



Confederation of Indian Industry

CII MSME Policy Note

Assisting Indian MSMEs Transition to Cashless Transactions

December 2016

White Paper

Overview

The recent move by the government of India to demonetise Rs. 500 and Rs. 1000 currency notes is a commendable step to reduce the proliferation of black money in the economy and address the rampant corruption prevailing in our economic systems. A strong advocate of ethical business practises, CII welcomes this big bang reform for its conspicuous impact on weeding out the illegal and unaccounted black money from the economy, reducing the overt dependence on cash and boosting the economic growth through transparency and formalization. Indian industry is expected to benefit from this move by the elimination of the unfair competition posed by the illegal parallel economy. According to official estimates, India's cash to GDP ratio, at around 12%, is too high while the cost of running a cash-based economy is almost 0.25% of the GDP. A transition to cashless transactions will act as a strong deterrent to the proliferation of the black economy and will bring ubiquitous transparency within various segments of the Indian economy. It will also strangulate money laundering and enhance tax compliances.

The vital role played by SMEs in the Indian economy has long been recognized by various stakeholders. Almost 95% of all businesses in India are SMEs. These enterprises make a significant contribution to the national GDP, employment, exports and industrial production. MSME growth is crucial for the growth of the Indian economy.

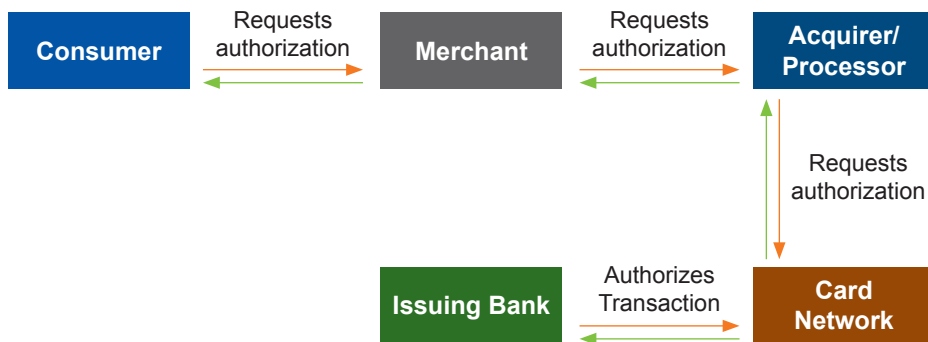
The move has received a widespread appreciation from all quarters of the Indian industry, including the Indian MSME sector. But some SMEs are facing operational issues due to the demonetization such as low cash reserves for meeting day-to-day operation related expenses, difficulty in making payments to daily wage employees, disruptions in supply chains and production cycles, etc. Moreover, lack of awareness about the various benefits of cashless transactions and limited understanding about the various breakthroughs in the area of digital payments are thwarting these enterprises from transitioning to cashless transactions in order to run their business operations smoothly. Rapid advancements in technology have led to the emergence of several digital payment methods which nullify the dependence on cash by businesses. These include mobile banking, internet banking, virtual e-payment gateways, Unstructured Supplementary Service Data (USSD) based mobile banking, Unified Payment Interface (UPI), electronic wallets, Aadhaar Enabled Payment System (AEPS), etc. Enhanced awareness on these modes of digital payments can assist MSMEs minimize the disruption due to the demonetization and swiftly transition to a more efficient cashless method of running their businesses.

The Evolving Payments Landscape

The global payments landscape is evolving at a dizzying pace. The on-going digital and technological revolution, led by the increasing penetration of smartphones and internet on mobile and supported by the emergence of various non-banking digital payment service providers has provided a significant boost to digital payments across the world. With over 426 billion non-cash transactions globally, non-cash transactions are likely to grow at 10.1%. Payment Systems, in order to be successful, must fulfil certain critical criteria such as safety, security, efficiency, accessibility, etc. In view of these, Payment Systems have evolved through time from barter of goods and services, to coins and paper notes, to digital modes of payments. Digital and electronic means of payments are rapidly gaining popularity across the world and outpacing paper based systems as the preferred mode of payments. The Payments Ecosystem has evolved into a complex global machine including card networks, gateways, acquirers, processors, etc.

For instance, there are several interrelated steps to process a card payment. The first stage in the process is authorization by the customer. When the customer swipes his or her card at a payment terminal, the transaction data goes through the terminal to an acquiring bank, which then sends an authorization request to the customer's issuing bank. Barring any issues (such as lack of funds, a lost or stolen card report, etc.), the issuing bank sends an authorization code through the card network to the acquirer, which sends it back to the merchant to complete the transaction. And all of this happens in a matter of seconds. But the merchant has not actually received any funds at this point. All transactions for the day must be batched and cleared before that happens. The batch, or the aggregation of all the day's transactions, goes to the acquirer, which then requests payment on the merchant's behalf from the necessary card networks. These networks then send requests for funds to the appropriate issuing bank. Finally, the issuing bank sends the funds to the acquirer through the card network, minus a small interchange fee. The card network also takes a minuscule assessment fee and transfers the funds to the acquirer, which finishes the clearing process.

