

E-WALLETS: A KEY CATALYST AND ENABLER FOR THE GROWTH OF DIGITAL ECONOMY

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ABSTRACT

All over the world is now going through a digital transformation age. In India, Furthermore, the flagship government initiative such as Digital India will act as key catalysts and enabler of this transformation. As a part of this digital India campaign, the government of India is also utilizing the enormous mobile phone usage of the Indians and boosting up the digital money transaction over Mobile wallets. Consumers can purchase a wide range of products from air tickets to the stationery without using a debit or credit card, provided their e-wallet is either packed with adequate amount required for payment or connected to any bank account linked through UPI. At present, a pandemic named COVID-19 is affecting all over the world which also necessitated the adoption of E-wallets as payment mode since the presence of the virus is suspected in the currency notes also.

Even before the concept of money came into existence, the so called Barter system was prevalent where goods or services were transacted mutually. With the advent of money which was in silver and metal coins in earlier periods, exchanging and settling values for transactions were made easy. Later the government started manufacturing specially designed coins for this purpose. Again it was almost replaced by currency notes which are now in circulation. With the emergence of banks, people found it more convenient to transact through this, because banks offered more safety and easiness and even extra income for their money. In order to effect transactions a payment mechanism was required, so the cheque system was evolved. Later on, it paved the way for various financial instruments like debit or credit card, prepaid instruments, etc. As of now, there are many remittance system developed based on cost and time considerations like National Electronic Funds Transfer (NEFT), Immediate Payment Service (IMPS), Aadhaar Enabled Payment System (AEPS) and recently Unified Payments Interface. The need for repetitive and bulk payments is facilitated by Aadhaar Payment Bridge System (APBS), National Automated Clearing House (NACH) and Electronic Clearing Service (ECS). Mobile technology is playing a vital role in financial transactions. Our world is truly entering the mobile era – by 2025, an estimated six in 10 people will surf the internet on handheld devices such as smart phones, a giant leap from less than 50 percent of the global population that had such access in 2018. Both customers and banks need to adopt the technology for their transactions. The advantages of using E-wallets for payments are speed, convenience, time-saving, cost-effective and fewer transaction fees, discounts and cash backs, Digital records of transactions, controlling black money, etc. These factors create a positive ambiance for the growth of digital payment in India.

E-Wallets/Mobile Wallets/Digital wallets

E-wallet is a smart phone application provided by a service provider that enables the user to keep money and to make electronic transactions. We can carry cash in digital form in a mobile wallet. Using our credit card or debit card or through internet banking, we can load cash into the mobile wallet. Rather than utilizing your physical plastic card to make buys, you can pay with your cell phone, tablet, or smart watch.

Keeping and paying the currency in E-wallets are the same as traditional leather wallets. The only difference is that we can perform the same functions digitally and a number of parties are directly or indirectly involved in performing on the digital platform. In addition to banks, a number of other service providers such as e-commerce portals, cellular operators, etc. offer digital wallets at free of cost. For using mobile wallet service, the customer needs to register him with that mobile wallet and preload a certain amount of money in it which can be used for shopping, recharges, utility bill payments, etc. Obviously, it does not depend only on the smartphone and mobile wallet installed in it. The entire process of sending and receiving money requires a complex network of intermediaries including banks, mobile network operators and payment gateways (source: Reserve Bank of India website)

Types of mobile wallets

a) Open wallets- Open wallets are part of Open System Payment Instruments which can be used for purchasing goods and services including financial services and allow customers to withdraw cash at ATMs/banks. Open wallets can only be jointly launched with a bank. PayZapp by HDFCBank and M- Pesa by Vodafone and ICICI bank are examples of such types of wallets.

b) Closed wallets- Closed wallets are the part of Closed System Payment Instruments through which we can make payments using these wallets for buying goods and services from the organization which issued that payment instrument. Examples are- Bookmyshow wallet, Makemytrip wallet, Amazon pay balance, Flipkart wallet, Etc.

c) Semi-Closed wallets- Such type of wallets are part of payment instruments which can be used for purchasing goods and services only from selected merchants to whom the service provider has a tie-up. Examples are- Paytm wallet, Google pay, PhonePe, SBI Buddy, Citrus wallet, Freecharge Wallet, Oxygen, etc.

