lacking securities measures, lack of rules, regulations and cyber laws.
- Low literacy rate is a serious impediment of adoption of e-payments as it obstructs the accessibility of banking services.
- Lack of awareness on the benefits of cashless or digital money policy of new recent technologies.

### **Recommendation for Policy Makers**

- Digital Money Policy should create and attract consumer attention to internet services through better marketing and advertisement. Inform consumer about features advantages and benefits of internet banking especially its convenience.
- Provide consumer reassurance and information regarding trust of cashless activities; improve application security and privacy of the digital money. To assist consumers in developing secure internet banking practices and risk management procedures so that enhances the cashless policy.
- To develop innovative consumer support solutions for digital banking and train branch staff in internet banking. Develop new dimension of knowledge management strategies.
- To provide knowledge through seminar and workshops on the usage of digital economy especially for those who are computer illiterate, to boost up the cash economy.

### **Conclusion**

Present Scenario, India occupies an unenviable position among developing countries in world with the largest number of people with no access to financial services. Although the RBI in its vision document on financial inclusion strategy, put

the number of people in the country excluded from financial services as at 2016 at 63.4 percent. This research has investigated the challenges of digital money policy or cashless policy in India. Due to major socio-economical and technological advancements, the banking system is undergoing massive changes in our country. The market is seeing increased availability of sophisticated technologies that can enable cashless transactions. For the new era Google and Face book wannabes, digital India will present a wonderful opportunity. The success of people will be the true success of India. Indian firm's banks and other stakeholders are therefore urged to assist this digital money policy or cashless movement in India. In this study, I reached and believed that the digital economy is an essential tool for transparency, accountability and reduction of fraud and more importantly economic growth and development of Indian economy.

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