The Card Transaction Authorization Cycle



Global Payments Trends

The global payments market is being reshaped by both traditional and new types of payment providers. According to statistics, total payments conducted via digital payment instruments are expected to cross USD 500 billion by 2020, which is ten times the current level. Mobile wallets have flooded the market. Apple Pay was the only major mobile wallet in 2014, but now Android Pay, Samsung Pay, Chase Pay, and Walmart Pay have all debuted and are thriving in their own ways. Globally, the digital payments space is being driven by 4 mega trends:

1. **The Ongoing Digital / Technological Revolution:** The use of mobile internet is growing rapidly across the globe. The number on users accessing internet services on mobile is projected to grow from 1.9 billion in 2015 to reach 3 billion 2020 covering 65% of the world's adult population. The evolution of smartphones is enabling new payment capabilities. This has revolutionized digital payments supported by innovations in payment access and security technologies such as tokenisation of card details for reducing frauds, biometric-enabled multi-factor authentication, hardware-based secure element approaches, etc.
2. **Entry of non-traditional players:** New players across categories are entering the payments landscape. These include device manufacturers such as Apple and Samsung;

tech firms such as Google, eBay and Alibaba; telecom companies such as Vodafone and Airtel; and start-ups. Payment FinTechs are also multiplying rapidly spanning services such as wallets, integrates Point of Sale systems, P2P payments, cross-border transfers, etc.

- 3. Enabling Regulations:** Aware of their various advantages over the traditional paper based payments systems, governments across the world are promoting digital payments through enabling regulations.

UAE has implemented a program for the mandatory use of payroll cards for wages and established an electronic payment gateway for government payments while the Central Bank of China and the China Banking Regulatory Authority are encouraging digital payments by strengthening regulations and launching anti-money laundering initiatives and payment account category management practises.

Global Digital Payments Instruments

Diverse markets across the world have diverse requirements which has resulted in a wide variation in the success of various digital payment options globally. These diverse digital payments have a range of features and services. PayPal is servicing a fast-growing number of customers across the globe for payments while new electronic currencies such as Bitcoin are offering payment options independent of government control. Even large technology, e-commerce and social media companies such as Google, Amazon and Facebook are also seeking entry into the payments market. The fast take-up of new technology is enabling payment services to be provided to the unbanked, as demonstrated by the success of M-Pesa in Kenya, and its recent entry into the European markets. Alternative payments such as e-wallets, mobile and digital currencies, are playing an increasingly prominent role in the payments space.

Some of the most successful digital payment services across the world include the following:

Alipay: Alipay.com is a third-party online payment platform with no transaction fees launched in China in 2004 by the Alibaba Group. According to research estimates, Alipay had the biggest market share in China with 400 million users and control of just under half of China's online payment market in October 2016. Alipay operates with more than 65 financial institutions including Visa and Mastercard and internationally, more than 300 worldwide merchants use Alipay to sell directly to consumers in China. It currently supports transactions in 14 major foreign currencies.

M Pesa: M-Pesa is a mobile-based money transfer, financing and microfinancing service, launched in 2007 by Vodafone in Kenya and Tanzania. It has since expanded to Afghanistan, South Africa and India and has also entered the European markets. M-Pesa allows users to deposit, withdraw, transfer money and pay for goods and services easily with a mobile device. The service has been lauded for giving millions of people access to the formal financial system and for reducing crime in an otherwise largely cash-based society.

BelCash: BelCash is a mobile wallet software solution developed in Ethiopia for the domestic market, which enables consumers to transfer money between mobile phones and agents. Currently BelCash has partnership agreements with major financial institutions in Ethiopia.

Starbucks in-app Payment Wallet: Centered on loyalty, Starbucks in-app Payment Wallet is one of the most successful in-app payment wallet. Customers can earn rewards for coffee consumption and avail of promotional offers on making mobile payments.

Apple Pay: Launched by device manufacturer behemoth Apple, Apple Pay has made POS payments convenient and quick for consumers. As a multipurpose wallet, it offers a convenient digital interface for existing cards and potential links for coupon use. Apple Pay is based on Near Field Communication (NFC) technology and depends on customers having NFC-enabled smartphones.

iDeal: iDeal is a platform being offered by Dutch Banks to facilitate inter-bank transfers for payments in Netherlands. iDeal has enabled bank account based payments for e-commerce and m-commerce transactions. This collaboration between banks has empowered a country-specific solution for online payments and has blocked the entry of other players such as PayPal.

The Indian Payments Scenario

The Indian economy is excessively dependent on cash transactions. The currency in circulation in India is as high as 18% of the GDP as compared to 3.5 - 8.0% in nations such as the USA and the UK. India not just lags developed markets of the West it is even behind countries such as Brazil and China. In 2015, cash contributed to just 20 - 25% of overall consumer payments in developed nations like US, UK, France and Germany as compared to 78% in India.

