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ISSN - 0974-7869 (Print)
ISSN - 2395-6771 (Online)

A STUDY OF POST DEMONETIZATION DIGITAL PAYMENTS BEHAVIOR OF B-SCHOOL STUDENTS-A STUDY OF JAIPUR CITY

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Abstract

The Indian economy witnessed an unprecedented event on 8 November, 2016-Demonetization, wherein the higher denomination currency ceased to be in force. The initiative nullified around 86% of the currency and converted it into a legal, bankable, and taxable part of the Indian economy. A 50 day period was announced as a transit period where the older currency could be deposited in the banks or exchanged for new. Till the time the new currency could expand in circulation, there were a number of problems that citizens faced as cash transaction is a way of life in India. Nonetheless, the move proved to be a major disruption in changing and molding behaviors and India took to digitization cashless transactions, digital wallets and the like.

In the given context, the study attempts to explore the digital payments behavior of B-School students in the city of Jaipur. The study proposes to study the change in behavior, the preferred platforms and instruments of digital payments, the usage occasions and the reasons for resistance for going digital. As an outcome, the authors make recommendations to ease the process of digitization of payments and provide a seamless, integrated and frictionless experience to the customers.

Keyword: Digital Payments, Demonetization, PSPs (Payment Service Providers), Digital Wallets

Introduction

The Indian digital landscape has seen a major disruption in recent years with 2015-16 being the watershed period. With the advent of digital technologies, banks have ceased to enjoy the hegemony in payments. The last year and a half has witnessed a heightened activity in digital payment space, akin to a significant disruption. A recent report by BCG and Google suggests that digi - payment is emerging as an industry in India (Asia's third-largest economy) and is expected 10X growth and it may touch $500 billion by 2020 and it will contribute almost 15% of gross domestic product (GDP). The digital consumer will become more important than ever, with 50 percent of internet users who are already proficient in application of digital payments and top 100 million users are predicted to account for 70% of the gross merchandise value GMV).

Digital payments are undeniably important for increasing the convenience and reducing the cost of a transaction. Besides, the two obvious advantages, they are inevitably needed as the basic infrastructure of an economy and are instrumental in generating economic activity. Projections suggest that currently non-cash transactions constitute 22% of all consumer payments and by 2023, the digital payments instruments shall boost the growth in non-cash payments.

The Post Demonetization Surge

Digital payments have grown exponentially, post demonetization drive initiated by Hon'ble Prime Minister, Shri Narender Modi. The demonetization move followed by a resultant cash crisis, has led to

ISSN - 0974-7869 (Print)
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increased demand for digital payments. As per the data from Government of India, per day e-wallet transactions (services such as Paytm, Oxigen, and MobiKwik) has escalated from 17 lakh on November 8, 2016 to 63 lakh in next 30 days. This amounts to a growth of 271%. Transactions through RuPay Cards, and other types of cards at e-commerce sites and point-of-sale (POS) were up by 316%. The surge in digital transactions is quite in sync with Government's policy of encouraging honest, accountable and transparent payments. Governments in emerging economies can almost save $110 billion every year as digital payments will reduce leakages in public spending and tax collection. The corpus thus saved can be devoted to other priorities.

Environmental Enablers for Digital Payments

Technology Trends

Technology has a rampant interface in our lives, to the extent that we can label ourselves as 'digital natives'. Mobile phones and internet have become ubiquitous. With over 1 billion mobile subscriber base, India ranks at second position in terms of the enormity of subscriber base. 240 million subscribers use smartphones and the base is likely to escalate to 520 million by 2020. Mobiles are no longer exclusively for communication, but have become potent commerce-enablers with features like powerful processors, enormous memory, high pixeled cameras, barcode scanners, GPS geocodes, social apps and the like. The 3G and 4G have penetrated the remotest corners of India, thanks to the National Optical Fibre Network (NOFN), initiated under the protégé of Digital India initiative. Almost 95 percent of all these devices shall soon be internet powered and the number of internet users is likely to reach a historic 650 million in 2020 from the erstwhile 330 million in 2017.

Customer Impatience

The customer today is impatient and looking for a seamless and frictionless one touch instantaneous customer experience. The entry of non-bank fintech and retail players has proved to be a game changer and has added to ever increasing customer expectations. Competition in the digital payment space has made customers very experience sensitive and nothing less than superlative is acceptable. Added features like biometric authentication for security, rampant integrated rewards have become the new normal.

Entry of Non-Banking Institutions

The digital payments space is witnessing an unprecedented convergence. The hitherto unrelated industries are making a visible presence in the sector. These include device manufacturers (Samsung, Apple), retailers (Walmart, Starbucks), telecom companies (Airtel, Vodafone), Tech firms (Alibaba, Google) and also startups. The sector is yet to see more disruption-as number of FinTechs has tripled and funding has grown 7X over last ten years.

