The Great Indian Digital Divide

Ridhi Malik

National Law University, NH-65, Mandore Road, Mandore, Jodhpur, Rajasthan, India.

Abstract: ***Though several reports and research agencies point to the fact, that India is ripe and is on the verge of a financial service revolution, the ground realities are however complete opposite. Even with the robust steps taken by RBI, banks and telcos to reach out to the large unbanked, and under-banked population of the country, cash still remains the most favored way to deal. All the stakeholders involved in this revolution still need to figure out, how to overcome the woes of common man.***

Keywords: Mobile money, financial inclusion, e-commerce, m-commerce

3% of all payments done via electronic mode; 0.2% of retail happens through e-commerce; 10% of bank customers use net banking; 2% of insurance products are sold online. E-commerce sites are doing brisk business. And it may be ages since you signed a cheque. But if you think India has embraced digital transactions, you are far off the mark.

For Aam India, cash is still king. According to RBI data, cash still accounts for 90 per cent of all monetary transactions in India. Even as growing numbers in cities are using electronic payment systems, such as the National Electronic Funds Transfer (NEFT), these made up a paltry 3.2 per cent of total payments across the country in 2012-13. In fact, even old fashioned cheques account for less than 10 per cent of total payments.

To elaborate, the segment of the population which has missed out the bandwagon of modern electronic payments are the country's unbanked and under-banked people who constitute a significant portion of the population.) Cash is the preferred mode of payment for those sections of society not having access to formal payment systems. Electronic payments, even with an associated fee, can be less expensive compared to the available alternatives. The use of electronic payment instruments allows the unbanked to start building a transaction history, which can be a step towards initiating them towards financial inclusion. The lack of wide spread electronic payments infrastructure makes it difficult for the financial industry to deliver micro-version of payment products in a sustainable way.

The payment system initiatives taken over the last three years viz. from 2009 to 2012 have resulted in deeper acceptance and penetration of modern electronic payment systems in the country. Though cheque is still the dominant mode of payment, its share in all payments (retail and large value) has come down from 65 percent to 52 percent in volume terms and from 12 percent to 9 percent in value terms. The share of electronic payments in non-cash payments have shown an upward trend with electronic payments by the end of the year 2011-12 constituting 91 percent in terms of value (from 88 percent in 2009-10) and 48 percent in terms of volume (from 35 percent in 2009-10).

The number of digital banking customers in India is estimated to be about 100 million. That's a third of the number of bank accounts. But then nearly half the Indian population does not have a bank account yet.

Even if the internet savvy India has taken to online shopping, most of Bharat still trudges to the nearest retail store. Cash remains the predominant payment mode in the country. Reflecting this tendency, the value of banknotes and coins in circulation as a percentage of GDP (12.04%) is very high in the country when compared to other emerging markets, like Brazil, Mexico and Russia. The cash to GDP ratio in India has remained range-bound over the last three years. Similarly, the number of non-cash transactions per citizen is very low in India (6 transactions per inhabitant) when compared to other emerging markets.

Estimates peg the value of online retail business at $1-1.8 billion (Rs 6,200-11,000 crore) in 2015. This is just a fraction of the $500-billion retail market in the country, expected to grow to $1 trillion by 2020. Not many choose to buy insurance policies online either. Internet purchases of insurance make up just 2 per cent of the sales that agents make by visiting homes.

Approximately 13 million searches take place every month on insurance, but sales mainly take place through traditional channels as consumers are not comfortable with online transactions, say industry watchers.

An analysis of the payment system landscape in India reveals that while the growth of electronic payments including RTGS transactions has been impressive, the benefits of modern electronic payment systems are yet to reach all sections of the society and be accepted across the length and breadth of the country. Current experience and evidence indicates that the penetration and success of modern electronic payment products and services is concentrated to a large extent in the tier-I and tier-II locations of the country and mostly to those citizens who already have access to the formal banking channels.

Travel is one area which has benefitted the most. For instance, online bookings account for 60-65 per cent of all air tickets sold in the country. IRCTC is quite popular and e-ticketing for railway journeys has also gained traction, rising from 15 per cent of bookings in 2008 to 45 per cent in 2011-12. But just 5 per cent of private bus tickets were sold online in 2013, says Easwaramoorthy, CEO Ticketgoose.com.

The Internet has also redefined the share trading game in India, with online share trading accounting for 47 per cent of total cash trades on the NSE. Apart from institutions that trade online, more investors embraced the ease of trading from the comfort of their homes.

The slow adoption of the digital mode across Bharat is probably partly due to the lack of strong Internet connectivity. TRAI data shows that India had only 165 million Internet users (compared to a 1.2-billion population) last year. Of this, broadband connections made up a measly 15 million. But 143 million accessed the Internet on their mobile phones. And it is on these connections that policymakers are pinning their hopes, as they move to push electronic payments. About 38 million of the 890-million mobile users have registered to transfer money using their phones so far. Online shoppers are growing at 30 per cent every year.

An analysis by RBI has pointed out that the existing “fit for current purpose” payment system infrastructure needs to be transformed into a state of 'ready for future challenges' infrastructure. This can be achieved through standardisation, interoperability, consolidation, common infrastructure creation and sharing intertwined with innovations in product and delivery channels. To drive this process forward, further capacity building in terms of both systems and human resources in the industry and the Central Bank (i.e. in the Reserve Bank of India) is essential. Special attention is also required to ensure seamless business continuity plans in addition to the need to minimise and limit cyber crimes and security threats.

And a recent McKinsey report predicted that the number of digital banking customers in India will rise from 100 million in 2012 to 450 million by 2020. Currently, the number of non-cash transactions per person stands at just 6 per year. If the efforts of financial inclusion bear fruit and if each citizen of the country undertakes a minimum of one transaction in month, the total transactions in the country would reach an astronomical 12 billion transactions per annum.

To accomplish the vision of a less-cash society, if not cashless society, the key elements which would impact all our efforts towards creation of a modern and widespread payment system are: Accessibility, Availability, Awareness, Acceptability, Affordability, Assurance and Appropriateness.

Let’s work towards creating a cashless India, the journey shall ensure many other unforeseen milestones in the development of our country.

References

[1] www.thehindubusinessline.com/industry-and-economy/info-tech/vodafone-india-icici-bank-tie-up-for-mobile-money-service/
[2] http://www.newindianexpress.com/business/news/Vodafone-ICICI-Bank-Launch-Mobile-Money-Transfer-Payment-in-AP-Too/2014/04/24/article2185426.ece
[3] http://www.telecomlead.com/mobile-vas/tata-docomo-take-vodafone-mobile-money-market-98954-46643
[4] http://www.medianama.com/2012/12/223-tata-tele-ties-up-with-icici-bank-to-offer-money-transfer-services/
[5] http://www.mobileworldlive.com/tata-docomo-pushes-money-service-indian-cities
[6] http://www.thehindubusinessline.com/industry-and-economy/banking/for-aam-india-cash-is-still-king/article5538950.ece
[7] http://www.thehindubusinessline.com/opinion/in-india-cash-is-still-king/article5610235.ece
[8] http://rbi.org.in/scripts/PublicationVisionDocuments.aspx?ID=678