

REVIEW OF OPERATIONAL ISSUES AND PROSPECTS OF COMMERCIAL BANKS IN THE CURRENT SCENARIO



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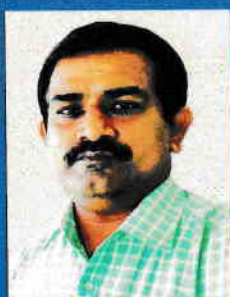


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Challenges and Prospects of Digital Payment in the Covid-19 period

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Abstract

Digital transactions are taking over most of the transactions in the world and India is no exception. Various studies have proved that efficient payment system will speed up the liquidity flow of an economy. In the era of digitisation, transactions using technology is the best agile and giving better service to consumers. Though digital payments are used worldwide, people may be facing some problems to use this system. The Covid-19 pandemic fuelled the proliferation of digital modes of payments and at the same time there has been a significant surge in financial frauds.

Keywords: Digital payments, security and safety of transaction, challenges, prospects, impact, digital currency

Introduction to Digital Payment

The digital payment system has now become the essential part of banking transaction. Digital payment is a way of payment which is made through digital modes. In digital payments, payer and payee both use digital modes to send and receive money. It is also called electronic payment. No hard cash (currency notes) is involved in the digital payments. All the transactions in digital payments are completed through online mode. Digital payments are the future of global payments, as they are done without cash, in real time. They are available to any person any time. It is an instant and convenient way to make payments. The Payment and Settlement Act, 2007 has defined 'Digital Payments' or 'electronic funds transfer' as "any transfer of funds which is initiated by a person by way of instruction, authorisation or order to a bank to debit or credit an account maintained with that bank through electronic means and includes point of sale transfers; automated teller machine transactions, direct deposits or withdrawal of funds, transfers initiated by telephone, internet and,

card payment." Currently available digital payment systems include Banking cards, Digital wallets, Unified Payment Interface(UPI), Unstructured Supplementary Service Data(USSD), Immediate Payment Service(IMPS), Real Time Gross Settlement(RTGS), National Electronic Fund Transfer(NEFT), Aadhar Enabled Payment System(AEPS), and Mobile banking. With recent advances of technologies, digital payments is having an impact on our daily lives and beginning to offer interesting and advantageous new services. According to RBI Bulletin cashless transaction in India is increasing day by day.

With concerns over contracting novel corona virus infection from visiting bank branches and using currency notes, many people not only in metros but also in smaller towns have started using their smart phones for making payments. The pandemic also forced traditional banks to depend more heavily on their digital channels to reach out to and facilitate customers and most banks have reported a sharp increase in usage of their mobile and digital banking channels.

Monthly data reflects the wide spread adoption of digital channels with a sharp rise. According to Reserve Bank of India data, mobile app based payments touched 20,919.08 crore in September 2020 amounting to Rs 7,04,109 crore while payments through net banking stood at 28.22 crore transactions worth Rs 34,36,124 crore.

It is also important that development of techniques influences the traditional system and there also have to face some problems while newly adaption. Recent surveys released by independent research firms have also pointed to the trend of increase in the number of financial frauds in digital payments.

Challenges of Digital Payment

Adoption of digital payments was growing before COVID-19, but the pandemic has accelerated the shift, driving dramatic increases in contactless and online payments. It is important to note that different groups have very different attitudes towards going cashless. Many people are uncomfortable or do not have access to the technology. For some vulnerable people, digital payments are not an option. Cash is all some people know, perhaps all they have access to. People in society, like those on lower incomes and the elderly, are more likely to be negatively affected by a switch to a cashless society. Most of the Indian economy is made up of informal workers, who contribute around half of the GDP. These workers are paid in cash which are often undeclared assets. Mediums like smart phones are still unaffordable to a vast sizeable population of the country, thus denying the access to digital transaction. Awareness about using the digital solutions like smart

phone, credit/debit cards is still a persistent issue. The key issue to digital payment is the lack of band width and reach of technology to various locations. Still many customers lack the technology services.

