

TV RAMACHANDRAN

Time to look beyond the UPI

For India to become a global digital economy, the country needs to quickly fix its inadequate and sub-optimal infrastructure and define stringent data security measures



India is the largest and fastest-growing digital economy in the world. The digital banking space is projected to grow with a compounded annual growth rate (CAGR) of 27% during 2020-2025, from transactions worth Rs 2,153 lakh crore in FY20, to a humungous Rs 7,092 lakh crore in FY25, according to IVCA and EY. The 'Digital India' mission is to establish a 'Faceless, Paperless, Cashless' society. We shall not settle for less.

It is gratifying to cast a fleeting glance at our remarkable progress and the promising path forward.

Cashless India: An incredible journey so far

Over 80% of Indians have bank accounts. While not all of them are actively being used, this is a milestone – a laudable first step. 42.71 crore bank accounts have been opened just under the 'Pradhan Mantri Jan Dhan Yojana' (PMJDY) program. Deposits in these accounts have reached Rs 1.44 lakh crore. Also, the Budget 2021 has Rs 1,500 crore earmarked to help the digital payments sector. We are surely moving well.

As Indians now appreciate, digital financial inclusion can ease many a burden. Even the humble vegetable vendor realizes it in the country today. India is the third-largest economy in purchasing power parity and in 2021 the cash circulating in our economy has gone up 14.7%! A cashless economy is an excellent engine for economic growth. Moreover, cashless transactions constitute powerful weapons for the government to fight corruption, and theft. Additionally, all recorded and legal transactions will count and contribute to our GDP.

Greater penetration of digital banking and mobile payments services offers financial security. Stashing cash at home makes it susceptible to theft, invasion of

privacy, and damage. Without online banking, many individuals fall prey to money lenders and loan sharks. Access to a basic financial account is not enough. Many people lack wider services like savings accounts, loans, insurance, and more. For these people, it will be easier to get loans with a digital trail to help banks assess credit risk. Vulnerable demographics like women, persons with disability and the elderly will benefit from not having to visit a physical bank for each transaction. Digital payments can also reduce the cost of financial services by as much as 80% to 90%.

UPI – Uplifting payments in India

Unified Payments Interface or UPI is the game changer for the great Indian digital revolution. Indian consumers love the convenience of UPI apps. Now, a kirana store owner, tailor, or maid can get paid in the blink of an eye, even during lockdowns and other restrictions.

In June 2021 alone, the number of UPI transactions hit 290 crore, which is a record high. According to EY report, this is 110% higher than the 143 crore transactions recorded in June 2020. UPI allows one to use our mobile number and smartphone for financial transactions. Earlier, we needed a bank account number, branch, IFSC code, and other information to make a transfer. With UPI, we have near-instant money transfers. There is other factor boosting UPI transactions is the decision by the Centre to eliminate merchant discount rates (MDR) on UPI and RuPay since January 2021. MDR is the fee paid to banks and payment gateways for commercial transactions.

Undoubtedly, banking in India is progressing speedily towards increased digital payments. Sure, the National Payments Corporation of India (NPCI)*99# service is

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still available and Indians can make basic transactions using regular mobile phones by dialing it. But low-cost smartphones will hit the market soon. The 30 crore individuals still on a 2G plan and more will flock towards low-cost smartphones. This demand will give the mobile internet and app-based financial services sector a huge boost.

India is Asia's #1 in fintech investments

At Rs 4,856 crore, India has the highest investment in fintech, according to RBSA Advisors, more than China's Rs 2,137 crore. The Indian fintech market is estimated to hit Rs 11.25 – 12 lakh crore by 2025.

Fintech refers to any new technology designed to improve and automate the delivery and use of financial services (Investopedia) and 67% of the 2,100 fintech companies in India were set up in the last five years. India's most popular digital-only payment gateways are PhonePe, Dhani, BHIM, Axis Pay, PayTM, and Mobikwik. Many other fintech companies are making their mark. They include Cred, RazorPay, PolicyBazaar, Lendingkart, BankBazaar, and more. Even global payment app giants (known as Tech-Fin) like GooglePay, AmazonPay and WhatsappPay, have executed on the UPI stack for India. This proves that the UPI platform is world-class and has robust capability to scale and maintain efficiency (Mozark global study using Aquamark tool). Another landmark in the India digital banking space was the RBI's decision to allow payments-related data to be stored in the cloud.

