Digitization Drive

What is the issue?

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- In the market place, the mode of settlement of daily transactions is returning to the pre-demonetization preferred pattern of cash settlement.
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- In next few months, with implementation of GST, expected from July 2017, drive towards digitalization would be strengthened.
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- However, some challenges are becoming apparent, which need to be understood and addressed for seamless transition to digital India.
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What are the issues?

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- The problems for digitalization are similar to those for expanding financial inclusion, i.e., **the last mile access.**
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- The **problems are mostly supply side issues**. The costs incurred by the banks have received much attention while the problems of the merchants have received scant attention.
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- Merchants in urban areas indicate that the major obstacle to the growth of digital payments is the **increasing costs for merchants.**
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- Merchants in urban areas complained that the recurring **monthly cost of maintaining the technology infrastructure** is growing rapidly and the increase in business volumes is not sufficient to support it.
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- A major component of the recurring costs is telephone bills which have more than trebled.
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- A cause for these rising phone bills is because merchants are often charged

an STD rate to the city where the banks' servers are located.
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- In the case of rural areas, the actual card usage has been low due to **the lack of digital payments infrastructure,** fears related to cyber security and lack of knowledge about electronic payments.
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- PoS machine availability in the villages continues to be low, let alone most business establishments in the villages possessing them.
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- The government departments and agencies in many small towns and rural areas are **not equipped to handle card payments** or receive NEFT, RTGS or IMPS transactions.
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- The **penetration of smart phones is also limited.**
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What could be done?

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- To begin with, on a pilot basis, the government can identify a few cities which have the potential for complete digitalization.
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- Initially the experiment can be conducted in a phased manner in different but small and homogeneous areas within the city.
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- Illustratively, a pilot experiment can be initiated in a campus of an educational institution and once fully digitalized can then be expanded to areas outside but around the campus.
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- Having gained the experience on how digitalization would work, the government could then extend digitalization to other parts in the select city, and later expand to other cities.
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Source: Business Line

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