



DIGITAL PAYMENTS AND BANKING SECTOR IN INDIA: A TREND ANALYSIS

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Abstract:

The growth potential of Banking sector in India is very significant in the recent era. Financial system in India is competing with that of International Financial System. Introduction of Digital Payment in banking sector as put an additional Input to the growth of financial transaction with in the country. The breadth of digital transactions has grown significantly in recent years as more individuals utilize the internet and mobile devices to handle their accounts. Digital transactions provide various advantages over paper-based transactions, including enhanced convenience, lower costs, faster processing times, and increased security. Thus, the present study focuses on growth of banking sector through the Introduction of Digital Payments in India and to study the Digital Payment Trends in India.

Introduction:

In India the significance of Banking sector has shifted dramatically in the previous two decades. It has undergone a never-before-seen transition, adjusting to new technology and global-standard products, while also becoming a member of the International Financial System. It is clear and understandable that substantial technical and product developments have occurred in India during the last two decades, pushing numerous plans, new technologies, and so on. The arrival of international and private firms in India following Liberalization, Privatization, and Globalization in 1991 has made this market extremely competitive. Even now, banking is one of India's fastest expanding industries. Throughout the previous 20 years, the Indian Banking System has seen several significant financial developments with the goal of making banking services to mass banking through digital transactions.

Digital transactions refer to the transfer of money or other financial assets through electronic channels, such as the internet or mobile devices. These transactions can take various forms, including online purchases, mobile banking, electronic fund transfers, and cryptocurrency transactions.

The scope of digital transactions has expanded greatly in recent years, as more and more people use the internet and mobile devices to manage their finances. Digital transactions offer several benefits over traditional paper-based transactions, including greater convenience, lower costs, faster processing times, and increased security.

The nature of digital transactions is characterized by their speed, convenience, and accessibility. They are typically initiated through a digital platform, such as a mobile app or website, and can be completed in a matter of seconds or minutes. Digital transactions can be conducted anywhere, at any time, making them ideal for people who need to make purchases or transfer money quickly and easily.

Digital transactions also offer a high degree of security, as they are typically protected by encryption and other security measures. This makes them less vulnerable to fraud and other types of cybercrime.

Overall, the scope and nature of digital transactions are likely to continue expanding as more people adopt digital technologies and the world becomes increasingly connected

Review of Literature:

Chetanbhai Joshi M (2017), Our Honorable Prime Minister Shri Narendra Modi began the Digital India initiative on July 2, 2015. Digital India's claimed function is "Faceless, Paperless, Cashless." To encourage Cashless as part of the Digital India Initiative, the government has launched several digital payment systems. As part of the digital payment system, a few traditional and new forms of payment were encouraged in order to establish a cashless economy, which is essential for growing countries like India today. This article attempts to examine the trend in several types of digital payments during the previous three years, including NFS Inter Bank ATM Cash Withdrawal, NACH, CTS, IMPS, AEPS, BBPS, UPI, BHIM(UPI), and NETC. According to the findings of this study, there has been a



significant increase in digital payment volume and value over the previous two years (2015-16 and 2016-17), particularly during the 2017-18 fiscal year (up to July 2017).

According to Richard Reisman (2019), pricing is the most important challenge of digital media-based business for the consumer market. The author noted that FairPay (Fair price) is a repeated game between buyer and seller. Moreover, Fairpay is a new logic to solve the issues because it makes better changes in modern Business to Consumer (B2C) market.

David et al. (2018), examined the importance of Distributed Ledger Technology (DLT) in the area of payments and settlement system along with opportunities, challenges associated with its long-term implementation and adoption. This study concluded that it is possible to use DLT in payments, clearing and settlement including cross border payments, transfer and record the ownership of digital assets, immutably and securely store information, provide for identity management and other evolving operations through peer-to-peer networking.

Hasan et al. (2012) in their study, examine the relationship between retail payments and overall economic growth during the study period 1995-2009 in the European region. This study reported that migration to electronic retail payments stimulates overall economic growth, consumption as well as trade. Among various retail payment instruments, this relationship is strongest for card payments, followed by credit transfers and direct debits.

Objective of the Study

1. To know the growth of banking sector in India
2. To analyze the linkages between Digital payments and Banking Sector
3. To study the trends in the digital payments

Research Methodology:

The present study is based on descriptive research design. Secondary source of information is collected from various books, journals, government websites, RBI websites, google scholar etc., for the study. In analysis of data simple data analysis tools like tabulation, trend percentage analysis is used.

