E-WALLETS AND ALTERNATIVE PAYMENT METHODS: IMPLICATIONS IN INDIAN SCENARIO

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Abstract: *Indian banking sector has been growing successfully, innovating and trying to adopt and implement electronic payments to enhance the banking system. Though the Indian banking systems have always been dominated by paper-based transactions; e-payments are not far behind. Now a days alternative payment methods are shaping the future of E-commerce. Alternative payments refers to payment methods that are used as an alternative to credit card payments. Most alternative payment methods address a domestic economy or have been specifically developed for electronic commerce and the payment systems are generally supported and operated by local banks. Each alternative payment method has its own unique applications and settlement process, language and currency support and is subject to rules and regulations. Though there are various e-payments methods available in market but this paper will focus on E-Wallets and alternative payment methods. E-wallet is a type of electronic card which is used for tranactions made online through a computer or a smartphone. E-wallet needs to be linked with the individual bank account to make payments. In this research paper an initiative has been made to write about what are the alternative payment methods and their implications in indian scenario.*

Introduction: When you are browsing the internet and come across an item that you would like to gift your friend or a family member. You do not need to think whether you have enough cash in your wallet or not. Thanks to cashless digital payments on cards, internet banking and wallets now we have access to multiple electronic payment options when it comes to shopping for best items here in India oe access the world. The digital movement in India is in full flow and it's making our lives much easier. Alternative payment methods are defined as a way of paying for goods or services which are not made via cash or major card schemes (Visa, MasterCard, American Express). This includes prepaid cards, mobile payments, e-wallets, bank transfers, and 'buy now, pay later' instant financing. Alternative payment methods have increased in popularity as financial technology companies and tech giants have entered the payments ecosystem, providing consumers with faster and more convenient ways to make purchases and send money to friends and family. During this year, alternative payment methods are expected to account for nearly 55% of global e-commerce transactions.

Key-Words: E-wallets, Alternative Payments, Digital payments.

E-wallets: E-wallet is a type of electronic card which is used for transactions made online through a computer or a smartphone. Its utility is same as a credit card or debit card. An E-wallet needs to be linked with the individual's bank account to make payments. E –wallet is a type of pre paid account in wich a user can store his money for any future online transaction. E- wallet is always protected with a password.For setting up an E-wallet account, the user needs to install the software on his/her device, and enter the relevant information required. After shopping online, the E-wallet automatically fills in the user's information on the payment form. To activate the E-wallet, the user needs to enter his password. Once the online payment is made, the consumer is not required to fill the order form on any other website as the information gets stored in the database and is updated automatically.

Pic.1

There are several advantages and disadvantages of electronic wallets to examine if you're thinking about embracing this technology.

List of the Advantages of Electronic Wallets

1. It offers more convenience for many consumers.

When you're carrying an electronic wallet, you get to limit the number of cards you carry when you travel. You no longer have the requirement to carry a lot of cash with you either. All you need to do is tap your device to the payment receptacle, or have your mobile device scanned, to pay for the items you are purchasing. That means you're no longer carrying a pocketful of items wherever you go.

2. It provides access to other types of cards.

Electronic wallets typically store credit cards and debit cards. They can be used for a wide variety of cards, however, if the provider is compatible with the wallet you are using. That means you can store rewards cards, loyalty cards, and even coupons within your digital wallet, allowing you to enjoy more of a paperless lifestyle.

3. It offers more security.

If you have a wad of cash in your pocket that gets lost, you have zero options available to you to recover your funds. Losing your credit cards means you must contact each lender to cancel each card, then have a new one issues. With an electronic wallet, the information is stored through a third-party provider. It's locked behind your password or biometrics. Even if you lose your device, you'll still have access to your e-wallet once you get a new device.

4. It can be used at most retailers and online stores.

Electronic wallets have become widely accepted within the past few years. Most locations that accept cards as a payment option will allow you to pay with your electronic wallet. Although there are still some locations that are using older processing technologies, which does limit some product or service access, the number of retailers who provide payment access in this manner continues to increase each year.

5. It requires users to authorize every transaction.

Electronic wallets function like a debit card when initiating a transaction. They require you to input your PIN to authorize payment. For devices with biometrics, a payment would require your fingerprint to authorize it. That gives you another layer of security against unauthorized purchases or the financial risks associated with identity theft.