For all organizations that rely on or are in the payment ecosystem, effective digital payments strategy and operations are fundamental. Many organizations were prepared for this onslaught of new digital business, as they had effective digital payment systems in place before the pandemic. Unfortunately, others had to scramble, trying to get technologies and business processes in place to remain in business and be competitive. On top of all that, new technologies and models are constantly emerging and regulations around payment security, privacy and financial crimes are always evolving. There are serious cost considerations in adopting new payment technologies, especially if existing systems use legacy technologies. Any digital payments plan needs to implement technology cost-effectively now and have a forward-looking outlook on updating capabilities.

Another significant hurdle is around the increasing risk of fraud and cybercrime. Numerous events of cyber threats occur like hacking of email account, databases, bank details and frauds. The increasing cyber security is the main challenge for public, institutions and government. Outdated operating systems and unsecured network connections like public WIFI network in electronic devices allow cyber criminals to exploit and steal funds and credentials from online transactions. Fraudsters are always looking for security loopholes or lapses. Because online perpetrators can attempt their fraudulent acts from virtually anywhere at any time, every transaction and every part of the e-commerce system needs to be protected. Merchants need to implement the necessary tools and have a security mindset that permeates the entire company culture, from top-down.

Despite all the efforts of the government along with Reserve Bank of India to promote financial inclusion especially in rural area, still about nineteen percent of the Indian population does not have access to bank. All the popular methods of digital payment are dependent on bank account, if not also smart phones and internet access.

Through the adoption of digital currency, Central bankers fear that people may begin withdrawing money from their bank accounts as CBDCs become popular. Many depositors currently use bank accounts to safely store their money. When CBDCs can serve the same purpose, people could move money out of banks. What could check this is the interest offered by banks. The withdrawal of bank deposits can also affect the amount of loans created by banks. Banks will only have fewer cash deposits to lend to borrowers.

While the challenges in digital payments are considerable, the paths to ongoing success are becoming more apparent. As there are so many options and so many technologies, partnerships and customer considerations, adaptability is key to success. Digital payments should be adaptable systems, with teams that can quickly alter their processes. The only constant is change.

Prospects of Digital Payment

In the light of the potential growth in Digital Payment due to Covid-19, regulation, compliance and vigilance around digital payment stands to gain further relevance and importance. As world economy becomes inter connected, the need of business to pay vendors, partners, workers and organizations in other country will grow. But there are obstacles that make it difficult to move money across countries. Digital payments could solve many of the barriers associated with global payments. Digital payments could make currency exchange easier, the transfer rate is high as digital payment is faster than traditional payments and the payment is secured with an end to end security.

Digital payment lower the costs of global payment and it is convenient as digital payment is done by clicking a few buttons and sending payment with basic recipient information. More customers are allowed to make payments without touching card terminals or handling cash has been supported by large banks and payment card network.

Companies may look forward at know your customers (KYC) system through video as a regular option for contactless customer on boarding.

With growing use of digital currency, many economies may consider accelerating their Central Bank Digital Currency (CBDC) testing and implementation initiatives. Central Banks claim that there is increasing demand for digital currencies. Also that the cost of issuing electronic CBDCs is far lower than the cost of printing and distributing cash. The CBDCs can be easily tracked by the authorities. The Reserve Bank of India, in a monetary press release, mentioned that it is in early stages of thinking about considering a sovereign digital currency for the country. A much needed boost to virtual card segment may come in, as RBI mandated tokenization of cards thus, ushering in further growth for digitization.

Post demonetization, people slowly started embracing digital payments and even small time merchants and shop owners started accepting payments through the digital mode. Digital payments are much more convenient than cash payments, since they are digital, you do not have to carry cash as well. The main objectives

of digital transactions are to reduce the costs and risks of handling cash and to increase the ease of conducting transactions. Since digital payment reduce the costs of providing poor people with financial services, they have become a vital tool in improving financial inclusion. The convenience and safety of using insurance, payments, and savings products also increase by using digital payment.