In such a scenario, the recently announcement demonetization programme has triggered the need to hold legitimate bank accounts and utilize payment mechanisms other than cash. This is further supported by the digital revolution being witnessed by India. With around 1 billion mobile subscriptions, India is currently the second largest country for mobile subscribers. India's internet users are expected to reach around 650 million by 2020. India has also become the second largest smartphone market in the world with 240 million smartphone users. Thus, it does make economic sense for businesses to have a mobile first/mobile ready platform. Payment system providers are now offering ready-to-integrate development kits for mobile app companies to deliver a native payment experience.

The e-commerce market in India is expected to touch \$38 billion mark in 2016, a 67% increase over the \$23 billion revenues in 2015. India is witnessing a year on year growth of close to 40% in digital transactions. For businesses, both big and small, the automation of payment collection has become the first step towards scale. The recent move by the government to demonetize high value currency notes has provided further impetus to the digital payments industry in India. Transactions through e-wallets have risen by 271% and those through UPI have seen a surge by 119 % post demonetisation. Digital payment options are rapidly coming up across many essential services, which will give a fillip for setting up a cashless economy. Wallets are being installed at highways, gas stations, essential service points, and at a large number of retail stations.

Payments Systems in India

There are basically two types of payment systems in India:






1. Paper-based, like currency, cheques and drafts; and
2. Electronic payments, like Electronic Clearing Systems (ECS), National Electronic Funds Transfer (NEFT), and Real Time Gross Settlement (RTGS); and payment systems extensively used by people at large, such as Pre Paid Instruments (PPI), mobile banking, and ATM/POS.

Electronic Payments

National Electronic Clearing System (NECS) leverages the Core Banking Solutions (CBS) of member banks, facilitating all CBS bank branches to participate in the system, irrespective of their location across the country. The popular Electronic Fund Transfer (EFT) system, introduced in the late 1990s to enable account-to-account transfers, was replaced by one-to-one NEFT system in November 2005.

The establishment of the National Payments Corporation of India (NPCI) to act as an umbrella organisation, in early 2009, is considered to be a landmark for retail payments in India. NPCI was set up by Indian banks under the aegis of the Indian Banks' Association and the guidance of the RBI to provide centralised infrastructure for various retail payment systems in the country, including card payments. It has taken over National Financial Switch (NFS) from the Institute for Development and Research in Banking Technology (IDRBT). The NPCI launched the Immediate Payment Service (IMPS) in November 2010, which allowed instant 24/7 inter-bank fund transfer through the Internet, mobile, and ATM at a very low cost using the NFS switch. Real Time Gross Settlement (RTGS), introduced in 2004, is a funds transfer systems where transfer of money takes place from one bank to another on a real time and on gross basis. Other innovative payment systems like closed wallets, Pre-paid Instruments (PPI), eCom, etc. are also emerging propelled by the environment and changes in the regulations.

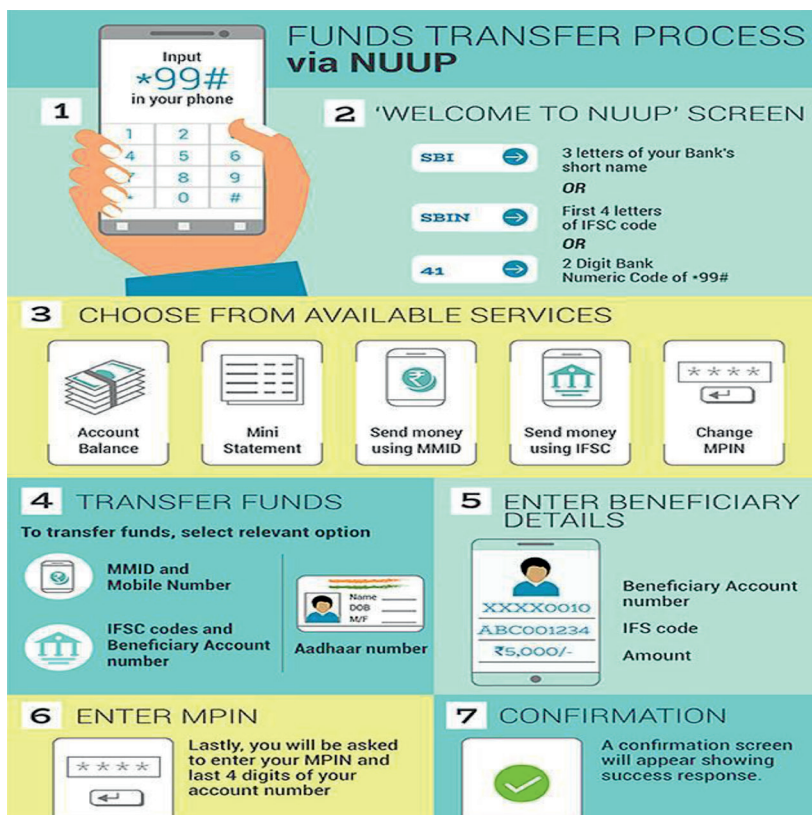
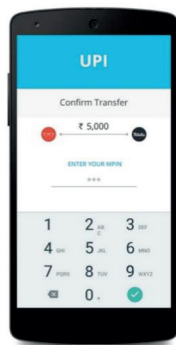
Evolution of Digital Payment Services in India