6. It may offer access to new rewards.

Many electronic wallets offer incentives to encourage consumers to use them instead of traditional payment methods. You may find discounts apply to certain purchases, such as fuel, food, or travel. Some businesses may work with your e-wallet provide to offer specific discounts as well. That means you have the potential to save money without changing your spending habits. You're just changing how you pay for those items.

7. It could help you with your budget.

Many electronic wallets can help you track your spending habits. Some may generate reports that show you specific categories of spending. You can also assign fixed budgets to specific cost categories to ensure that you're not spending more than you should on certain items. If you have a big-ticket item to purchase, however, you can disable this feature to make sure there's enough money available to make the payment.

List of the Disadvantages of Electronic Wallets

1. It is not fully available worldwide.

The number of retailers which accept payments from an electronic wallet depends on the actual wallet you choose. In December 2016, just 36% of retailers accepted Apple Pay. 34% of retailers accepted PayPal as a form of payment. Just 25% of retailers accepted MasterPass. About 2 million retailers in North America currently provide access to some form of mobile payment through an electronic wallet.

2. It still requires you to carry something.

Although an electronic wallet offers more convenience for many consumers, it doesn't fully eliminate the requirement of carrying something with you. If you don't have your mobile device on your person, then you have no way to complete a transaction. Because these wallets don't store your identification and other needed items, you're still forced to carry a traditional wallet or purse with you as well.

3. It requires your device to have a charge.

There's also the disadvantage that an electronic wallet requires you to have a charged device to have it operate. If you're carrying a traditional wallet, you won't need to worry about how much battery life is left on your phone.

4. It doesn't eliminate your security risks.

The security of your smartphone or mobile device is dependent on the settings you use. If you don't have your device protected with some type of password, then someone could steal your device and potentially access the funds in your bank account or credit cards. There are definite security advantages to consider which make an e-wallet a beneficial technology, though it requires responsible management of it to maximize them.

5. It may charge you more to process payments.

Many of the electronic wallets which offer a rewards program will charge you a fee to transfer those rewards. You may be required to process payments in a specific way to access these benefits as well. When using the PayPal debit program, for example, consumers receive 1% cash back when their transaction is a standard signature credit

transaction. Using a PIN through a digital wallet eliminates this benefit because you're changing how the point-of-sale treats the transaction. If you spend $900 per month, you'd be losing over $100 each year for the convenience of this payment method.

6. It could encourage reckless spending.

When money is electronically-based instead of a physical item, some people struggle with their spending habits. The money doesn't feel real, so proper budgeting doesn't take place. If you are already struggling to maintain a budget with a traditional wallet, then an electronic wallet might make that issue even worse.

These electronic wallet advantages and disadvantages show that this technology makes it faster and easier to complete a transaction. Although there are some accessibility issues to consider, for the most part, the use of a digital wallet is a convenient option for many people.

Features of E-wallet:

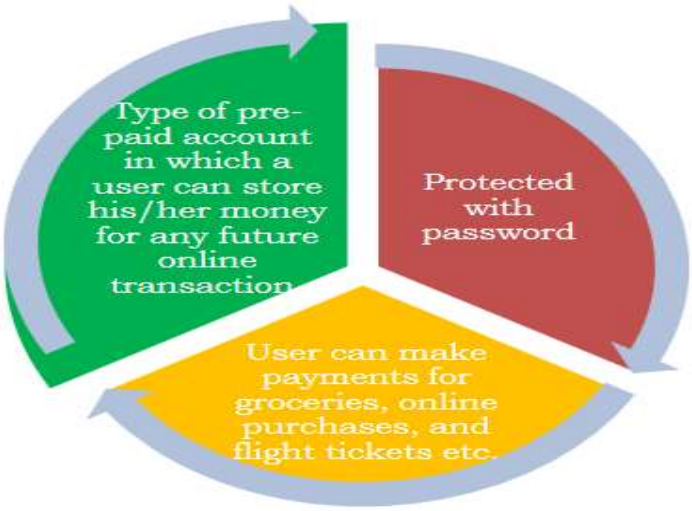


Fig.1

How does it work?

E-wallet has mainly two components, software and information.

Software component stores personal information and provides security and encryption of the data whereas information component is a database of details provided by the user which includes their name, shipping address, payment method, amount to be paid, credit or debit card details, etc.

How do I use e-Wallet?

