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Transition Towards Digital Economy –Opportunities And Challenges

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Abstract

In the aftermath of demonetization Indian economy is encouraged for digital payments system. This promotion has led the economy towards virtual era. The digital modes includes E-banking, mobile banking, plastic money with alternative modes such as virtual wallets / E wallets/ digital apps. In recent past these systems have captured the market. These initiatives assist in smooth transition towards digitalization. This drive has promoted the flagship scheme of Government of India to transform India into a cashless and knowledge economy. It has provided an opportunity for digital inclusion in India. The present paper explores the opportunity for being cashless and transition towards digital economy. An analytical study of M-wallet market has been done to highlight the opportunities for growth in India and to be a part of digital revolution. This endeavor should also be accompanied by an awareness programme to educate & motivate general public to use e-payment options.

Keywords – Electronic payments, digital identity, cashless economy, demonetization, m-wallets, e-inclusion and technology.

Introduction

The demonetization drive has accelerated rapid growth in the electronic payments system in India. Usage of e-banking, mobile banking, plastic money, virtual wallets/ e wallets & digital apps has increased in the economy. The commonly used apps in India include PayTm, Ola money, Mobikwik, Google Wallet, Pay U Money, State Bank Buddy, ICICI Pockets, HDFC Chillr etc. Besides these UPI solutions, Ru-pay, Aadhaar Pay and BHIM app are also contributing in smooth transition towards digital inclusion. Digitalization can further be promoted by boosting e-commerce transactions. The government's vision of digital India has motivated the digital service providers in India to operate a campaign to attract new customers. The drive has provided an opportunity to use technology.

Literature review

The data has been collected from secondary sources. It includes reports of Department of Electronics & Information Technology (DeitY), RBI bulletins & newsletters and websites of banks concerned. A report of a business consultancy service firm RNCOS is studied for forecasts.

Objectives of the Study

- To study the concept and need for digital economy
- To highlight the M-wallet market potential/opportunities in India
- To analyze the challenges in transition towards digital economy
- To search new opportunities for digital inclusion

Cashless Economy- Progress

Cashless economy uses digital mode for transactions and replacement/ decline in cash transactions. In it, electronic channels are used as modes of transaction. The digital payment system includes electronic avenues and digital apps by National Payments Corporation of India. After demonetization the digital payment system has gained momentum.

Recent Growth in digital modes of payments (in Post demonetization period)

Mode		(Volume in Million, value in Rs. Billion)				Change (%)	
		November 2016	December 2016	January 2017	February 2017	Feb 2017 over Nov 2016	Feb 2016 over Nov 2015
NEFT (National electronic funds transfer)	Volume	123	166	164	148	20.4	10.4
	Value	8808	11538	11355	10878	23.5	14.3
CTS (Cheque Truncation System)	Volume	87	130	118	100	15.3	18.0
	Value	5419	6812	6618	5994	10.6	19.2
IMPS (Immediate Payment Service)	Volume	36	53	62	60	65.2	25.1
	Value	325	432	491	482	48.5	23.2
UPI(Unified Payments Interface)	Volume	0.3	2.0	4.2	4.2	1346.1	-
	Value	0.9	7.0	16.6	19.0	2001.2	-
USSD (Unstructured Supplementary Service Data)	Volume	0.007	0.102	0.314	0.225	3091.9	-
	Value	0.007	0.104	0.382	0.357	4789.4	-
Debit and credit cards at POS#	Volume	206	311	266	212	3.3	3.9
	Value	352	522	481	391	11.1	-5.6

Source- RBI, collection and compilation as per availability of data - : Comparative data not available # card transactions of 4 banks PPI -Postpaid Payment Instruments issued by 8 non bank issuers

Transition towards digital economy

To study the concept and potential of digital economy in demonetized phase in India, m-wallet market study has been done. Mobile wallet is a very useful application for transferring money in both urban & rural areas even without using a bank account. Mobile wallet users enjoy greater flexibility in making secure payments. Also, those who do not possess credit or debit cards can go to their nearest wallet recharge kiosk and get their wallets loaded against cash. Thus, mobile wallets play a vital role in digital inclusion and moving towards cashless economy in India.

