

# Contemporary Developments in Payments System in India

Rajnish Jindal<sup>1</sup>

<sup>1</sup>Asst. Professor, Amity Law School, Centre-II, Noida

**Abstract-** In the era of digitalization and due to technological advancements and with the advent of new age entrepreneurs, the e-Commerce market in India has grown manifold in recent years. As in case of online retail, one might give credit to the Cash on Delivery concept to propel the populous to shop online, however it is the payment industry which is working its magic behind the scenes to make the Digital India dream a reality. In this paper researcher has been tried to examine the developments of payment system in Indian banking and financial system.

In recent years, Indian financial system has been implementing many innovation ideas in the system. This article focused on only payment and settlement system and it is based on secondary data sources. This research paper is an attempt to understand the changing scenario of financial sector services and response of the customers that is contributing to the growth of the cashless economy in India, and investigates the challenges that have slows the progress from cash to cashless solutions.

**Keywords—** CoD ICT, MICR, ECS, EFT, NEFT, RTGS.

## I. INTRODUCTION

The introduction of coins in India around 6th Century B.C. brought first standardizes means of financial exchange between consumers and traders. Ease of carrying and quick exchange with correct value, complemented trade expansion. Later the coming of paper money in 1770 and Paper Currency Act of 1861 eased doing business further. Cash or fiat money had been the undisputed king of consumer payment market for 340 years. Until the recent developments in payment card industries and digital payments system started shifting monopoly of paper notes. Last 10 years saw evolution of a new section of consumers in India; this group's preferences being technology savvy and they show inclination to cashless means of financial transaction. A large section of this group is urbanized working population (Age 15 -60) with access to private banking, payment cards, and they have eternal companionship with internet and Smartphone. They are the most preferred clients of Dalal Street and business responded with capital investment and technological investment in areas pertaining to their need and preferences.

## II. CONTEMPORARY PAYMENT SYSTEM IN INDIA

Payments are an indispensable part of our daily transactions, be it a consumer to a business, a business to a consumer or a business to a business. Payments raise the GDP of a country thus it is mandatory that the payment systems of the country are "safe, secure, sound, efficient, accessible and authorize," as states the mission statement of the Reserve Bank of India's publication on Payment Systems in India (2009-12). Payment and settlement systems in India are regulated by the Payment and Settlement Systems Act, 2007 (PSS Act), legislated in December 2007.

The Reserve Bank of India continually strives towards ensuring the smooth progress of the payments system. In

India it is the BPSS (Board for Regulation of Payment and Settlement Systems) which is in charge of regulating these systems. India has multiple payments and settlement systems. RBI Still continues to evolve new payment methods and slowly revamping the payments and settlement capability in India. India supports a variety of electronic payments and settlement system, both Gross as well as Net settlement systems.

The Gross system is; Real Time Gross Settlement (RTGS) and the Net settlement systems are; ECS – Credit, ECS – debit, Credit cards and Debit cards, National Electronic Fund Transfer (NEFT), Indo-Nepal Remittance Facility Scheme and Immediate Payment Service.

The Reserve Bank of India is doing its best to encourage alternative methods of payments which will bring security and efficiency to the payments system and make the whole process easier for banks. The Indian banking sector has been growing successfully, innovating and trying to adopt and implement electronic payments to enhance the banking system. Though the Indian payment systems have always been dominated by paper-based transactions, e-payments are not far behind. Ever since the introduction of e-payments in India, the banking sector has witnessed growth like never before.

In the case of India, the RBI has played a pivotal role in facilitating e-payments by making it compulsory for banks to route high value transactions through Real Time Gross Settlement (RTGS) and also by introducing NEFT (National Electronic Funds Transfer) and NECS (National Electronic Clearing Services) which has encouraged individuals and businesses to switch to electronic methods of payment. With the changing times and technology so have changed the methods of payments in India. E-payments in India have been growing at a fast rate of 60% over the last 3 years.

In India 'plastics' have been fast over-taking 'papers'. With 130 million cards in circulation currently, both credit and debit, and an increasing consumer base with disposable income, India is clearly one of the fastest growing countries for payment cards in the Asia-Pacific

region. Behavioural patterns of Indian customers are also likely to be influenced by their internet accessibility and usage, which currently is about 32 million PC users, 68% of whom have access to the net. However these statistical indications are far from the reality where customers still prefer to pay "in line" rather than online, with 63% payments still being made in cash. E-payments have to be continuously promoted showing consumers the various routes through which they can make these payments like ATM's, the internet, mobile phones and drop boxes.