For Consumer

- Download the app on your device.
- Sign-up by entering the relevant information. The user will receive a password.
- Load money using debit/credit card or Netbanking.
- After shopping online, the e-wallet automatically fills in the user's information on the payment form.
- Once the online payment is made, the user is not required to fill the order form on any other website as the information gets stored in the database and is updated automatically.

For Merchant

- Merchant downloads the app on his/her device.
- Sign-up by entering the relevant information. The user will receive a password.
- Self-declare yourself as a merchant.
- Start accepting payments.

What do I need to start using an e-wallet?

- Bank Account.
- Smart phone.
- 2G/3G/4G connection.
- A free wallet app .

Must Do Practices

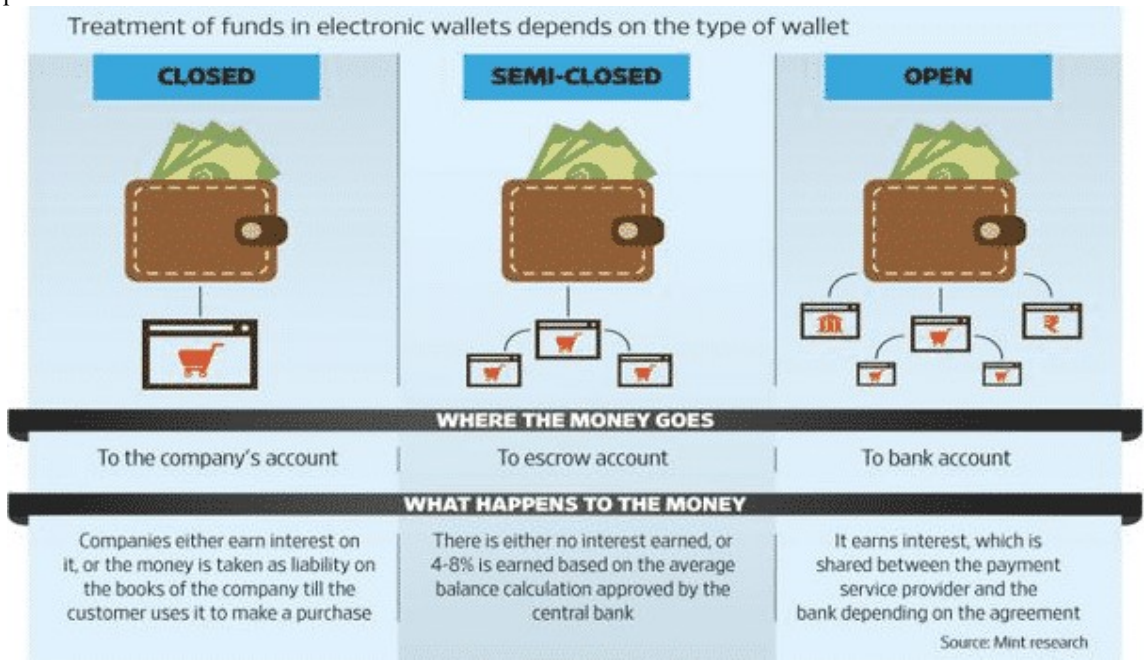
- Register your mobile number at bank for regular information by SMS for every transaction .
- Never share your PIN to anyone.
- Transact at only trusted merchants.

- While at ATM, ensure no one is looking over your shoulder.

TYPES OF E-WALLET

Mobile wallets are used for numerous transactions, be it shopping (online and offline), payment of goods and services (including financial services) or transactions through ATM. However, the scope of their usage depends on the wallet type.

Electronic Wallets doesn't (usually) pay interest to the users. But they do to the companies operating them. It all depends on the type of wallet. According to the Reserve Bank of India (RBI), there are three kinds of wallets prevalent in the Indian Market:



Pic.2

Closed Wallet: The money stored in these wallets can only be used to transact with the companies who have issues such wallets. Closed wallets are online accounts where money gets credited in case of a refund due to cancellation or return of a product or service. Some companies even earn interests on these deposits.

Semi-Closed Wallet: Semi-Closed Wallets are the payment wallets prevalent in the system. An RBI approval is required to start and operate a semi-closed wallet. These wallets can be used to transact online and offline which include buying goods and services, financial services, payment of fees, premiums, etc. through/to merchants which have a specific contract with the issuer to accept the payment instruments.

Other Semi-Closed eWallets

- SBI Buddy
- mRupee
- Phone Pe
- Citrus Wallet

Open Wallet: Open Wallets can only be issued by banks or in partnerships with banks. These wallets can be used to perform all the transactions of semi-closed wallets plus withdraw cash at ATMs or banks and transfer funds. M-Pesa by Vodafone and ICICI bank, Pay Zapp by HDFC Bank, etc. are few open wallets in India.