Origin and development of E-wallets

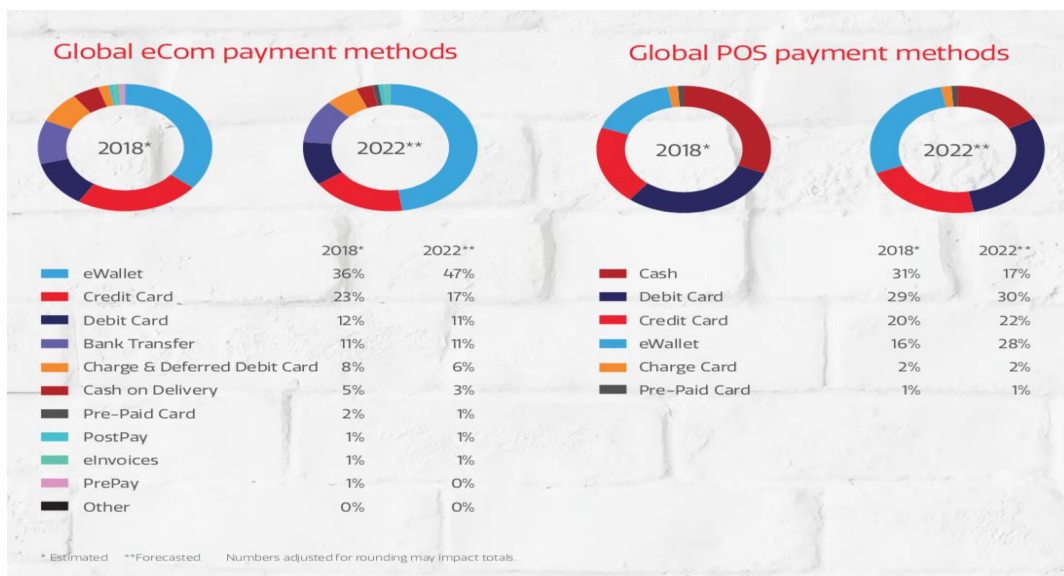
A radical shift could be seen in the payment industry from the barter system to E-wallets. It was in 1997, when Coca Cola launched a few vending machines in Helsinki that allow customers buy a can via text messages. This was the first form of digital payments which could be traced backed from the history. Though very different from modern day e -wallet transactions, this is believed as the origin.

Samsung Electronics Inc.(South Korea), and Visa (USA)Alibaba Group Holding Ltd. (China), Apple, Inc. (U.S.), MasterCard (U.S.)Citrus Payment Solutions (India), Google, Inc. (U.S.), Oxygen Services India Pvt. Ltd (India), PayPal Holdings (USA), as the key vendors in the global E-wallet market. With the wide spread e-commerce and online purchases, the payment procedure system has been changing, compelling to it to use digital payments due to which buyers changed first from cash payments to plastic cards and finally to contactless payments. Digital channels either held on digital wallets or in the cloud, are used for this type of payment. Since the scenario is still evolving a wide variety of names are used for such transactions such as e-money, digital money, micro-payments, and many others. AS this e-wallet payment scenario is still evolving, the terms used are changed from e-money, digital money, micropayments, and whatnot.

Almost all E-wallets like free charge and Paytm are operated via respective apps in smartphones. Their service is based on some kind of encryption software that protects you from unwanted security issues. Multiple credit card and bank account numbers can be stored in this wallet without making any compromise in the security. We need not enter our bank account details every time we make transactions. Soon after we getting registered and making an E-wallet profile, we can do our payments with less typing and in a faster way.

At present, as the latest change, with the emergence of NFC (Near Field Communication) enabled mobile handsets; people can make now contactless payments placing our smartphones near to the pay pad or contactless reader. After prompting for payment confirmation through wallet, we can make payments immediately. So NFC enabled smart payments are expected to drive the digital market in the near future. Further, as per industry developments, In July 2017, Axis Bank acquired free charge e-commerce Company offering digital transactions. On the other end paytm is being backboned by several funding's in order to boost in e- wallet transactions. Citrus pay is acquired by PayU owned by Naspers for \$130M to expand its operations in India. The endless opportunities in this field attract more players to invest in E-wallet market.