Way forward to a cashless India

Being first means not competing with other countries. But India's race is against internal hurdles that block the country from reaching every citizen. If infrastructure, mobile internet services, cybersecurity, awareness, and reach across India improve, it can meet the growing demand for digital financial services and spur economic growth.

India needs to step on the accelerator and introduce digital banking and mobile payments to the millions

of unserved and underserved Indians. The country also needs to speed up the penetration of mobile banking services to every corner of the country, boost infrastructure, secure payments, and improve Quality of Experience (QoE) for transactions.

Improved infrastructure

The biggest challenge to achieving a cashless India is inadequate and sub-optimal infrastructure. The digital economy can contribute up to 20% or Rs 75 lakh crore of the total economy and create 6.5 crore new jobs. While broadband penetration is critical to India's economic development, only 2.3 crore Indians are wired internet subscribers. Home internet penetration in India is only 7%. In China, it is 92%. Similarly, only 55 out of every 100 people in India have an internet connection. Although India has 4G/LTE technology, there is a lack of towers and infrastructure in many areas, which leads to poor connectivity – especially indoors.

Creating one crore public Wi-Fi hotspots under the government's PM-WANI scheme will offer significant relief to the digital banking sector. These hotspots will be an effective low-cost solution for the common person. And even though the one crore number is a low target for India, it is a good start. Currently, the country has less than 3% of the global average of hotspots per citizen (1 hotspot for every 150 residents). The developed world is at an average of one hotspot per 20 people!

Additionally, satellite communications can play a significant role in remote areas. Last year, central government began permitting private players in space-related activities. This step is a giant leap forward to getting the internet in the hands of every Indian. Liberalized licensing and regulatory-lite policies will boost free-market competition and spread mobile communication across the country.

Ramp up cybersecurity

If we want more Indians to adopt mobile payments, we need to invest in security and trust-building. With more

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digital payments, the number of transaction failures is growing larger. System outages in banks have been unable to keep up with the increase in transactions. Many apps offering payment interfaces to customers are connected to regular bank accounts. So, if banks do not scale up their infrastructure, transaction failures will continue.

Only 58 of 2035 fintech organizations in India have cybersecurity measures. CERT-In reported a 1,000% increase in malicious activity related to digital transactions over the last six months. NITI Aayog continues to stress the importance of protecting India's digital financial system against fraud and security breaches.

To help combat crime in the digital payments space, the RBI issued guidelines in February 2021. The rules include mandates for UPI apps to protect their source code and cybersecurity guidelines against hacks and cyberattacks. Banks and payment apps have six months to comply. However, rigorous testing is required across the vast array of devices and networks across the board, to improve security and gain the confidence of more Indians.

Improve quality of experience

For mobile banking to take off, the digital payment experience must be better than that with cash. Busy individuals in large cities find digital payments convenient due to better Wi-Fi and wired network connections. The same convenience will be appreciated in rural areas. It can stimulate more businesses and entrepreneurs to expand beyond the metros.

But even in a mature market for mobile internet like India, if we cannot measure it, we cannot improve it. Mobile operators should expand and improve the quality of experience on their networks based on what consumers value most. Internet browsing and payment transactions use a significant amount of data on mobile networks. If net banking websites do not load fast, app

transactions fail, or OTPs do not arrive in time, it will be hard to persuade others to join the fold.

The “best effort” mindset of banks and telcos need to change for India to maintain excellence in quality of experience (QoE). For example, a recent Mozark quantitative study of top banking apps in India found the “time to log in” (after entering user details) was high with over 25% of transactions taking more than five seconds. This number is quite high for the world of apps. There were similar delays and variances in the “time to download a statement”. But payment transfers after receiving OTP and entering it, functioned with minimal variance. These results were in line with the percentage of customer complaints that the RBI receives about these payment apps.