	2012 and before	2013	2014	2015 / 2016
 Bank led		Movida by HDFC Bank	Pockets by ICICI Bank	Payzapp by HDFC Pockets by ICICI SBIBuddy by SBI Lime by Axis Axis PingPay IDFC ZiggIt
 Telco led	Airtel Money Idea MyCash by Axis Bank	Airtel ICICI Bank Mobile Money TATA mRUPEE	Vodafone m-Pesa	
 Prepaid / Wallet	Money on Mobile PayMate ITZ cash Oxigen	Oxicash	Paytm MobiKwik American Express® ezeClick	Simpel YPayCash Payumoney Quikwallet Mowa Chillr Freecharge Wallet
 Ecomm / tech	Freecharge Prizm Payment Services Ezetap	Mobiswipe	mSwipe	Ola Money Momoe Snapdeal BookMyShow iKaaz
 Payment banks				Airtel FINO Paytm Aditya Birla Idea Reliance Indian Post Vodafone M-Pesa

Various Modes of Digital Payments in India

Bank Cards: The wide network of banks in India issue various categories of cards for their account holders. These include credit cards, debit cards and pre-paid cards. Multiple cards can be issued for one account. These cards can be used by the card holders at any Point of Sale machine, at ATMs, for transacting via netbanking, etc. Pre-paid cards are pre-loaded cards which are equivalent to cash in their usage. These can be recharged several times and can be of particular use for SMEs and other businesses to pay daily wages to contract workers.

Unified Payment Interface (UPI): Launched by NPCI, UPI is one of the newest digital payment options with linkages with over 32 banks. This platform proposes to integrate IMPS, Automated Clearing House and RuPay into one common platform allowing seamless interoperability. The platform requires the user to have a bank account with one of the UPI member banks, a smartphone to download the UPI-enabled app and a mobile number registered with the bank. Users can create a Virtual Payment Address (VPA) on the app and send or receive money using the platform free of charge. UPI transactions run on the immediate payment service (IMPS) platform.



Unstructured Supplementary Service Data (USSD): USSD based mobile banking can be accessed without internet connectivity on both feature phones as well as smartphones. The key difference between USSD and UPI is that the amount of fund that can be transferred using USSD is capped at Rs 5,000 per transaction. While there are 350 million smartphone users, about two-thirds of the country's citizens still use feature phones which highlights the importance of a medium like USSD. Using USSD, a customer can access financial services such as a bank account balance and funds transfer by dialling *99# from his/her mobile number registered with the bank. The service, offered across 51 banks, can be accessed round the clock. The National Unified USSD Platform or NUUP is a mobile banking service based on USSD. The following infographic illustrates the funds transfer process via NUUP:

This service is available in 12 languages. Short codes for accessing regional languages for NUUP are as follows:

Language	Code	Language	Code	Language	Code
English	*99#	Bengali	*99*29#	Tamil	*99*23#
Hindi	*99*22#	Gujarati	*99*27#	Assamese	*99*31#
Marathi	*99*28#	Punjabi	*99*30#	Oriya	*99*32#
Telugu	*99*24#	Malayalam	*99*25#	Kannada	*99*26#

Aadhaar Enabled Payment System (AEPS): The AEPS enables bank customers to access their Aadhaar-linked bank accounts through the Aadhaar authentication. This system will allow inter-operability among different systems adopted by different banks in a safe and secured manner and enable customers to know their account balance, deposit cash, withdraw money and transfer funds to other Aadhaar-linked bank accounts. AEPS is aimed at encouraging customers to use Aadhaar for making payments to merchants or shopkeepers with their unique ID and finger print. It is aimed at empowering the marginalised and excluded segments to conduct financial transactions through micro ATMs deployed by banks in villages.

Electronic and Mobile Wallets: Mobile Wallets are mobile based virtual wallets where users can preload a certain amount in their account created with the mobile wallet service provider, and spend it at online and offline merchants listed with the mobile wallet service provider. There are four types of mobile wallets in India - open, semi-open, semi-closed and closed. Open wallets are the ones that allow users to buy good and services, withdraw cash at ATMs or banks and transfer funds. M-Pesa by Vodafone and ICICI is one such example. Airtel Money is a semi-open wallet, which allows users to transact with merchants that have a contract with Airtel. The users can't withdraw cash or get it back. Then, there are closed accounts, which are popular with e-commerce companies, where a certain amount of money is locked with the merchant in case of a cancellation or return of the order, or gift cards. Lastly, there are semi-closed wallets like PayTM, which do not permit cash withdrawal or redemption, but allow users to buy goods and services and perform financial services at listed locations. The wallet limit is Rs. 20,000 per month and Rs. 50,000 per month for consumers and merchants, respectively and Rs. 1 lakh per month for all with KYC details.

Point of Sale (PoS): Merchants can also use PoS machines for digital transactions. The various types of PoS include Physical PoS which is a Physical Card Swiping Machine, MPoS which is

an external PoS device that can be connected to a phone through a jack or via Bluetooth and VPoS which is a virtual e-payment gateway.