Geographically, North Europe has emerged to be the major region, just after North America, which contributes most to the digital market growth. When we came to Asia pacific, Japan, China, and India are expeditiously moving towards cashless countries. Due to Due to the enhanced increased adoption of the smart phone in this region, there is a high growth opportunity for e-wallet in these countries.



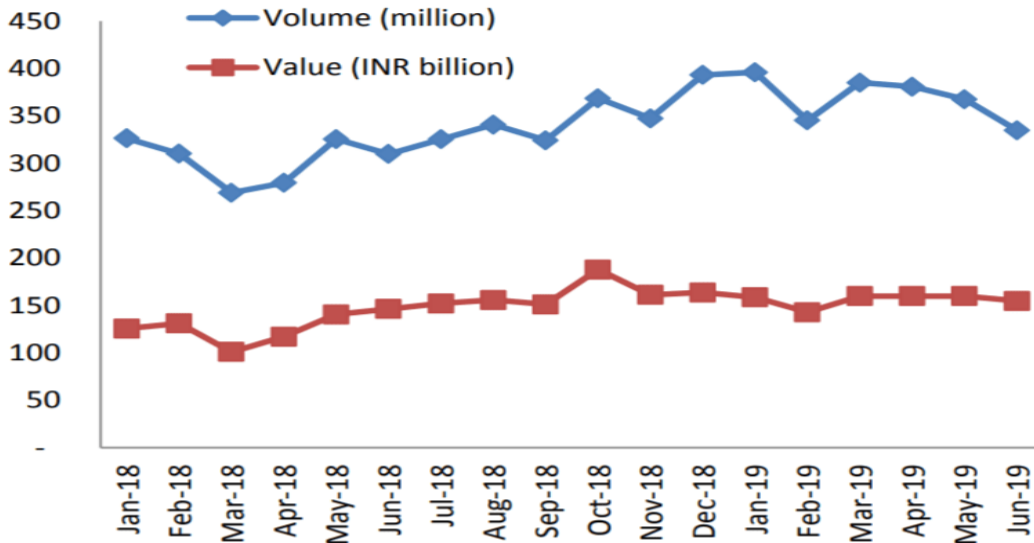
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Generally, customers do feel insecure while transferring money through the internet, especially by way of internet banking or through debit/credit cards. Mobile wallets give them a sense of security by acting as an intermediary between the vendor and the bank. Since traditional digital wallets have a limit to the cash that they can keep in their wallets, any loss in the event of a breach of security is limited.

E-wallets in Indian scenario

In India, India mobile wallet market is expected to grow from around \$ 16 billion in 2018 to \$ 184 billion by 2024; exhibiting growth at an astonishing CAGR(Compound Annual Growth Rate) of 44% during 2019 - 2024 (researchandmarkets.com/reports/). Anticipated growth in the market can be reckoned to be the result of the rising number of smartphone users in India and increased internet user base across the country. Moreover, India’s mobile wallet market has been showing an upward trend since various e-commerce companies started extensively accepting UPI based mobile wallets for the convenience of their customers.