Due to the efforts of the RBI and the BPSS now over 75% of all transaction volume are in the electronic mode, including both large-value and retail payments. Out of this 75%, 98% come from the RTGS (large-value payments) whereas a meager 2% come from retail payments. This means consumers have not yet accepted this as a regular means of paying their bills and still prefer conventional methods. Retail payments if made via electronic modes are done by ECS (debit and credit), EFT and card payments.

### III. ROLE OF THE RBI IN ENCOURAGING E-PAYMENTS

As the apex financial and regulatory institution in the country it is compulsory for the RBI to ensure that the payments system in the country is as technologically advanced as possible and in view of this aim, the RBI has taken several initiatives to strengthen the e-payments system in India and encourage people to adopt it.

The Unified Payments Interface (UPI) system, as its latest offering in boosting digital money transfers. The interface has been developed by National Payments Corporation of India (NPCI), the umbrella organisation for all retail payments in the country. The UPI seeks to make money transfers easy, quick and hassle free.

The Payment and Settlement Systems Act, 2007 was a major step in this direction. It enables the RBI to "regulate, supervise and lay down policies involving payment and settlement space in India." Apart from some basic instructions to banks as to the personal and confidential nature of customer payments, supervising the timely payment and settlement of all transactions, the RBI has actively encouraged all banks and consumers to embrace e-payments.

In pursuit of the above-mentioned goal the RBI has granted NBFC's (Non-Banking Financial Companies) the permission to issue co branded credit cards forming partnerships with commercial banks.

The Kisan Credit Card Scheme was launched by NABARD in order to meet the credit needs of farmers, so that they can be free of paper money hassles and use only plastic money.

A domestic card scheme known as RuPay has recently been started by the National Payments Corporation of India (NPCI), promoted by RBI and Indian Banks Association (IBA), inspired by Unionpay in China, which will be promoting the use of cards i.e. "plastic money". Initially functioning as an NPO, RuPay will focus on potential customers from rural and semi-urban areas of India. RuPay will have a much wider coverage than Visa, MasterCard or American Express cards which have always been used for card-based settlements.

The NREGA (National Rural Employment Guarantee Scheme) introduced by the Government will ensure rural

employment in turn ensuring that the employees get wages. Each employee will have a smart card functioning as his personal identification card, driver's license, credit card which will also function as an electronic pass book, thus familiarizing the rural populations with e-payments.

However, the Indian banking system suffers from some defects due to certain socio-cultural factors which hampers the spread of the e-payments culture even though there are many effective electronic payment channels and systems in place. Despite the infrastructure being there nearly 63% of all payments are still made in cash. A relatively small percentage of the population pays their bills electronically and most of that population is from urban India-the metropolitans. Also in some cases the transaction is done partially online and partially "offline". The main reason for this apathy to switch to e-payments comes from lack of awareness of the customer despite various efforts by the Government.

### IV. THE SHIFT

The change in behavior of consumer is result of two major factors, namely demographic and digitalization.

**Demographic:** The availability of required infrastructure like Internet, connectivity by road and air, a continuous source of income and etc has largely influenced the purchasing behavior of urbanized customer base.

**Digitalization:** Internet penetration, Smartphone penetration, Internet banking and growing e-commerce have proved to be the main drivers for changing purchasing behavior. Digitalization and automation being seen as the next game changer by industry and huge investment in these areas, they have more scope to influence consumer purchase behavior.

**Shift to Mobile:** Due to digitalization, India has become the hub of largest Smartphone market and it does make economic sense for businesses to have a mobile first/mobile ready platform. Payment system providers are now offering ready-to-integrate development kits for mobile app companies to deliver a native payment experience.

**Wallets & Banking Apps:** Savvy consumers are now even ditching their credit/debit cards when it comes to making a purchase online, all thanks to wallet and banking apps which allow swift checkout experience. In fact at EBS we have already integrated a number of mobile wallets & banking apps to allow companies to provide this experience.

**Wallet & PoS Integration:** Another notable development that is happening with the onset of the wallet adoption is the usage of these instruments beyond the digital space. Restaurants, brick and mortar stores which depend upon PoS systems for payment collection can also give wallet users an option to use the same instead of swiping their bank cards.