Enabling Regulatory Framework

India is an emerging market where cash still dominated, before 8 November, 2016. The demonetization drive has given an impetus to the cashless regime and digital payments have thus flourished. The regulatory environment has become liberal and the following interventions prove the point.

Download a wallet of choice and Get Set Go

As per RBI guidelines, small transactions upto Rs. 10,000 per month on prepaid instruments are exempt from KYC verification. All that is needed is a download of the chosen wallet and transacting without any need for photographs, documentation etc.

KYC Made Easier

Linking the mobile numbers of customer online to Aadhar account has made KYC process very simple and seamless. The Jan Dhan initiative is a testimony to this fact. It has witnessed 270 million accounts being opened and thus making financial inclusion and biometric authentication see the light of the day.

Unified Payments Interface (UPI)

Multiple banks came together and formed a system UPI, which integrated multiple bank accounts into a single mobile app of any of the participating bank under this platform. It was pilot launched on 11th April, 2016 by Raghuram G Rajan with 21 member banks The idea is to integrate all sort of services like payment, clearing house, fintech, payment gateways under one common platform. The users shall get the flexibility to accessing bank accounts through any payment service providers, irrespective of the fact whether the payment service provider is a bank or FinTech and the like. This shall enable multiple use cases-peer to peer payments (P2P), person to merchant payments (P2M) and business to business payments (B2B).

Authentication Exemptions for Mobile Wallets

RBI mandates two factor authentication (2FA) for all transactions made with Indian debit/credit cards. The mobile wallet is otherwise exempt from the cumbersome two factor authentication (2FA) process. A mobile wallet requires a customer to undergo 2FA only while loading funds from other bank instruments. Thus, the wallets have a limit on transaction value to avoid the risk of frauds, in the absence of 2FA.

Research Methodology

The research involved a study of 500 students enrolled in the final year of B-schools of Jaipur. The course is essentially PGDM (Post Graduate Diploma in Management). The sample involved both males and females.

The research design employed is an Exploratory Study followed by a Descriptive Study. The exploratory part of the study involved a Focus Group discussion with chosen respondents, who are heavy users of the digital payment instruments. Based on the dimensions deciphered during the FGD, a structured questionnaire was designed to measure the digital payments behavior of the respondents chosen for study.

The idea of the study is to understand the reasons, purpose and preferred channels employed by the respondents for paying digitally.

Research Findings

Preferred Channel for Digital Transactions

The modes of payments studied were- Mobile, ECS, POS, Internet, NEFT, In Branch Transactions and Cash. Mobile emerged to be the most preferred channel for digital payments with 31% respondents committing to mobile based payments. The ongoing digital technology revolution offers a plausible explanation for mobile being the most preferred channel for digital transactions. Currently 1.9 billion users access internet service on mobile. This number is expected to reach 3 billion by 2020 (amounting to 65% of the world's adult population). It is expected that 90 per cent and above of internet users will be accessing the internet through mobile handsets and 78 per cent of such users will own smartphones by 2020. The smartphones are expected to become potent commerce enablers. By virtue of the fact that they are enabled with powerful microprocessors, enormous memory, sophisticated cameras, bar code scanners, GPS, NFC capable readers, biometric enabled multi factor authentication, social networks and platforms for identifying deals and offers. Refer **Figure 1.**

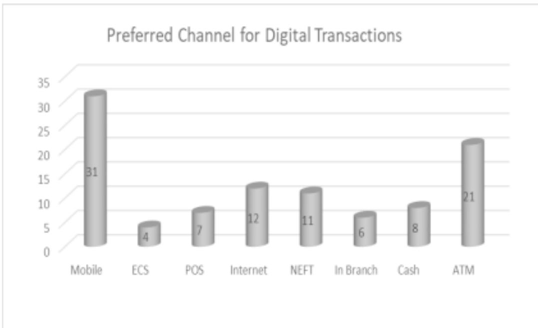

Figure 1: Preferred Channel for Digital Transactions

Reasons for using Digital Payments

Though deals and cashback appear to be attractive, consumers value convenience as the most important reason for using digital payments. Convenience includes 'instant one click payment' and '24*7' payment options. These two reasons appear to be the most dominant reasons for digital adoption. No hassle of change, cashless convenience, ease of tracking, and deals have also been cited as reasons for driving digital adoption, though in the order of diminishing importance. Nevertheless, rewards, coupons, discounts, cashback have played a very significant role in overcoming consumer inertia for using digital transactions by incentivizing non cash payments. The reward points have played a key role in defining and building customer loyalty and continuous engagement. Refer **Figure 2.**