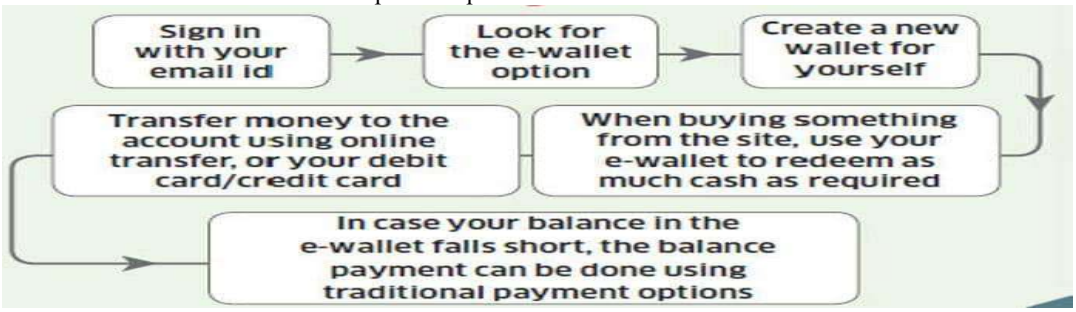
Difference between an eWallet and a Digital Wallet

The term Digital Wallet cannot be used interchangeably with the term eWallet/Prepaid Wallet.Digital Wallets save users' cards for easy future transactions. They are required to save and validate their card details in the digital wallet only once. Once registered, they just have to remember the digital wallet username and password and can use their saved cards from the digital wallets itself. That is, digital wallets save users card details for faster and easier transactions. E-wallets or Prepaid Wallets require money to be loaded in them prior to any transaction (online or offline). E-Wallets like Paytm, Mobikwik, etc. can make you go cardless only if you load money to their wallets.

Digital Wallet	E-Wallet
Cards details are saved in the wallets to transact cardless.	Money is preloaded in the wallets to transact cardless.
Money remains in user's bank account or credit card.	Money moves from user's account to either a merchant's current account or an escrow account
Example - Masterpass, Google Wallet, Apple's Passbook	Example - Paytm Wallet, Freecharge Wallet, Mobikwik.

How to use an eWallet?

eWallets have revolutionized the market habits. Transactions are becoming more digital with more people adopting to eWallets because of their ease and pace of operation.



Pic.3

Future of E-Wallets:

Leather Wallets are no more a fashion trend. It's the E-wallet which has taken the spotlight. While online and mobile banking has been around for a long time, E-Wallets have made it even easier and faster to transact online and offline. The mobile wallet transactions are estimated to leapfrog from Rs. 5,500 crore in 2015-16 to Rs. 30,000 crore in 2022 with a 9.5% month-on-month growth rate.

Alternative payment methods

Reserve Bank has been taking many initiatives for encouraging digitisation of payments in the country. Significant inroads have been made in making available a variety of digitalpayment options and with time their usage has increased. Reserve Bank also publishes its Vision document for Payment and Settlement Systems in India and recently released the Vision 2021.

Over the past few years Government and Reserve Bank have set up various committees for understanding the needs of the payments eco-system and suggesting suitable measures for enhancing the penetration and usage of digital payments. Some of the committees like Committee on medium term path for Financial Inclusion (Chairman: Shri Deepak Mohanty), Committee of Chief Ministers on Digital Payments (Chairman: Shri Chandra Babu Naidu), Committee to Review the Framework related to Digital Payments (Chairman: Shri R P Watal), Steering Committee on Fintech Related Issues (Chairman: Shri S C Garg)and the Inter Regulatory Working Group on Fintech and Digital Banking (Chairman: Shri Sudarshan Sen) have made important recommendations which has had significant impact on the Payment Systems.

With a view to encouragingdigitization of payments and enhancing financial inclusion through digitization, the Reserve Bank of India decided to constitute a High-Level Committee on Deepening of Digital Payments to review theexisting status of digitisation of payments and level of digital payments in financial inclusion, identify best practices that can be adopted, recommend measures to strengthen safety and security of digital payments, lay down a road map to increase customer confidence in digital financial services, and suggest a Medium-Term strategy for deepening of digital payments.

