

A Theoretical Analysis of Digital Payments Impact on MSME

Prof. Anupkumar Dhore^{1*}

Assistant Professor, Dr. Ambedkar Institute of Management Studies &
Research, Deekshabhoomi, Nagpur
Email: anup9702@gmail.com
Mobile No: 8087260673, 9970052768

Mr. Ajay Ghangare²

Senior Finance Officer,
Vishvaraj environment. Pvt ltd
Email: ajayghangare@gmail.com
Mobile No: 8879569724

Mr. Sarang Mokashi³

Dr. Ambedkar Institute of Management Studies & Research,
Deekshabhoomi, Nagpur
Email: sbmokashi@gmail.com
Mobile No: 9011988336

*Corresponding Author

Prof. Anupkumar Dhore^{1*}

ABSTRACT

Digital Payments is spreading fast in India, making the country more developed technologically. Micro small medium enterprises (MSMEs) play an important role in a country's economy, so managers must try to run their business according to the current concept of digital payments. People have different views and experiences with Digital Payments. Digital payments campaign helped in reduction of costs, boost in inbound traffic and better ranking in search engines. Digital describes electronic technology, which generates stores and process data. Payments which are then issued digitally using technologies like virtual cards further restrict payments to only transactions approved in advance. Digitalization means that it is necessary that the MSME is aware of digitalization as being important and having good effects. This paper focuses on exploring how digital media is used for payments, and for the expansion of business, particularly with MSME

Keywords: Digital payments, MSME, ecommerce, Unified Payments Interface (UPI)

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Payments which are then issued digitally using technologies like virtual cards further restrict payments to only transactions approved in advance. Some digital payment methods, like virtual cards, are also safer because some digital payment methods use disposable numbers which do not expose confidential credit card or banking information. Digital payments can happen through direct wire transfers, financial transactions made using a cell phone or a computer, or through payment cards like debit, credit, or virtual cards.

It helps countries with no established digital payments infrastructure in place provide digital payments concepts, such as e-wallets, prepaid cards, mobile money, and direct bank transfers. An electronic payment, or electronic commerce, payment system digitally facilitates a financial transaction between two parties. Such payment, also sometimes called electronic payments (e-payments), is a transfer of value from one payment account to another, with both payer and recipient using a digital device, such as a cell phone, computer, or credit, debit, or pre-paid card.

OBJECTIVES OF THE STUDY

- To find out the effect of Digital payments on micro small medium enterprises
- To analyse the growth of digital payments during the recent years
- To examine the various modes of digital payments that increase business

REVIEW OF LITERATURE

Sandhya Keelery¹ in her study discussed about the number of ATMs under the National Financial Switch (NFS) network, which amounted to over 255 thousand as of January 2022. The NFS is India's largest network of ATMs with nearly 1,200 affiliated members and over 300 million transactions. The author explained that digital payments are omnipresent in the everyday life of Indians and have dramatically changed consumer behavior in the country like paying for a hotel room with a credit card, getting a new TV on a debit card, or paying for vegetables on the street via a mobile wallet. Many innovative FinTech companies as well as governmental initiatives have shaped the market in recent years.

MukhamadNajib& Farah Fahma,² in their research analyzed the intention of digital payment adoption by SMEs in Indonesia, and the factors influencing the adoption of digital payment technology as an innovation in the payment system. They made the study more valuable by adding an important variable based on the research context and the context of country and industry setting.

¹Sandhya Keelery, "Digital Payments in India – Statistics & Facts", Statista, Apr 26, 2022

²MukhamadNajib& Farah Fahma,² "Investigating the Adoption of Digital Payment System through an Extended Technology Acceptance Model: An Insight from the Indonesian Small and Medium Enterprises", International Journal on Advanced Science Engineering and Information Technology, Vol.10 (4): 1702, August 2020.

SpulbarCristi et.al.³ found that there are various favourable factors of digital banking with significant coefficients i.e. Level of Easiness in accepting payments, Level of Easiness in making payments, Level of Easiness in Managing the expenditure of Business, Level of Time Saving, and Level of Check on Misappropriation or Theft of Cash are contributing towards the growth of MSMEs in India.