For installing a **Physical PoS**, a merchant will have to open or identify a current account for carrying out transactions, fill in an application form and identify the type of PoS required, i.e. landline or GPRS enabled. The merchant is then required to submit a proof of business, an address proof, photo identity proof of the proprietor and financial statements.

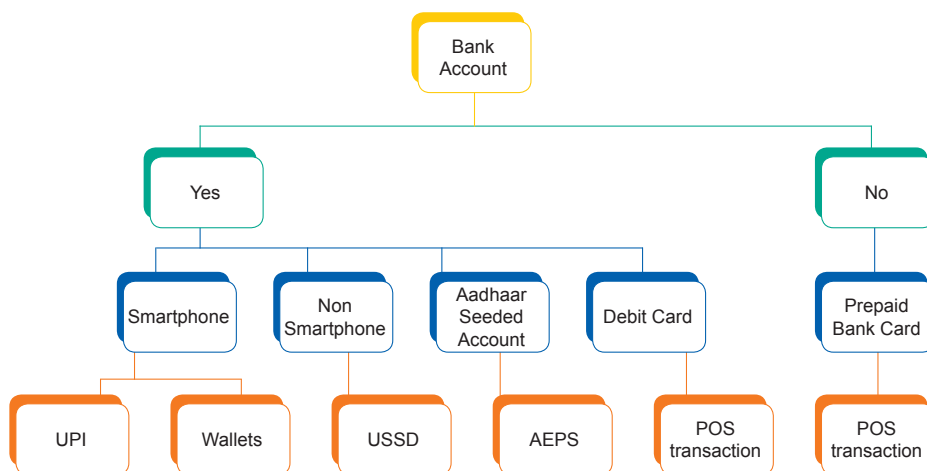


For an MPoS, the merchant needs to buy an MPoS device such as mSwipe, plug it into the phone, launch and install the application and carry out transactions by swiping the customers' cards.



A VPoS transaction does not require a PoS machine. It is a virtual e-payment gateway which uses QR Code for the payment to the merchant's bank account.

A Summary of Various Digital Payment Options



Enabling Regulatory Environment in India

To keep up with the pace of the global economy, the Indian Government is pushing out policies to encourage a movement towards a cashless society. This is happening through various initiatives such as Payment banks, Bharat Bill Payment Services, proposal to do away with surcharge / convenience fees, etc. Following are some of the recent initiatives by the Indian government to promote digital payments in the Indian economy:

- The RBI has recently relaxed the requirement for customers to undergo a KYC process for transactions up to INR 10,000 per month to exempt them from the requirement to submit documentation, photographs, etc. usually required to avail of traditional banking services.

- The government of India has also launched several other measures to promote digital payments in India. The government has announced its intention to bring in an ordinance, namely The Payment of Wages (Amendment) Bill, 2016, to amend the section 6 of the Payment of Wages Act, 1936 for allowing business and industrial establishments to pay salaries through cheques or electronically. The new ordinance will be applicable to public sector, with the private sector coming under the purview of the new move later. Employers will also have the option to pay wages in cash. All wage workers, who earn less than Rs 18,000 will be come under the new ordinance. However, the specific sectors where the rule will be applicable will be notified later.
- Taking a lead in promoting a digital economy, NITI Aayog has recently announced a Lucky Grahak Yojna under which digital payments through RuPay cards, UPI, AEPS and USSD between Rs. 50 and Rs. 3,000 will be eligible for awards. The quantum of the awards will be different for consumers and merchants. The Scheme will award a daily prize worth Rs. 1,000 each to 15,000 winners for 100 days starting December 25. A weekly award for around 7,000 consumers eligible for a maximum prize of Rs 1 lakh was also announced.
- The government has also announced the Digi-Dhan Vyaapari Yojna under which more than 7,000 merchants will be eligible for a prize worth Rs 50,000 every week. It has also been announced that mega awards will be declared under both the schemes on the birth anniversary of Dr Bhimrao Ambedkar. The quantum of the mega awards will be Rs 1 crore, Rs 50 lakh and Rs 25 lakh for consumers and Rs 50 lakh, Rs 25 lakh, and Rs 5 lakh for merchants.
- In order to boost digital payments in the rural and agricultural sectors, the National Bank for Agriculture and Rural Development (NABARD) has planned to provide RuPay cards to over 34 million farmers in villages across India. These cards will be provided through cooperative banks and farmers' credit cooperative societies. The RuPay cards will enable farmers to buy seeds, fertilisers and other farming equipment. NABARD has planned to deploy 2,00,000 point-of-sale (PoS) machines in 1,00,000 villages with the allocation of funds worth Rs 120 crore.
- The government, as well as several other banking and non-banking stakeholders, are also organizing several public awareness campaigns in order to enhance awareness of the digital payments services and their benefits. NPCI has conducted a RuPay campaign and released advertisements on IMPS and UPI services. The government has also planned to launch a number of video campaigns on various television channels to educate the merchants on the activation of various electronic channels, particularly UPI and *99#.
- The Government of India has also recently constituted a Committee of Officers to enable 100% conversion of Government – Citizen Transactions to the digital platform led by Mr Amitabh Kant, CEO, NITI Aayog and with the membership of the Secretaries of the Department of Financial Services, Ministry of Electronics and Information Technology, DIIPP, Department of Investment and Public Asset Management; and Ministry of Rural Development, and the MD & CEO, National Payments Corporation of India, etc. The aim of the Committee is to identify various digital payment systems appropriate to different sectors of the economy and coordinate efforts to make them accessible and user-friendly. It will also identify and access infrastructural and bottlenecks affecting the access and utility of digital payment options.