The recommendations of the committee seek to build on the existing rich payment ecosystem in India. However, the committee draws attention to and promotes the fundamental principle of supporting universal consumer access through standardization, to support interoperability,and safety. The committee encourages banks and non-banks to continue to compete,innovate and grow the ecosystem. It is also agnostic to specific technologies and business models. This will ensure a vibrant, rich acceptance ecosystem that addresses the diverse needs of the Indian consumer. To accomplish this, the committee has made recommendations to remove friction and:

•Expand the acceptance infrastructure across the country.

•Correct for the cost structures that currently inhibit acquirers and merchants

.•Reduce the "overall" cost to the consumer such as KYC process at multiple stages of the transaction and service charges for digital payments.

•Increase consumer confidence in digital transactions

.•Offer solutions for feature phone as well and 'no mobile phone' segments

summary
India has a rich diversity of digital payment options. Many of these are interoperable, and work through bank accounts, thus giving the users a lot more choice. However, the costs of digital payments are still an issue, and acceptance infrastructure is not widespread.The committee has considered the various payment systems, their status, and the issues related to each system. Some solutions have been identified, and recommendations made, based on those.At a broader level, the ecosystem needs to move from prioritizing issuance to acceptance. Users need to understand why a form of payment –cash, or digital is better for them, and make the right choice. The payments industry must strive to put together a product / service such that users will go with that over cash.Theregulator has to orchestrate these changes through collectingand providing aggregated data, so that local decision makers can make the best choice to make progress.The RBI must rationalize the definition of digital payments and include all information that can be captured with high fidelity. This may include unregulated sources (on best effort basis) as well, as periodic surveys commissioned to help understand user experience. This data must be enough for all stakeholders to analyse and monitor the supply of, and demand for, digital financial services, as well as to assess the impact of key programs and reforms

Challenges and opprtunitues in the move towards digital payments

Even though the number of digital transactions is a positive sign for the economy, we are far from creating a robust digital payment ecosystem. There are several structural challenges that are hindering the growth of digital payments in the country. While a growing number of e-commerce platforms are adopting digital payment methods, consumers still prefer the option of paying by cash. This phenomenon is in part related to the scare regarding cybersecurity in digital transactions. It is to be noted that during 2016-2018, India was the second most cyberattacks affected country. Lack of technological awareness and high risks associated with cybersecurity have kept consumers from adopting digital payment methods wholeheartedly.

While there is no dearth of digital payment modes ranging from debit/credit cards to online banking, there is a need to make transactions cheaper and enhance interoperability of the payment systems to make them more flexible for the stakeholders. This is not only an opportunity for non-banking companies to innovate but to also adopt the already available technologies like Aadhaar Enabled Payment System (AEPS), which does not involve transaction charges and is consumer-friendly. Since the growth of digital payments largely depends on the rising rural population getting connected to high-speed internet and smartphones, it is important for digital startups to focus on secure consumer-friendly methods in order to build trust and drive adoption.

Current Scenario

The costs associated with online payment through RTGS and NEFT systems have also created a hindrance. These methods are not only expensive but also time-consuming at a time when there are a number of technologies available that offer real-time fund transfer. Startups that focus on technologies providing quicker digital payment solutions to the consumers will have a better opportunity to get ahead in the move to bring the tier 2 and tier 3 cities under the digital umbrella. While numerous non-banking entities are focusing on driving digital payments for consumers through incentives, the adoption remains low among the merchants. For around 1 billion credit and debit cards, there is merely 37.22 lakh Point of Sale (POS) terminals in the country. In order to boost digital payments, there is a need for more POS terminals along with better and cheaper payment options for the smaller merchants. In the absence of POS terminals, QR Codes can be used to onboard merchants. Since QR Code technology is easy to use and does not involve any additional infrastructure cost apart from the smartphone.

Conclusion

According to a recent report, the Indian digital payment industry is expected to reach $1 trillion by 2023. The Indian startup ecosystem is expected to play a crucial role in enabling this industry as it is capable of leveraging the opportunities by addressing a multitude of challenges.

While India has a robust startup ecosystem capable of addressing these challenges, the Government can help accelerate the process through better policies and framework. The introduction of UPI by National Payments Corporation of India has already shown a remarkable result. RBI's Vision 2021 is a step in the right direction as it looks to create a robust digital payment ecosystem by moving towards a cash-lite economy. These measures are in sync with the Government's Digital India initiative and it will also enable its financial inclusion goals.

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