Analysis:

1. Growth of Banking Sector:

The banking sector in India has experienced significant growth in recent years, with the industry becoming one of the largest and most important sectors of the Indian economy. Rapid expansion of branches, the number of bank branches in India has grown rapidly, with the number of branches increasing from around 8,000 in 1969 to over 1,15,000 in 2019. This expansion has helped in increasing the reach of banks and financial inclusion in the country. (Source: Reserve Bank of India) The total banking assets in India have grown significantly over the past decade, from \$1.3 trillion in 2011 to \$2.6 trillion in 2020. This growth can be attributed to the strong growth of the Indian economy and the rising middle class, which has led to increased demand for banking services. (Source: World Bank). The adoption of digital banking in India has increased significantly in recent years, with the number of digital banking transactions growing from 1.06 billion in 2016-17 to 6.3 billion in 2020-21. This growth has been fueled by the government's push towards digital payments and the rise of mobile banking. (Source: Reserve Bank of India). In recent years, there has been a trend of consolidation in the Indian banking industry, with several large mergers and acquisitions taking place. This has helped in creating larger and stronger banks that are better equipped to compete globally. Increased focus on financial inclusion i.e., The Indian government has placed a strong emphasis on financial inclusion in recent years, with initiatives such as the Jan Dhan Yojana and the Pradhan Mantri Mudra Yojana. These initiatives have helped in bringing more people into the formal banking system and promoting financial literacy in the country. (Source: Ministry of Finance). Thus, the growth of the banking sector in India has been driven by a combination of factors, including rapid expansion of branches, increase in



banking assets, rise in digital banking, consolidation in the industry, and increased focus on financial inclusion.

2. Digital Payments and Banking Sector:

Digital payments refer to any form of financial transaction that occurs electronically, such as through online platforms or mobile devices. Digital payments have become increasingly popular in recent years due to their convenience, security, and speed. There are several types of digital payments, including:

1. Credit/debit cards: This is a form of payment where a cardholder uses a card to make a transaction, and the amount is deducted from their bank account or credit line.
2. E-wallets: E-wallets are virtual wallets that allow users to store funds and make transactions securely through a mobile application.
3. Online banking: Online banking enables users to manage their bank accounts and make transactions electronically through a bank's website or mobile application.
4. Cryptocurrencies: Cryptocurrencies such as Bitcoin and Ethereum are digital currencies that allow for secure and decentralized transactions.

Significance of Digital Payments:

Digital payments have played a significant role in India's economic growth in recent years. Here are some ways in which digital payments have contributed to India's economic growth:

- Increased financial inclusion: Digital payments have enabled a large section of the population, particularly those in rural areas, to access banking and financial services. This has led to increased financial inclusion and has provided opportunities for people to participate in the formal economy.
- Reduction in cash transactions: Digital payments have helped reduce the dependence on cash transactions, which are often associated with corruption and tax evasion. This has led to increased tax compliance and has contributed to the formalization of the economy.
- Boost to small businesses: Digital payments have enabled small businesses to accept payments through digital modes, which has reduced their dependence on cash transactions. This has led to increased transparency and has helped small businesses to expand and grow.
- Increased efficiency: Digital payments have made transactions faster and more efficient, reducing the time and cost associated with traditional payment methods. This has led to increased productivity and has contributed to overall economic growth.
- Contribution to GDP: The increasing adoption of digital payments has contributed to the growth of the digital economy in India, which is expected to contribute significantly to India's GDP in the coming years. According to a report by Google and Boston Consulting Group, the digital payments industry in India is expected to grow to \$500 billion by 2025.

Overall, digital payments have played a crucial role in India's economic growth by promoting financial inclusion, reducing cash transactions, boosting small businesses, increasing efficiency, and contributing to GDP. As India continues to adopt digital payment modes, it is likely to see further economic growth in the years to come.

3. Trends in Digital Payments towards banking sector India:

India's digital payment and banking sector has undergone a significant transformation in recent years. The government's push towards a cashless economy and the increasing adoption of smartphones and internet connectivity has propelled the growth of digital payments in the country.

1. *Digital payment modes:* There are various digital payment modes available in India, including UPI (Unified Payments Interface), mobile wallets, credit and debit cards, internet banking, and digital payment apps such as Paytm, Google Pay, and PhonePe. UPI has emerged as the most popular digital payment mode, with over 2 billion transactions per month.
2. *Banking sector:* India's banking sector is dominated by public sector banks, with the State Bank of India being the largest bank in the country. Private sector banks such as HDFC Bank, ICICI



Bank, and Axis Bank have also gained significant market share in recent years. The Reserve Bank of India (RBI) is the central bank of the country and regulates the banking sector.

3. *Government initiatives:* The Indian government has launched several initiatives to promote digital payments and financial inclusion in the country. Some of the key initiatives include Jan Dhan Yojana, Aadhaar, and BHIM (Bharat Interface for Money). The government has also launched the National Payments Corporation of India (NPCI) to develop and operate digital payment infrastructure in the country.
4. *Growth potential:* The digital payment and banking sector in India has tremendous growth potential, as a large percentage of the population is still unbanked or underbanked. The COVID-19 pandemic has also accelerated the adoption of digital payments in the country. As per a report by Google and Boston Consulting Group, India's digital payments industry is expected to grow to \$500 billion by 2025.
5. *Challenges:* Despite the growth potential, there are several challenges that need to be addressed for the digital payment and banking sector to reach its full potential. These include issues related to cybersecurity, infrastructure, and regulatory framework. The RBI has been taking steps to address these challenges and ensure the safety and stability of the digital payment and banking ecosystem in the country.