Volume and Value of Transactions done on Mobile Wallets



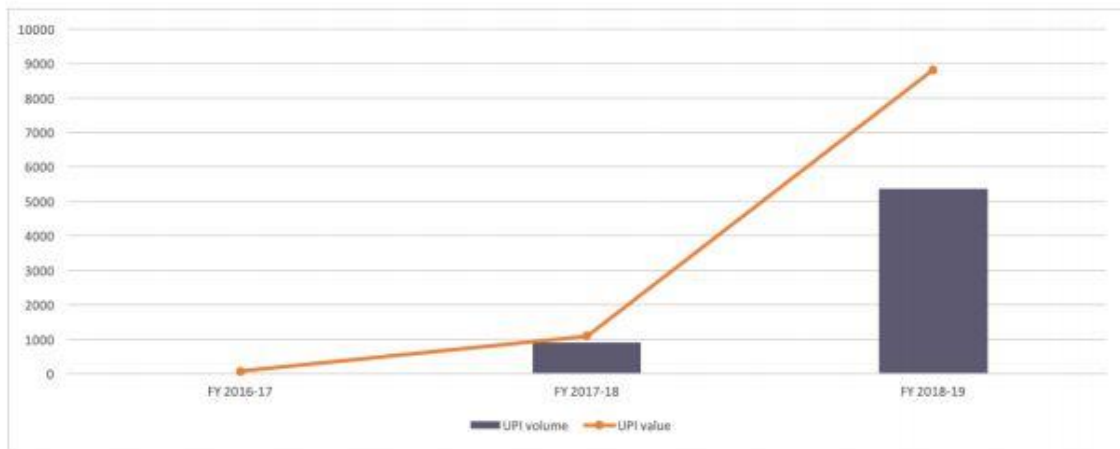
Source: Reserve Bank of India

Earlier digital payment had been slowly getting people’s attention. But in the last few years, especially after demonetization, we have witnessed a paradigm shift in the payment system which is largely influenced by growing e-commerce sector and e-wallet services and resultantly enhanced inclination towards digital payments using mobile phones. Moreover, the government of India's flagship programmes like Digital India and financial inclusion has given support to mobile wallet adoption in the rural and semi-urban areas by extending financial services to the unbanked population.

Unified Payments Interface (UPI) and E-wallets

UPI or Unified Payments Interface is an initiative taken by the National Payments Corporation of India (NPCI), which facilitates immediate real-time payment. It helps in instantly transferring funds from one bank account to another bank account through a mobile device with the help of a smartphone application. Hence, Unified Payments Interface is a mechanism through which multiple bank accounts can be linked to a single mobile application. Now, in India, UPI transactions are controlled by the RBI and IBA (Indian Bank Association). The UPI is a payment mechanism that facilitates the immediate transfer of money without giving any bank details like bank account number and IFSC code. Instead of it, the virtual payment address (VPA) is used to pay through the UPI. A traditional mobile wallet requires the fund to be advanced to the wallet first. Then only they can transact money using these wallets. This advanced amount does not fetch any interest either. But the introduction of UPI in the wallet system has transformed the entire realm of payment as UPI does not ask money in advance. Our money still remains in the bank account until a payment demand through E-wallet occurs. Almost all E-wallets are now working on the mechanism of UPI. Thus the introduction of UPI in the E-wallets demands a new variable that needs to be studied in this research. It helps to know whether the added advantage

of UPI has helped to increase the usage rate of E-wallets among the consumers. The system has grown rapidly since launch, nearing 800M transactions per month in Mar 2019, less than 3 years from launch.



BHIM UPI Platform Volume and Value; Sources RBI report 2019

Pandemic effect and growth of E-wallets

The COVID-19 pandemic has dramatically changed the way consumer shops. Especially after the Government had given instructions for large-scale stay-at-home, many consumers started deliberately to avoid direct contact with people and objects. As per US's National Institute of Allergy and Infectious Diseases, Centers for Disease Control and Prevention, Princeton University, and the University of California, the virus can survive for up to 24 hours on cardboard, up to four hours on copper and, while on plastic and stainless steel; it could last for at least six days (www.nejm.org). The cash management companies are sure that the cash is safe. They assure that every precautionary step is taken to ensure that cash is handled with minimum human contact. The cash handling persons regularly wear masks and sanitize their hands before and after having physical contact with currency notes. But, still, when cash is handed over from one person to another as a part of transactions, it is likely to transmit viruses on human beings. The government of India also urges its citizens to use more digital payment instead of physical transactions. The Reserve bank of India too urged the citizens to conduct more electronic transactions so that the chances of being people crowded in ATMs and banks to withdraw cash using where a customer needs to swipe his or her card at point-of-sale (POS) terminal pressing keypads touched by many other shop keepers. Mobile wallets have more prominence compared to other digital payments like debit or credit cards.

Digital transactions replaced the cash transactions all over the world. The situation is also same in India. In the light of poor educational facility and lack of technological knowledge, the speed of digitalization is slow in rural areas and aged people whereas among youth and the in the urban sector, technology gets wider acceptance. Mobile phones with internet are inevitable in their life. Many catalysts such as time saving, easiness, speed, convenience, pandemic situations etc. boost the acceptance of e wallets. To achieve the goal of a cashless economy, there is an urgent need for popularizing financial transactions through mobile. Even though many people especially

youth have started using mobile as a medium for financial transactions in the wake of demonetization, cash still continues to remain the predominant form of transaction. Indian policymakers, commercial enterprises, and academicians are tremendously interested in exploring the possibility of moving towards a cashless economy. In the near future, e wallets will emerge as the best medium for financial transactions.

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