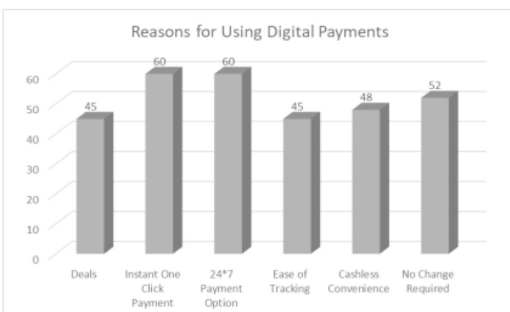

Figure 2: Reasons for Using Digital Payments

ISSN - 0974-7869 (Print)
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Use Cases of Digital Payments

E-shopping remains the most popular use case of digital payment with around 72 per cent respondents using digital transactions for e-shopping. Integration of e-commerce website with wallet players for seamless payments have given a kick to the rampant use of digital transactions for e-commerce. This is followed by mobile recharge as 70 per cent of the respondents report using digital transactions for recharging the mobile. This is quite in sync with the fact that digital payments in India initiated almost solely on the single use case of prepaid mobile recharges. Given the fact, that the respondents belong to millennial cohort, ticketing with the 42 per cent usage appeared to be the third largest application of digital payment transactions. Only 8 per cent of the respondents reported using digital payments for fund transfer and remittances. This is possibly due to the fact that they belong to a population of millennial and their life cycle stage do not have a dominant need for fund transfer and remittances.

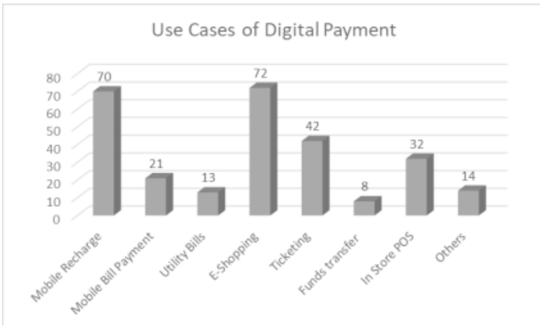

Figure 3: Use Cases of Digital Payment

Willingness to try Digital Payments for POS Purchases

The result showed that the respondents are willing to try digital payment for POS purchases for online payment of movie tickets, shopping at e-commerce portals, payment of bills, ticket booking etc.Of all the above cases, food and entertainment appears to be the largest case of digital transaction with 73 per cent of respondents being rampant users. This was followed by organized retail (71 per cent), e-commerce (69 per cent) of the respondents.

Figure 4: Respondents Willingness to Try Digital Payment for POS Purchases

Frequency of using Digital Transactions per Month

The findings suggest that 67 percent of the respondents report using digital transactions 0 – 10 times per month, 24 per cent of respondents use it 11-20 times per month, 6 per cent of the respondents use it 21-30 times per month and a very small percentage i.e. 3 per cent are heavy users and use digital transaction for more than 30 times per month. It is almost a habit for later 9 per cent users, who use it for 21-30 times per month.

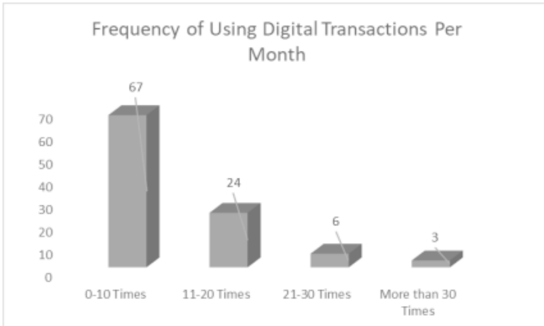

Figure 5: Frequency of Using Digital Transactions per Month

Key Barriers for Adoption of Digital Payment

Though the respondents have evinced a positive response towards digital transactions, they have also expressed several concerns and bottlenecks towards shifting to digital transactions. 56 per cent of the respondents report server issue as a major impediment towards a digital shift. Habit appears to be the next important impediment, with 43 per cent of the respondents admitting to using cash as a means of payment. A belief that spending in cash helps in budget management and puts a check on spending patterns and extravaganza appear to be the major reason behind not going digital. Cash transactions are so well ingrained in their lifestyle that shifting to non-cash methods offers great inertia.

