Payments going the plastic way: Is India ready for cashless transactions?

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Having picked up fresh vegetables from the local vendor, Avinash reached for his back pocket to pay, only to realise that his leather wallet has been sucked dry by the withdrawal of Rs 500 and Rs 1,000 denomination notes. He immediately flashed out his smartphone, scanned the QR code hung on the side of the stall, punched in the amount and the payment was done. The vendor gets an SMS alert and so does he, ‘transaction successful’.

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Will this be the India that comes out from the other side of the demonetisation drive of the government? Will cash be dispossessed from the king’s throne and will digital win the battle finally? Perhaps yes, perhaps no, but bankers are hoping this latest initiative of the government not only weeds out black money but also encourages digital payments.

“I used to be only dealing in cash till date, but after Modiji’s announcement two weeks back my customers did not have cash in hand to pay me for essential items. Instead of going for credit, I thought if I switch over to Paytm it will be a far better option for me as well as for my customers,” said a vegetable vendor in Kandivali, a residential colony in the western suburbs of Mumbai. “Now a lot of people are paying me through their mobile phones.”

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Paytm either settles the wallet balance with him in hard cash or directly credits his account, the way he wants it, he says. A similar voice was echoed by Mumbaibased Uber driver Revana Siddhapaa who says that after the withdrawal of the Rs 500 and Rs 1,000 notes, he has seen a distinct switch over of people from cash to mobile wallet for ride payments.

While various merchants and consumers are showing trends of picking up digital transactions, the bigger question is if it is going to be a trend or just a way to fight the cash crunch? Many feel that the major issue that is stopping people from going digital is with the Indian mindset. While tendency of merchants to never reveal their actual income to avoid taxes is one, people are also used to paying in cash so much so that for them to shift to new mode of payments requires a major change in habit which will need time.

The figures of 1.3 million point-of-sale (POS) terminals in a country where industry estimates put the entire merchant base at around 30 million, proves there must be more structural issues hindering plastic money.

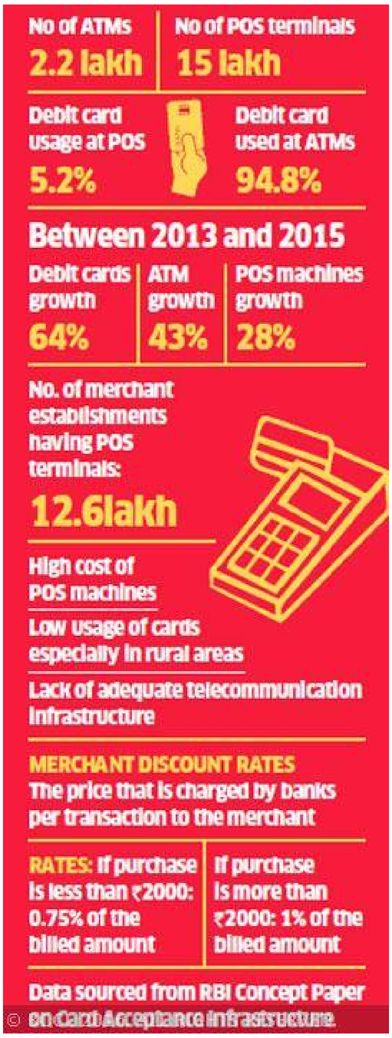
“So far there was no perceived cost of cash which has now changed which is making people look at alternatives. Earlier the banks were bearing the cost, now it is being borne by people who do business in cash, so one big hurdle towards cashless has moved away,” says Rajiv Anand, head of retail at Axis Bank.

While the usual argument goes around that merchants find POS terminals expensive and bulky, the latest innovations in the POS space have even diluted that argument. Nowadays POS terminals have gone mobile, can even work on slower internet speed and have become affordable.

“The price that merchants have to pay for a mobile POS terminal is around Rs 150 per month and the merchant discount rate or the share of the bank and other players per transaction is around 1% of the bill if it is above Rs 2,000. I do not believe such a small value is prohibiting merchants from shifting over to digital payments,” said Manju Agarwal, deputy managing director, corporate strategy and new business, State Bank of India.

While intention to evade taxes is a habitual issue which will not change overnight, awareness, connectivity and internet infrastructure have also been major hurdles for digital payments. While urban centres mostly enjoy high speed internet connectivity, even semiurban areas are deprived of a stable net connection. Therefore, even though India has more than 200 million smartphones, it is still some time away for rural India to seamlessly transact through mobile phones.

But have banks done enough?



In its Vision Document for 2018 released by the Reserve Bank of India in June this year, it had spoken about the need for banks to expand the card acceptance infrastructure and promote digital means of funds transfer.

In a report on the card acceptance infrastructure in the country, the RBI also pointed out that while as of October 2015, 83%, or around 513 million, debit cards in the country were issued by public sector banks, only 32%, or around 4 lakh, of the POS terminals belonged to them.

This skewed nature of the ratio proves the fact that though debit cards are nowadays even issued for no-frills Jan Dhan accounts, where do people use such cards? Hence they only get used at ATMs to withdraw cash rather than for direct transactions.

Further data from the central bank also says that while ATM growth was pegged at 43%, POS grew at a snail's pace of 28% between 2013 and 2015 and that also predominantly in the urban space. While the regulator had indirectly blamed many of the smaller banks in the country for not showing much interest in expanding their own card acceptance infrastructure, popular belief goes that perhaps the latest government initiative might push them into action.

Lack of cash forcing banks to look at 'micro merchants'

While cards once used to be associated with the rich and banks were always chasing shopping malls for terminalisation, cash crunch has brought the smaller roadside merchants on the radar of the financial institutions. "We have set a target to acquire 1,000 small merchants in the next 30 days and allow them to accept payments through SBI Buddy, the bank's wallet application. Till date, we were only chasing big corporates, now we are shifting focus to smaller entities as well," says Agarwal of SBI.

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National Payments Corporation of India, or NPCI, which is the umbrella organisation for digital payments in the country and runs the RuPay network, is hoping to push usage of its latest product Unified Payments Interface (UPI) for peer-to-peer payments through mobile phones.

"RuPay transactions have gone up to 8 lakh from 4 lakh per day after the demonetisation drive and UPI has also gone up from 6,000 payments per day to 9,000 currently," said AP Hota, managing director of NPCI. "We have earmarked around `3 crore for large scale promotion of UPI over the next few weeks which should push up adoption."

While banks and merchants are trying to find out the best way forward, various service providers like companies selling POS terminals are trying innovative means to popularise cheaper card acceptance infrastructure in the country to get more people to transact online.

Companies like PineLabs and MSwipe who are in the business of POS terminals are seeing increased demand for mobile POS machines which are not only cheaper, smaller but also work on slow internet speeds.

"We have received more than a thousand requests overnight for installation of new terminals after the Prime Minister's announcement. Requests have come from doctors, apparel sellers, wedding planners, etc, who used to previously transact completely in cash," said Lokhvir Kapoor, CEO, Pine Labs, a POS solutions company.

While the jury is still out whether the government's latest move will help curb black money and expand the economy, one thing is for sure that it has brought digital in the centre of the payments debate. As banks and vendors are trying to capitalise on the country's severe cash crunch situation, it all boils down to the people. Will this shove finally make people conscious of the cost of cash?

"I believe unless big corporates start paying their smaller vendors and workers digitally, things will not change on the ground. Once money comes in digitally, it will be easier for banks to encourage these people to make non-cash payments, else all will be the same once the cash crunch is taken care of," says Agarwal.