Bagale, G.S.⁴ et al. worked on the increased rate of SMEs, which was entirely due to the advent of Digital Technology (DT). In this way, both product and the process become more automated in digitalization, resulting in increased quality and demand. Considering the high scope for higher development, India's SME sector still has much space for new digital technologies to be integrated. This paper addressed the main scenario of SMEs in India and their benefit in GDP.

Digital payments systems at the merchant level can broadly be classified into point-of-sale payments (including use of credit cards and debit cards, radio-frequency identification (RFID)-enabled devices, and biometric-enabled technologies) or contactless payments (such as mobile apps, online browsers, e-wallets, and machine-readable technologies) for sending or receiving specific values. Merchants in this context refers to the locally owned kirana stores, shopping centers, retail outlets, and the ecommerce portals and service providers providing facilities for the transaction or settlement of payments using digital payments.

This means that in order to conduct a digital payment, the payer and the payee must both have a bank account, a means of online banking, a device for the payer to make a payment, and a means of communication, meaning they either need to be registered with the payment provider or a middleman, like the bank or the service provider. The focus on end-to-end security for digital payments makes it safe by

³SpulbarCristi et.al., "The Impact of Digital Banking on the Growth of Micro, Small and Medium Enterprises (MSME) in India: A Case Study", *Journal of Business Theory and Practice*, 2021 Vol 22, Issue 1, pp. 18–28

⁴Bagale, G.S., "Small and medium-sized enterprises' contribution in Digital Technology", *Annals of Operations Research*, August 2021

different methods of encryption, and also makes it possible to pay without knowing bank details of the counterparty. Electronic payments also cut down on time spent receiving payments, which could be rather lengthy with less-advanced payment methods, particularly when navigating through various banking institutions and regulations.

Adopting electronic payments such as ACH, virtual cards, wire transfers, and real-time payments allows businesses to increase efficiency, security, and visibility, as well as lower costs and time spent on manual processes. While 97% of businesses still pay some portion of their suppliers with checks, smart organizations are breaking their ties to legacy payment methods and moving toward more expeditious, secure, digital methods. In Latin America, contactless payments using QR codes and are growing in popularity, while digital banking is taking off. Generation Z, especially, has embraced electronic wallet services, contactless payments, peer-to-peer (P2P) payments apps, and the digital usage of credit, including Buy Now, Pay Later (BNPL).

Gen Z shows a high adoption rate for digital payments, including Apple Pay, Google Pay, PayPal, and other P2P services; Gen Zers use Apple Pay to make digital payments at a rate substantially higher than that of other generations, and they are rapidly closing the gap with older consumers in the usage of other digital payment services. Across age groups, the adoption of P2P and in-store digital payments trails the adoption of online and app payments. The 82% of Americans who used digital payments--defined as including online purchases that are based on browsers or apps, checkouts at stores using mobile phones and/or QR codes, and payments made by personal device--in 2021 is up from 78% in last year and 72% in five years.

In fact, online payments are the one category of digital payments that has experienced growth, rising by 12 points in 2021, perhaps due to behavior changes related to the pandemic, including increased time spent at home (and orders for more products from distance). The comparatively slower adoption of online and in-app payments could also stem from the effects of COVID-19 on customer behaviour; for instance, increased online purchases and less face-to-face interactions involving dividing bills (and therefore less P2P opportunities). While the COVID-19 pandemic has reduced penetration of certain forms of

digital spending, overall trends remain in favor of greater usage of digital options. The adoption of contactless payment methods, digital payments without touch, which utilize radio-frequency identification or near-field communications to conduct transactions, has increased during the COVID-19 pandemic because of health restrictions and security measures.

Digital cheque payments work the same way as their physical counterparts, meaning recipients can either deposit them with banks or use a third-party tool to cash them. These payments are just a quick hop away from physical paper checks, and they leave a similar digital paper trail.

CSIs Digital Bill Pay System allows your retail and business customers to schedule and automate payment of bills online. Our innovative bill pay solutions also extend your service offerings, giving your financial institution the ability to increase revenue opportunities from fees, lower your Cost-to-Serve and stay competitive in an increasingly digital world. Most importantly, RBI recognized the need for the digital ecosystem to promote cash-out options, by providing shop-of-value features, by providing digital products for payment of utility bills, and by providing digital payments options to retailers. One of the highest-profile schemes supporting digital financial inclusion is Un Better Than Cash Alliance.