Removal of merchant discount rate on RuPay cards and UPI transactions as well as creation of Payment Infrastructure Development (PIDF) are among the government initiatives which are expected to provide required push for growth of merchant acceptance infrastructure and subsume more people with the digital ecosystem. Further, we also expect to see increased QR code usage across sectors which is expected to not only continue to aid the urban users but also empower the less digital savvy sections of society due to the push for digital literacy beyond cities.

There are many rewards and discounts offered to customers using digital payment apps and mobile wallets. There are many attractive cash back offers given by many digital payment banks. This comes as boon to customers and also acts as a motivational factor to go cashless. One of the other benefits of going digital is that all transaction records can be maintained. Customers can track each and every transaction that is made, no matter how small the transaction amount this.

Many digital wallets and payment apps have become a convenient platform for paying utility bills. Be it mobile phone bills, internet or electricity bills, all such utility bills can be paid through a single app without any hassle.

Digital transactions will help the government keep a track of things and it will help eliminate the circulation of black money and counterfeit notes in the long run. Apart from this, this may also give a boost to the economy as the cost of minting currency also goes down.

Impact of Covid-19 on Digital Payment

In 2020, there was a country wide lockdown due to corona virus attack. The lockdown period was the period of significant limitation in spending among people, along with deferral of routine monthly payments. Lockdown caused significant uncertainty in decision with regard to quantum and timing of spending and payments. Corona virus has brought human suffering as well as economic suffering. Banking services comes under essential services so India's Central Bank took a decision to operate with minimum capacity. It had to safeguard thousands of employees and at the same time keeps the economy running. All banks in the country were providing at least four services to its customers - cash deposits and

withdrawals, cheque clearances, government transactions, utility bill payments and remittances. Besides the government has also reduced charges for digital trade transaction and ATM cash withdrawals to promote digital financial transactions at the time of covid-19 pandemic. Cards will be used more as there is a concern over transmission of the virus through the exchange of physical currency will boost online card transactions.

Fund transfers to/from bank accounts will likely see an uptick as people substitute cash with digital transfers. Transactions at ATM's will decrease as a result of the lockdown being enforced. Not much cash will be required compared earlier. With no physical avenues to pay bills, people are adopting Bharat Bill Payment System (BBPS), leading to a relatively higher number of transactions. The online paperless processes to issue products like unsecured loans and credit cards without any in person contact will rise. There will be a rapid build out of Omni channel capabilities and consolidation in the payments sector with a view to survive possible deal activity.

There will be a continued push to adopt digital payments from governments, regulators and banks. There will be a marked shift away from cash as digital means gain popularity and acceptance and transform a convenience to a necessity. People's anxiety of immediate survival, be it food and/or medicines, is counteracting long standing apprehensions of digital transactions that may have inhibited greater adoption until now.

Real time contactless payments will gain traction. They will assist in moving the needle on digital payments toward high-volume but low-value transactions from the current low volume, high value tilt and eventually lead to a decline in cash usage.

QR code payments will see an uptick as they are cost effective and contactless. Offerings such as offline to online payments will also increase. They will assist a lot of small and individual business owners to collect payments when people hesitate to use cash, and eventually lead to a decline in cash usage.

The disruption caused by the pandemic will compel financial players to prioritise a process overhaul. Banks and NBFC's will offer unsecured and consumer durable loans as well as credit cards with zero paper work and no in person contact. The current crisis will act as catalyst for innovation. There will be greater e-commerce based offers. The rapid build out of Omni channel capabilities-which will link payments in any environment, physical or digital - will become a baseline requirement for all payment players.