**Government Support:** Also, to keep up with the pace of the global economy, the Government too is pushing out policies to encourage a movement towards a cashless society. This is happening through various initiatives: Payment banks, Bharat Bill Payment Services, proposal to do away with surcharge / convenience fees, etc.

**Contactless Payments:** Payments via NFC is a development that has already come into practice. However

now contactless payment is the next step, where in a tangible scenario customer can make payments by flashing their card at the terminal.

## V. CHALLENGES

Technological changes in payment system present unique opportunities and challenges for the banking and finance industry. Developing or acquiring the right technology, deploying it optimally and then leveraging it to the maximum extent is essential to achieve and maintain high service and efficiency standards while remaining cost effective and delivering sustainable return to shareholders. Managing technology is therefore, a key challenge for the Indian banking sector. Developing countries like India, has a huge number of people who don't have access to banking services due to scattered and fragmented locations. India is a country with huge population and the demographic growth of India is such that it is going to become the most populated country very soon. Technological advancements can bring about close integration between the urban and rural population. The primary challenge is to give consistent service to customers irrespective of the kind of customer whether rural or urban. Retention of customers is going to be a major challenge.

Technology has made it possible to deliver services throughout the payment services providers network, providing instant updates to checking accounts and rapid movement of money for stock transfers. However, this dependency on the network has brought IT department's additional responsibilities and challenges in managing, maintaining and optimizing the. Some of the challenges that the payment service providers are facing today are; managing diversified needs of customers, diminishing customer loyalty, coping with regulatory reforms, keeping pace with technology up-Gradations. The payment industry is changing at a phenomenal speed. While at the one end, we have millions of savers and investors who still do not use a bank, another segment continues to bank with a physical branch and at the other end of the spectrum, the customers are becoming familiar with ATMs, e-banking, and cashless economy. This shows the immense potential for market.

No doubt, the benefits of technology have brought a sea-change in the outlook of modern payment services sector. Now the goal is not just to satisfy but to engage with customers and enrich their experience and for the successful achievement of this goal, the only sustainable competitive advantage is to give the customer an optimum blend of technology and traditional service. With technology occupying a pivotal role in delivery of financial services, the expectations of the consumer have also been growing. Broadly, these expectations are swift service with minimal response time, efficient service delivery, tailor-made and value-added products to suit specific needs, hassle-free procedures and minimum transaction costs, and pleasant and personalized service.

## VI. CONCLUSION

Now Indian banking and financial system has undergone a significant transformation over time in terms of diversity and innovation. The developments in information and communication technology resulted in numerous innovations in the payment system of India. There are a variety of electronic clearing options are available in banking system. But these options are too limited than demand of bank customers in India. In the sense of rural India these facilities are not provided sufficient level by the banking institutions due to lack of ICT connectivity and other infrastructural facilities. Banks have to adopt a holistic approach to fulfill the ever changing needs of customers and to grab a better market share. Development of sophisticated products with low cost technology is the key. This calls for in- depth analysis of customer needs the market and competitor trends. Due care will have to be made while embracing technology and transforming traditional touch points to electronic ones, so that human touch with customers is also not lost.

## REFERENCES

- [1] Andrade, C "Banking Products and Services" in Indian Institute of Banking and Finance, Mumbai.
- [2] Avasthi G P M (2000-01), "Information Technology in Banking: Challenges for Regulators", Prajnan, Vol. XXIX, No. 4, pp. 3 – 17.
- [3] Jain, T.R., Indian Financial System, VK Global Publications Pvt. Ltd, New Delhi.
- [4] Hugar, S.S., Trends and Challenges to Indian Banking, Deep & Deep Publications, New Delhi.
- [5] Maheshwari S.N., Banking Law and Practice, Kalyani Publications, Ludhiana.
- [6] Nair, M V, 2007, Payment Systems in Banks, Banknet India 3rd Conference.
- [7] Payment Systems in India - Vision 2005-08, RBI
- [8] Payment Systems in India - Vision 2009-12, RBI
- [9] Shastri, R.V. (2003), "Recent Trends in Banking Industry: IT Emergence", Analyst,(March), pp. 45-46.
- [10] The Virtuous Circle: Electronic payments and economic growth. Visa International Global Insights, Inc. (2003).
- [11] Repot on Trend and Progress of Banking Sector in India [http://rbidocs.rbi.org.in/rdocs/Publications/PDFs/ORTP21112013\\_F.pdf](http://rbidocs.rbi.org.in/rdocs/Publications/PDFs/ORTP21112013_F.pdf)