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The crucial crutch of digital payments

Thanks to the Centre's efforts, digital payments have zoomed and proved vital during the pandemic

SURBHI JAIN/ASHISH SHINDE

India has made rapid strides in the domain of digital payments through mobile and internet banking, as per the latest Financial Access Survey Report, 2020 released by IMF. The number of such transactions per 1,000 adults in India increased from 102.85 in 2014 to 6,183.62 in 2019 — almost 60 times.

The value of such transactions as a percentage of GDP has shot up 80 times from 1.8 per cent to 145 per cent during the same period.

The history of policy for financial inclusion in India is as old as 1956 with nationalisation of Insurance companies, followed by nationalisation of banks in 1969. A major push towards broadening of the financial inclusion strategy took shape under the Pradhan Mantri Jan Dhan Yojana (PMJDY) launched in August, 2014 — an ingenious attempt to blend the bouquet of various financial services with a bank account: 1.5 crore bank accounts opened on the first day of the programme. They have expanded to 41.25 crore in six years.

These bank accounts are accompanied with Rupay debit cards with an accident insurance cover and are eligible for various schemes like PMJJBY, PMSBY, Atal Pension Yojana (APY), Micro Units Development and Refinance Agency Bank (MUDRA). This scheme abandoned the erstwhile piecemeal approach and ushered in a comprehensive provision of financial services starting right from access to savings bank account, credit, insurance, pension and financial literacy.

The JAM trinity

The 2014-15 Economic Survey, first, conceptualised the JAM trinity — the Jan Dhan Account, Aadhar and Mobile number linkage. It is worthwhile to spend a moment and acknowledge the amount of groundwork that has been done right from having a unique identifier in terms of AADHAR, enabling every household to have a bank account and then subsequently linking this identifier to bank accounts.

This enabled expanded use of digital payments by the government for welfare and served as the biggest launchpad of the ambitious reform of Direct Benefit Transfer (DBT) covering around 450 odd schemes. Not only has DBT helped in effective targeting and plugging the leakages, it has also significantly reduced the administrative costs and time associated with transfer of benefit.

Vital lifeline GETTY IMAGES

The number of people getting benefits through DBT has increased by almost 15 times between 2013 and 2020. The total savings under DBT are estimated at a whopping ₹1.78 lakh crore — enough to finance the first Covid-19 relief package of March, 2020. Aadhaar-enabled Payments System processed more than 150 million transactions worth ₹18,000 crore in October, 2020 — starting from 4 million transactions worth ₹11 crore in January 2016.

The development of Unified Payment Interface (UPI) based payments as well as app-based payments propelled the shift from cash to digital payments. The expansion of mobile and internet usage in India during the period, further, catalysed adoption of digital payments.

India took a major step towards achieving a cashless economy with UPI in April 2016 — it allowed the usage of a smartphone as a virtual debit and a credit card. The ease of usage and adoption of increased security features enabled the UPI system to clock its first 100 crore monthly transactions by November 2019 and double within a year to record 207 crore transactions in October 2020.

Crucial infrastructure

In hindsight, the effort put in towards building this infrastructure has helped create a crucial social institution that enabled putting in place a swift mechanism to alleviate the distress caused due to the Covid-induced lockdown.

Cash transfers to women, senior citizens, widows, Divyang, construction workers, farmers (via PM-Kisan) were a major instrument of the government's relief package to provide succour to the weaker and vulnerable sections. Public Finance Management System (PFMS) recorded the highest number of transactions in a single day on March 30, 2020 at 2.19 crore transactions driven by DBT payments.

An aggregate of ₹36,659 crore was transferred through DBT in the bank accounts of beneficiaries during the lockdown and is substantiated by the increase in average monthly balance in the PMJDY accounts from ₹3.061 in March, 2020 to ₹3432.49 in May, 2020. The subsequent decline in the average balance affirms that these transfers certainly helped people to sustain their consumption of essentials. Further, the penetration achieved has helped to provide a substitute to in-person cash transactions in these times of social distancing.

Covid is destined to transform many systems and increase the use of digital technology. The strategy to move towards digital payments has, therefore, held us on good stead and needs to be sustained. The system may still need improvements in terms of security, payment failures, data privacy but the significance of the journey traversed needs to be appreciated. All efforts should be undertaken to further strengthen this digital institution – built to benefit all.

The writers are IES officers working in the Ministry of Finance. Views are personal