Emerging Trends in Digital Payments: Indian Context

With the rapid internet and smart phone penetration in the country and development of the payment infrastructure, the digital payment industry is expected to receive a strong boost. The following trends have the potential to transform the digital payments landscape in the near future:

- **Enabling Role of Technology:** Ubiquitous connectivity, biometrics, tokenisation, cloud computing, Internet of Things, etc. are some of the emerging trends which will have a significant impact on payment services. Contact-less payments through Near Field Communication and QR code technology, reduced dependence on mobile internet, seamless automation and connectivity of gadgets and devices, iris and voice based authentication, etc. are some payment innovations which can make digital payments simpler and more universal.
- **Enhanced Merchant Acceptance:** The network of merchants accepting card payments is significantly small, especially amongst the unorganized sector and MSME merchants. Many times, this can be attributed to additional investment on point-of-sale hardware and costs of maintenance. The merchant network acceptance is expected to grow by ten times over the next ten years which will improve the economies of scale from digital payments for SMEs.
- **Consolidation of Payment Services for Ubiquity:** Several players from the banking and the non-banking sectors have entered the payments industry recently with niched solutions. But the emerging trend of consolidation in the payments industry will promote the ubiquity of digital payments.
- **Modified UPI:** The NPCI's UPI is aimed at enabling interoperability between financial instruments and a universally applicable UPI ID for easy access to various instruments. This will be instrumental in promoting digital payments.
- **Digital Identity:** Universal acceptability of Aadhaar based identification for online authentication and confirmation of KYC data will bring down customer costs and improve the economies of scale for businesses and promote digital payments.
- **Decrease in Cash Use Fuelled by Demonetization:** Traditionally a cash centric economy, cash makes up 78% of all consumer payments in India as compared to only 20-25% in developed nations. But the cash to non-cash ratio is expected to be inverted in the next 5 years further propelled by the demonetization of high value currency notes.

Digital Payments for Business to Business Transactions

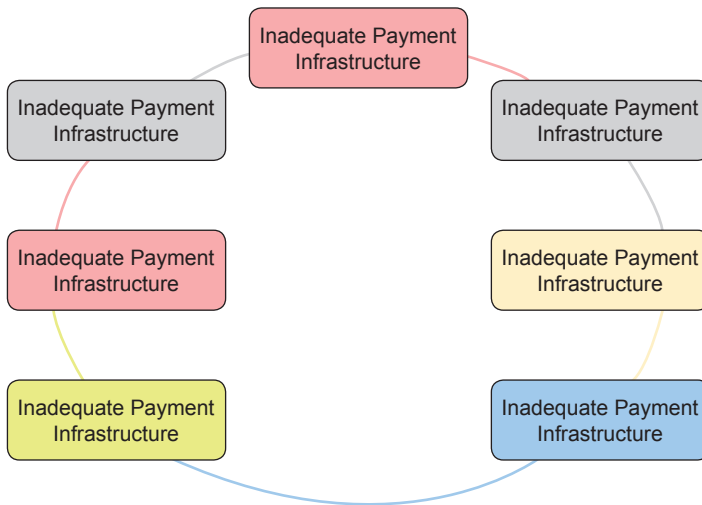
Business to business transactions, especially amongst MSMEs are largely made in cash or through bank cheques currently. The following are some of the primary payment uses for business for various purposes based on payment destinations:

Primary Payment Uses for Business Organizations / Merchants

Payment Destinations		
Persons	Merchants / Business	Government
<ul style="list-style-type: none"> • Salary payments to daily contract workers • Reimbursements • Dividends • Refund payments 	<ul style="list-style-type: none"> • Supply Chain Payments such as retailer to distributors, dealer payments, etc. • Vendor payments 	<ul style="list-style-type: none"> • Taxes • Excise Duty Payments • Toll payments

There are various barriers for businesses, merchants and SMEs which are responsible for a limited use of digital payments.

Key Barriers of Usage of Digital Payments for Merchants and Small Business



Imperatives for a Swift Move to Cashless Transactions

A. Imperatives for Payment Service Providers

Increased adoption of digital payment channels can lead to improved efficiencies and a more robust internal control environment for merchants and SMEs. As digital payments instruments gain prominence, payment service providers must develop customized solutions catering specifically to SMEs. These solutions must offer various interlinkage features, security and ease of access services, and support services to enable supply chain payments, retailer-distributor payments, dealer-vendor payments, etc. Digital payments compete with cash as preferred

modes of payments in India. But digital payments need to offer significant benefits in order to overtake cash. The following table provides a comparative analysis of various features offered by cash and digital payments.