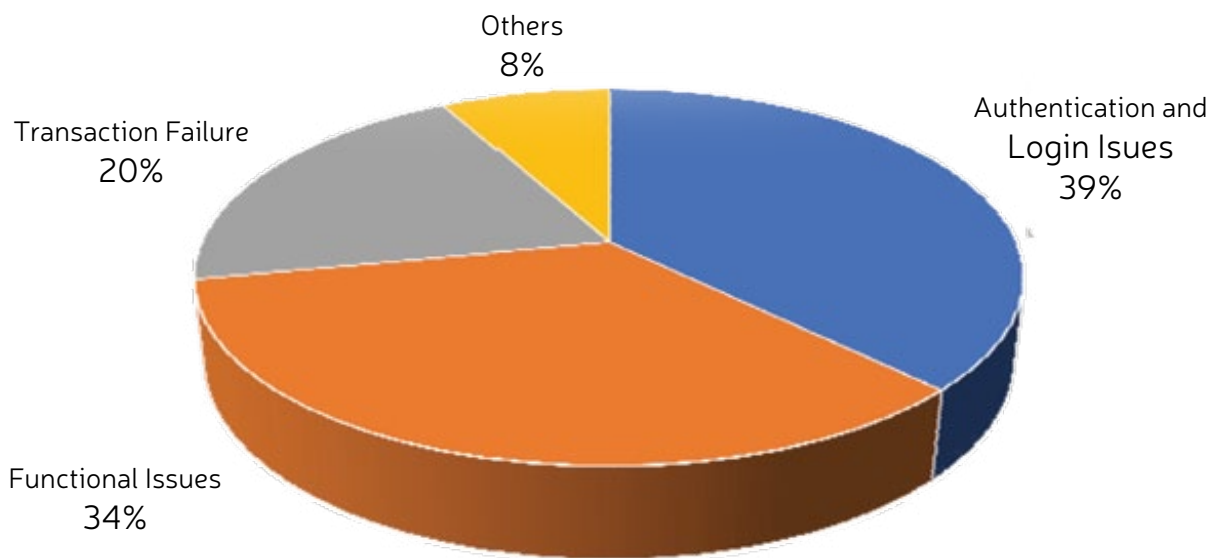
Mozark study also showed that the UPI stack did not overload the system. But bank app stacks were not fully tested by changing devices and location. These rigorous tests must be implemented on a wide scale with an ample sample size. We cannot test a few cases and hope for the best. The good news is that tools like Aquamark allow for field tests conducted remotely at a tenth of the cost. Telcos and the banking sector can use these field testing and monitoring tools to raise their quality of service with an attitude of zero-tolerance towards errors and failures. Only then will our economy be world class consistently.

Time for a new banking license regime

Neo-banks are fintech players without physical bank locations. They exist solely in the digital world. They offer a more pleasant experience on the front-end than a standard banking website. Globally, these neo-banks have regulatory licenses and have been successful in attracting customers. Apart from a user-friendly interface, they also offer customized solutions for consumers. Think of a PhonePe or GooglePay portal with friendly icons, navigation, and easier transaction options. These neo-banks can be tremendously advantageous to

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Breakup of Categories of Complaints (%)



Source: Mozart analysis of RBI data on mobile banking consumer complaints

small businesses and startups who may not qualify for loans in traditional banks.

In India, these digital-only banks cannot function on their own since they are not issued licenses and must partner with traditional banks. Issuing licenses to digital-only banks can help crore of people convert to online banking. Digital banks are more cost-effective to consumers since they do not have high overhead or operating costs.

Let's move to the finish line

The Digital India mission is pivotal to our nation's success. It is a shining testament to Indian ingenuity. Digital financial freedom and inclusion can uplift crore of Indians. Online UPI transactions through mobile banking and app-based payments are at an all-time high and poised to grow even further. But as former US Supreme Court Justice, Oliver Wendell Holmes, Jr. once said,

“Greatness is not in where we stand but in what direction we are moving.”

Our direction is fine. But it is good to accelerate our efforts to bring mobile banking to the rest of the millions of Indians living without it. Our infrastructure needs urgent improvements. This includes executing PM-WANI targets, liberalized Satcom policies for “network anywhere”, stringent cybersecurity protections, and monitoring on-ground quality of experience. Only then can we truly realize the benefits of a cashless India for all. 🙌

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The views are his personal.

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