The ongoing spread of corona virus has become one of the biggest threats to the

global economy and financial markets. To contain the impact of the virus outbreak, the country is taking several measures. The resulting economic disruption is huge and the short term decline in activity for business, both large and small. As growth in digital payment are observed, payment processors and aggregators are expected to evolve in tandem. Payment processors are expected to see opportunities in scaling up infrastructure and capacity owing to the expected increase in digital transactions going forward and are expected to be inclined to invest in consumer service quality. Considering the pressures of covid-19 on profitability and even survival of payment processors who already operate on minimal margins, the trend of consolidation is also expected to pick up in the payment industry.

As the Covid scenario continues to unfold, its impact on the behaviour and expectations of customers, as well as those of business, will become more apparent. However, what is clear now is that we will settle into a new normal once the pandemic dies down. To aid the recovery and lead the emergence into this new normal, it is imperative for the digital payments ecosystem to evolve rapidly and help shape the post covid era.

Suggestions and Conclusion

Factors like mobile connectivity, infrastructure, electronic delivery, technology, information technology have helped digitization to grow. Advantages are ease of use, faster transaction, reduced pollution of environment, more satisfied customers, and social upheaval. Lack of education, adaptation of technology, less support from government, costs of implementation, safety issues, infrastructure problems and lack of training are challenges for digitization. Better systems, security and collaboration from all concerned can hasten the process of digitization.

The Covid 19 pandemic has led to unprecedented public concerns about viral transmission through cash. Central Banks report a large increase in queries from the media on the safety of using cash. The number of internet searches pertaining to both 'cash' and 'virus' is at record heights. Digital payment volumes are also receiving a boost through the government, which has pledged monetary assistance to the poor via direct transfers to bank accounts.

The finance minister and the CEO of the National Payments Corporation of India have also urged people to increase the use of digital payments in order to make payments contactless. Digital payments, once a convenience, have become a necessity in these times.

The adverse effects of the COVID-19 pandemic are trickling down to major sectors of the Indian economy, with manufacturing, auto, retail, aviation and hospitality bearing the brunt of the lockdown. This in turn has affected fast-growing digital payments which are closely linked to the aforementioned sectors. Shut shops, travel bans and reduced discretionary spends by consumers (on dining out, movies and entertainment and so on) are further negatively impacting digital payments.

Digital payment volume declines are seen in airlines, tourism, hospitality, hotels, entertainment, e-commerce (non essentials) and restaurants, among other sectors.

However, there are also a few areas that are seeing an uptick in digital payments by way of increased adoption during the lockdown. These include online grocery stores, online pharmacies, OTT players (telecom and media) Ed Techs, online gaming, recharges and utility/bill payments.

Experts have urged users to take precautionary measures to ensure safety of their financial transactions. Customers should not keep large balances in online payment apps and also should not have higher limits for credit card and net banking transactions. Customers should avoid having unnecessary apps on their mobile phones and must not blindly agree to the terms and conditions stated by the apps.

It would be ideal for credit card users not to enable automated transactions or transactions without an OTP validation on their credit card. Every swipe should be accompanied by a PIN to validate and authenticate the transaction and online transaction should only go through with an OTP based validation that is received on the user's mobile phone.

Customers need to ensure that e-mails are from the right entity. Phishers would create identical URLs and design the pages almost identical to the entity they are trying to copy. The customer must be immensely prudent and observant. They must check if the link has an https prefix and if the URL is correct before sharing any information or making a transaction. Vishing, another type of fraud, involves calling users by claiming to be from a bank or a reputed company and then making the users share personal information such as card number and inducing them to do a transaction.

A user must also ensure that most of his transactions go through at least a two-factor authentication process - the second factor could be an OTP received on their mobile or a secret question to which only they know the answer. Users must also refrain from using public networks or public Wi-Fi to make a transaction. They must use their Wi-Fi at home or office that is protected and secured.

The old age people are having the reluctance for using e-banking facilities, so importance to be given to those people and proper training on the usage of e-banking should be given to them and bankers have to adopt the right strategies to attract different age group and give more information about the e-banking services.

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