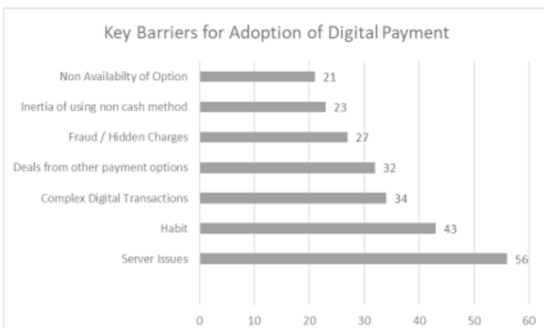

Figure 6: Key Barriers for Adoption of Digital Payment

Problems Encountered in Use of Digital Payments

Difficulty in remembering multiple passwords is cited as a major problem in going digital by around 45 per cent of respondents. This is followed by inadequate balance as a second deterrent in going digital – cited by 44 per cent of the respondents. Surprisingly, hidden charges and feeling of insecurity appears to be not so important problems in digital payments. This is quite contrary to the expected belief that customers don't try digital payments for skepticism or fraud, theft, and hidden charges. This is quite unlike in global markets where privacy, and fraud, security are top of the mind concerns. This indicates towards an evolving mindset which respondents are willing to try and adopt digital transactions.

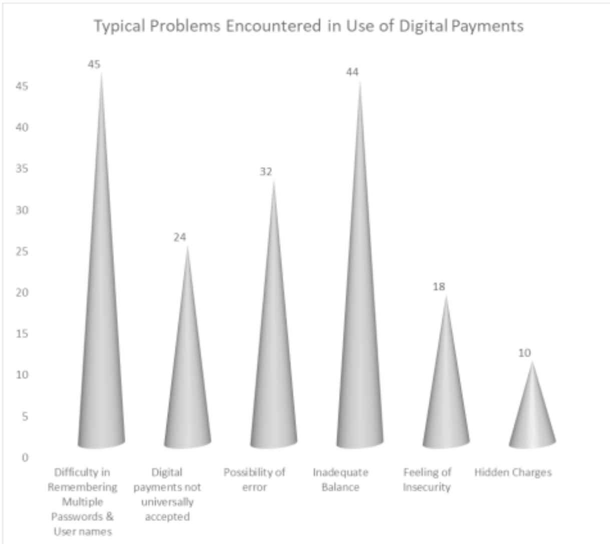

Figure 7: Typical Problems Encountered in Use of Digital Payments

Recommendations

Technology has made digital payments simpler and seamless. Ubiquitous internet, smartphones render an experiential interface and this needs strengthen further and penetrate to the lower levels of the stratum and also to the less urban and sub-urban regions.

Merchant acceptance network needs to grow manifold, in order to bring in more customers in ambit of digital payments. Merchants need to be incentivized by way of offering low-investment solutions. Projections suggest that by doing this, more than 10 million merchants shall become digital payments friendly.

Customers suggest preferring few, consolidated and universal payment solutions. A consolidation shall drive a more rampant and heavy usage. Modified UPI shall enable mass adoption and trial of digital payments. Digital identity and use of aadhar for online authentication shall also boost digital payments.

PSPs need to reduce the entry barriers for the customers. This requires that PSPs find the right pricing model where the charge is levied on the merchants and not on the customers Besides, PSPs should strive to become full service providers where they offer a full bouquet of financial services (beyond payments) for monetizing the relationship with the customers. PSPs also need to develop an ecosystem to provide a seamless end-to-end payment solution. Attaining scale is equally important for the PSPs and to make the business viable and sustainable.

E-commerce websites need to be integrated with mobile wallets for a seamless payment experience.

Online travel booking sites are a case in point, as they have started offering digital payments. Many respondents reported that payments failed at checkout owing to patchy networks and bottlenecks in digital payment infrastructure. This is a potent reason for customer abandonment. Improved product and processes that ease the final checkout are the need of the hour.

The transaction data yielded in digital transactions is enormous. It needs to be mined and deciphered to create personalized rewards for the customers that are beyond blanket cash backs and discounts. This shall definitely drive mass adoption, engagement and create customer patronage.

The customers so far have been used to paying in cash. To achieve adoption, trial and scale digital payments need to become a matter of habit and accustomization. The frequency of usage here plays a very significant role. The instruments should be usable for multiple high frequency everyday transactions, which may not be high value transactions. For instance, online mobile recharge is a rampant but low value use case of digital payments. The use needs to be expanded over utility bills, e-commerce, transport and the like.

Research reveals that dealing is cash is preferred by Indians because handing and paying in cash helps in budget management and keeping extravagance under a check. It is so well entrenched into the Indian way of life that most e-commerce sites have included cash on delivery (COD) as a payment option to suit Indian customers. It's important as of now, because it shall eventually ensure trust in e-commerce and upgrade the avid buyers to digital payment systems.

Conclusion

Based on the research findings and recommendations that follow, it can be concluded that different markets may have different types of players and solutions, but some elements are common to all markets. These include a superlative value proposition, access to an enormous customer base, an enabling infrastructure, facilitating regulatory framework that leveraging the next-gen technologies for a frictionless experience.

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