Many researchers have developed an interest in exploring mobile payment services due to its notable impact and adoption among consumers as well as giant telecom companies, financial institutions, and small-and-medium enterprises (SMEs). The prevalence and enhancement of digital infrastructures (via the mobile Internet and online payments) has created the objective conditions for inclusive finance to overcome service dilemmas.

As mobile payments are enhanced by COVID-19, securing online and digital transactions is essential. Since the majority of micro-enterprises payments are not account-based and are credit-based, many people choose to do their financial transactions through Internet banking. Furthermore, it has been pointed out that digital currencies, as a form of digital financial development, could efficiently increase financial products reach, as well as helping financial services to lower costs and

increase efficiencies. The results from calculating F-tests for digital payments showed lower values than those of cash payments, but it suggests the digital services developed via FinTech applications are developed rapidly, are convenient, safe, and efficient when conducting transactions, and are prioritized by customers for easy purchase of products.

Identification of Financial Literacy Levels (Bookkeeping) of Wetland Area MSMEs Players (Study on Pemakuan Village, Banjar Regency, MSMEs Players). The identification of financial literacy levels--case studies of small business owners or managers in Gowa Regency. This article takes digital finance as an entry point to research and integrates it in a framework for analysing factors that affect SMEs innovation, thereby enriching research about SME innovation on the macro-level and sheds light on how growth in financial markets may contribute to the promotion of business innovation.

According to World Pays 2021 Global Payments Report by FIS, the worlds digital trade developments have accelerated in COVID-19. Together, these changes will create a \$1 trillion market for digital payments in 2025, compared with an expected \$500 billion market in 2020 (COVID-19 could impact some businesses negatively, but protections could be provided by several other industries, so market sizes are likely to persist).

In April 2020, The number of digital payments through UPI declined from 1,325.7 million to 999.6 million in February 2020. However, the volume bounced back to 1,336.9 million in June 2020. The increasing Currency in Circulation shows the steady growth of ATMs in the country, which have grown from 2.34 lakh in March 2020 to 2.51 lakh by January 2022, while micro ATMs have increased from 2.71 lakh in March 2020 to 6.4 lakh in January 2022.

Table - Number of ATMs under the National Financial Switch (NFS) in India

Year	No.of ATMs (in Lakhs)
August 2018	2.38
February 2019	2.41

August 2019	2.43
March 2020	2.49
September 2020	2.50
March 2021	2.52
September 2021	2.53
January 2022	2.55

Source: Statista, April 2022

The table shows the increase of ATMs in India from August 2018 to January 2022, which shot up from 2.38 lakhs to 2.55 lakhs.

Despite these positive steps and ambitious figures, the country lacks the infrastructure to completely make the transition to a cashless society for now. Among the problems that users faced were failures on payment platforms, poor internet connections, and reimbursement issues. Despite the efforts to include more and more inhabitants in financial service schemes like the PMJDY, the numbers of inoperative accounts indicate that there is still a way to go, especially in rural areas, where many people depend on the unorganized sector.

The Indian government has been taking more steps focused on making the country a cashless economy. The purpose is to boost UPI and Aadhaar-based transactions in the organized retail sector. Furthermore, RBI has also played an important role in making the economy cashless. Some recent initiatives of the bank to increase confidence of customers in digital payments include EMV chip and PIN-based cards, facilitation of switch off/on cards and tokenization. Following policies by the government and increased digitization of businesses, it is projected that digital payments in India would grow 3 times to Rs. 7,092 trillion by 2025.

Conclusion

The study reveals that digital payments boost India's e-commerce sector, particularly MSME. It is expressed that 70% of digital payments has a split up of digital wallets increased by 40%, credit cards and debit cards by 15% each. The study also estimated that online transactions will be expanded to 48% by 2024. India's journey with

digital payments began in early 2000, and it has been just short of excellent! Digital payment modes have grown from 3% of all cash and non-cash payments in 2005 to a projected 58% by 2025. This is a remarkable and significant growth.