Study of M-Wallet market in Indian context- Main Findings

A study of m-wallet market in India is done to study demonetization impact on digital payments growth. Secondary data has been used to forecast the potential. This research has been conducted by a business consultancy service firm, RNCOS regarding transactions being done through m-wallet. The data

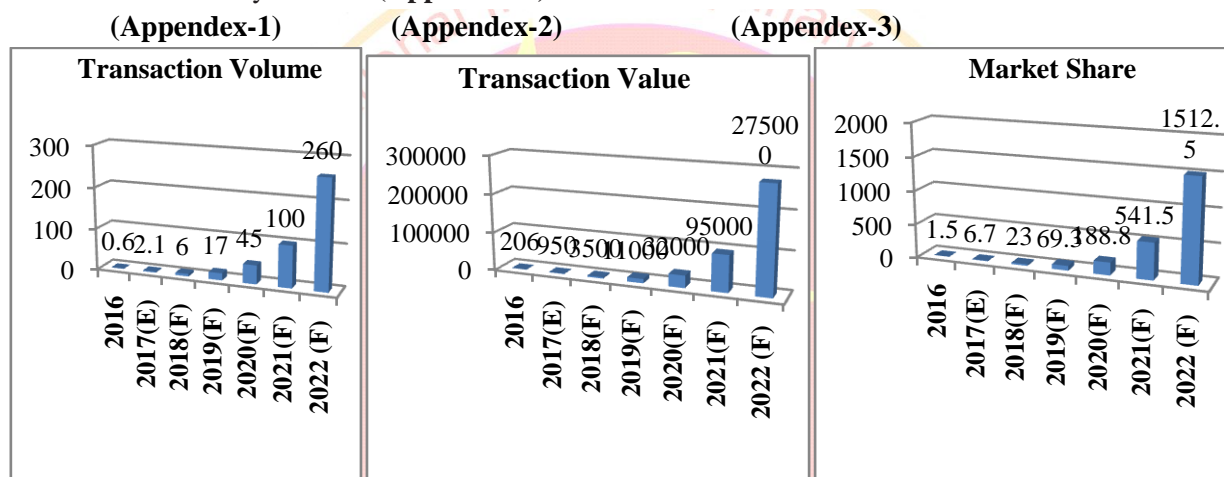
of 2016 has been compiled from the reports of RBI. The m-wallet transaction's volume, value and market share is presented. Estimate for 2017 and forecasts from 2018 to 2022 has been made for the m-wallet transactions for promoting digital payments in India and progressing towards cashless economy.

Transaction Volume of M-wallet (billion), FY 2016 to 2022- In the year 2016, total m-wallet transactions were 0.6 billion and it is expected to reach 260 billion by FY 2022, growing at a CAGR of 163% (**Appendix-1**).

Transaction Value of M-wallet (billion), FY 2016 to 2022- The mobile wallet transactions in India have grown about 20 times to reach INR 206 billion in the year 2016 from INR 10 billion in the year 2013.

Mobile wallet is one of the fastest growing paperless mode of payment and it is expected that the majority of transactions will go paperless in near future. It is also forecasted that the market value of m-wallet transactions in India will grow at a CAGR of 211% to reach INR 275 trillion in the FY 2022 (**Appendix-2**).

M-wallet Market Share (INR billion) , FY 2016 to 2022- The Indian m-wallet market in the year 2016 was around INR 1.5 billion and it is forecasted to grow at a CAGR of 196% to reach INR 1512.5 billion in the year 2022 (**Appendix-3**).



Source- RBI, RNCOS Note- e/f-RNCOS estimate/forecast (collection and compilation as per availability of data)

Major challenges in transition towards digital economy

- Lack of digital infrastructure
- Lack of high speed internet / public wi-fi hotspots
- cyber insecurity
- lack of digital literacy
- lack of public involvement

Search for new opportunities for digital Inclusion

The demonetization drive has pushed us towards digitalization. However efforts are still needed to promote digital payments. It includes removal of roadblocks in penetration of payment technology. Initiatives to educate and encourage people by both government and private sector are needed. Digital inclusion will reduce the cost of cash handling and will increase accountability, tractability and tax compliance in India.

Suggestions and recommendations

A unique digital identity is urgently required for development of virtual economy in addition to better digital infrastructure and cyber security mechanism. The other steps include changing the mindset

of Indians and encouragement towards adoption of digital platform. To sum up, vast opportunities are available for digital inclusion in demonetized India.

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