Table-1

OVERALL GROWTH OF DIGITAL PAYMENTS TRENDS IN INDIA		
Reference period	Volume in Transaction (in Lakhs)	Value of Transaction (Rs. In Crores)
2012-2013	65812	55351198
2013-2014	80353	64061822
2014-2015	98695	72400501
2015-2016	120593	80226850
2016-2017	157412	95912592
2017-2018	190858	116468676
2018-2019	236484	132905595
2019-2020	248850	139759460
2020-2021	277126	152651924

Source: Reserve Bank of India Report 2020-21

Inference: Table 1 indicates that there is a gradually increasing trend of digital payments in India both in terms of volume and value of transactions. The growth of digital payments is likely to be nearly 28,000 lakhs in terms of volume of transactions and INR 1526,519 billion in terms of value of transactions in 2020-2021. The actual overall growth rate of digital payment transactions in terms of volume is lower than expected during the study period 2014-2015 to 2017-2018. It started an upward trend since 2018-19. The actual overall growth rate of digital payment transactions in terms of value of transactions was higher than expected during the periods 2012-13 and 2013-14, whereas it has seen an increasing trend since 2017-2018.

Table-2

GROWTH OF DIGITAL PAYMENTS ACROSS CATEGORIES				
MODE	VOLUME OF TRANSACTION (IN LAKHS)		VOLUME OF TRANSACTION (Rs. In Crore)	
	Mean	CGR (%)	Mean	CGR (%)
RTGS	971.93	12.41	78422569	15.37
Cheque Truncation System (CTS)	8787.5	22.26	6259320	20.44



Immediate Payment Service (IMPS)	5121.72	213.93	446401	257.16
Credit Cards	9430.24	28.79	302543	30.6
Debit Cards	95308.32	16.18	2685933	13.43
M-Wallet	13992.05	127.73	54035	142.05
PPI Cards	2132.11	72.46	18805	48.44
Source: RBI Report 2020-2021				

Inference: Table 2 explains that the maximum contribution on average growth performance of digital payments in terms of volume of transactions takes place by the way of debit cards, M-Wallet and credit card payments, whereas maximum contribution on the average growth performance of digital payments takes place by the way of RTGS, CTS and Debit cards. Over the past seven years, both volume and value of digital payment transactions have grown multi-fold. Therefore, the CGR across the categories of digital payments for the period 2012-2013 to 2018-2019 indicates positive growth in the country, both in terms of volume and value of digital payment transactions. Among various categories of digital payments, both IMPS and M-Wallet services have the highest growth rate as compared to other categories of digital payments in terms of both the aspects during the study period.

Challenges of Digital Payments

While digital payments have many benefits, there are also several challenges that need to be addressed. Some of these challenges include:

1. **Security:** Digital payments are vulnerable to cyber-attacks and fraud, which can result in financial losses for both customers and businesses.
2. **Infrastructure:** Digital payments require a robust and reliable technology infrastructure, including internet connectivity and mobile devices, which may not be available in all regions.
3. **Interoperability:** Different digital payment systems may not be compatible with each other, which can create difficulties for customers who need to transfer money between different systems.
4. **Customer education:** Many customers are not familiar with how digital payments work, which can lead to mistakes and misunderstandings.
5. **Cost:** While digital payments can be cheaper than traditional payment methods, there are often fees associated with digital payments, which can add up over time.
6. **Regulatory framework:** The regulatory framework for digital payments is still evolving, and there may be uncertainties around compliance and liability.
7. **Trust:** Customers need to have trust in the digital payment system they are using, which requires a high level of transparency and accountability from businesses and financial institutions.

Suggestions:

challenges can limit the adoption of digital payments, especially in regions where internet connectivity and infrastructure are not well-developed, or where customers are not familiar with digital technologies.

- To overcome these challenges, businesses and financial institutions need to invest in robust security measures, improve infrastructure and interoperability, and educate customers about how digital payments work.
- Additionally, policymakers need to develop a clear regulatory framework that protects consumers and encourages innovation in the digital payments space.

Conclusion:

Every economic system, including India's, relies on digital payment networks. It permits the purchase of products and services (such as utility bills and insurance premiums) as well as the transfer of funds to friends, family, and business partners. In India, the government's emphasis on decreasing cash in



the economy has resulted in a secure and efficient payment system. Over the research period, it resulted in extraordinary growth, particularly in IMPS, M-Wallet, and PPI Cards in terms of both volume and value metrics. These media have transformed digital payments, online payment systems, and financial transfers. Because digital payment transactions are cheap and easy, economic activity is rapidly changing to a cashless world.

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