Comparative Analysis of Features: Cash versus Digital Payments

Usage	Cash	Digital Payments – Limitations of Current Offering	Digital Payments – Desirable Offerings for Greater Uptake
Simplicity	Universally recognized	<ul style="list-style-type: none"> • Complicated Procedures • Lack of availability in regional languages 	<ul style="list-style-type: none"> • Simpler processes • Vernacular Language Content
Universality Interoperability and Access	Accepted everywhere Absolute interoperability	<ul style="list-style-type: none"> • Limited reach • Lack of penetration in rural areas • Limited interoperability 	<ul style="list-style-type: none"> • Mass usage • Seamless linkage between digital instruments and bank accounts
Speed	Fast	<ul style="list-style-type: none"> • Time consuming, especially at point of sale 	<ul style="list-style-type: none"> • Enhanced technological use • Improved infrastructure and connectivity
Ease of Use and On-boarding	No on-boarding required	<ul style="list-style-type: none"> • Lack of awareness and difficult processes 	<ul style="list-style-type: none"> • Easy documentation, procedures and authentication

In order to create a sustainable, economically viable and successful payments infrastructure in India, payment service providers must fulfil certain imperatives:

- **Identify Gaps and Bottlenecks:** Various segments of customers have different payment needs. In order to be relevant, payment service providers must identify specific pain areas for various segments of customers and address them.
- **Incorporate desirable features such as ease of use, speed, etc.:** Payment Service Providers must build easy to use solutions with approachable interfaces. Digital payment solutions must be designed in a manner that ensures that the transaction time does not increase significantly as compared to cash use.
- **Consolidation of Payment Services:** Digital Payment Services are more likely to succeed with the consolidation of various instruments. The payment instruments must cater to varied- use-cases, be widely accepted across merchant networks and have a network of multiple cash-in and cash-out points.

- **Partnership between Various Payment Service Providers:** Payment Service Providers can form partnerships in order to provide a wide range of services in a cost effective manner. Partnerships can enable these players to acquire a large customer base at a lower acquisition cost and offer a broader spectrum of services.
- **Lower Cost of Usage of Non-Cash Transactions:** Payment Service Providers can explore the possibility of charging customers only when money leaves the digital economy. Merchants can be charged when they take money out of the account and not when they receive it.
- **Value Added Services and Handholding Support:** After business cite lack of desirability and difficulty in comprehension as reasons for preference of cash over digital payments. Payment Service Providers can offer a host of value added services and handholding support through call centres, agents, etc. for enhanced uptake by businesses.
- **Use latest technology to develop low cost and scalable solutions:** Cutting edge technological platforms must be utilized to develop solutions with minimal costs of acquisition. Technology can also be used to create market specific solutions in order to factor in poor infrastructural availability, limited connectivity, etc.

Primary Payment Uses for Business Organizations / Merchants

Enhance Awareness and Provide Handholding Support	Adress Gaps and Bottlenecks	Robust Digital Payment Ecosystem across the Supply Chain
<ul style="list-style-type: none"> • Simple and convenient merchant adoption process • Support Services in the form of call centres, agents, toll free numbers, etc. 	<ul style="list-style-type: none"> • Continuous product improvement • Faster processing of digital transactions • Development of use-cases where digital payments are beneficial pover cash 	<ul style="list-style-type: none"> • Seamless in-bound and out-bound acceptance across supply chains • Value Added Services such as order ahead, pre-book, regional languages, etc. • Interoperability between digital payment service and custoimers'bank accounts

B. Imperatives for Banks

In order to keep pace with the digital payments opportunity, banks must fulfil certain imperatives as listed below:

- **Digital Infrastructure:** Banking institutions need to develop digital payments friendly infrastructure which integrates flexibility, agility and innovation. Banks need to support easy KYC requirements, easy access and promote hassle free digital transactions.
- **Identify Gaps and Opportunities:** Banks must invest their resources in understanding their existing customer base and provide relevant value added services relevant to specific uses of businesses.

- **Develop Robust IT Base:** Banks must develop IT infrastructure to support cutting edge digital solutions. This will enable them to run and manage core banking solutions while simultaneously offer digital solutions.
- **Partnerships with Payment Service Providers:** Partnership between banks and digital payment service providers are crucial to enable banks to tap cutting edge solutions and act as anchor for use-cases, authentication requirements, etc.

C. Imperatives for Government and Regulatory Bodies

The Government as well as regulatory bodies also need to adopt a forward looking approach to promote the digitisation of payments in the economy. Acknowledging the potential of the digital economy, the government is already implementing various measures to promote cashless transactions. These include the demonetization drive, payments banks, pre-paid payments instruments, etc. Some of the additional measures which can promote a sustainable digital payments ecosystem are listed below:

- **Building Awareness about Cost of Cash:** Cash poses huge costs on the economy, both direct. i.e. printing of notes, weeding out soiled notes, combating counterfeiting, etc. and indirect costs such as loss of tax revenue, black economy, etc. The government must enhance awareness about the cost of cash as well as consider the creation of cost of cash through surcharge on cash transactions above a certain threshold.
- **Incentivizing the Use on Cashless Transactions:** The government can also consider tax benefits to merchants, especially in cases where a certain minimum proportion of the merchants' transactions are cashless.
- **Simpler Regulatory Requirements:** The government must ensure the ease of electronic KYC norms and other regulatory procedures for identification, authentication, etc.
- **Upgradation of Infrastructure:** The government must encourage PSUs and other organizations such as NPCI to deploy common payments infrastructure such as IMPS, UPI, Bharat Bill Payment System, etc. that can be leveraged by payment service providers.
- **Cyber Law on Digital Payments:** Digital Payments would also require dedicated norms and regulations for proper usage and implementation. The present regulatory regime in this regard is grossly deficient and it cannot accommodate Digital Payments, Online Banking, Payments Banks, Fintech Entrepreneurship, etc.
- **Enhanced Role of RBI:** Reserve Bank of India (RBI) must play a pro-active role to ensure Cyber Security of Banks, Payments Banks, Digital Payments, E-Wallets, Mobile Banking, Online Banking, etc.
- **Skill and Capacity Development:** The government must provide increased focus on skills and capacity developments in terms of Software, Hardware, Cyber Crimes Investigation, Cyber Security Courses and Trainings, etc.

- **Framework for Grievance Redressal:** The government and RBI must develop a framework for customer protection and grievance redressal.

CII SME Policy Dialogue Session on Assisting Indian MSMEs Transition to Cashless Transactions

Factors such as lack of awareness about the various benefits of cashless transactions and limited understanding about the various breakthroughs in the area of digital payments are thwarting Indian MSMEs from transitioning to cashless transactions and adopting various digital payments options. CII organized a Policy Dialogue Session on Assisting Indian MSMEs Transition to Cashless Transactions on 27 December 2016 in New Delhi in order to assist the Indian MSME sector transition to cashless transactions and enhance awareness about the various modes of digital payments which can be used by Indian MSMEs to smoothly conduct their financial transactions. The session was attended by a range of stakeholders including representatives from the State Bank of India, representatives from NITI Aayog, experts from various digital payment companies like Paytm and Mobikwik and SMEs from across the country. The Session informed the participants about various digital payment options and their feasibility for various uses by MSMEs both in rural as well as urban areas. The Session resulted in productive discussions amongst the participations and important recommendations in order to promote digital payments for the Indian MSME sector.

The key recommendations emerging from the deliberations are summarized below:

- SMEs employ a large number of casual laborers owing to the erratic nature of activities and paucity of funds to hire a large number of permanent employees. Digital payments create a record of employment of the casual workers which can put SMEs under pressure to offer permanent positions to the casual workers. There should be a provision under the Labour Laws to address this issue.
- Various banks are levying significantly high issuance and reloading charges on Pre-Paid Cards which can be used by SMEs to pay daily wages to casual workers making them unviable for SMEs which are inherently finance starved. The issuance and reloading charges must be brought down through a notification by the government placing ceiling limits on private banks for the uniformity of these charges.
- There should be strict measures to protect MSMEs and other stakeholders from cybercrimes related to digital payments.
- SMEs have to make a large number of small payments to various stakeholders due to the nature of supply chains they form part of. There is a need for multiple point authentication and accessibility for digitizing the transactions across supply chains.
- Digital payments must incorporate characteristics of cash such as universal acceptance, infinite interoperability, etc.
- Digital payments can assist in expediting refunds under the GST regime. The government

must take initiatives to digitize the payment of refunds and input tax credits under the GST regime in order to provide additional working capital to SMEs.

- Owing to the low penetration of formal banking in the rural parts of the country, the wide network of Post Offices situated across the country must offer digital payment services for SMEs which lack access to banks and other digital payment service providers.
- Digital payment service providers, the government as well as industry associations must conduct awareness sessions on digital payments in order to encourage SMEs adopt them.
- Public as well as private sector banks must provide handholding support and employ specialized executives to address MSME finance needs, especially with respect to digital payments.

In order for digital payments to succeed in India, it is imperative that enabling policy and infrastructure frameworks are devised to provide a conducive and sustainable environment for all stakeholders.



Confederation of Indian Industry

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering industry, Government, and civil society, through advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and industry-managed organization, playing a proactive role in India's development process. Founded in 1895, India's premier business association has over 8000 members, from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 200,000 enterprises from around 240 national and regional sectoral industry bodies.

CII charts change by working closely with Government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness and business opportunities for industry through a range of specialized services and strategic global linkages. It also provides a platform for consensus-building and networking on key issues.

Extending its agenda beyond business, CII assists industry to identify and execute corporate citizenship programmes. Partnerships with civil society organizations carry forward corporate initiatives for integrated and inclusive development across diverse domains including affirmative action, healthcare, education, livelihood, diversity management, skill development, empowerment of women, and water, to name a few.

The CII theme for 2016-17, **Building National Competitiveness**, emphasizes Industry's role in partnering Government to accelerate competitiveness across sectors, with sustained global competitiveness as the goal. The focus is on six key enablers: Human Development; Corporate Integrity and Good Citizenship; Ease of Doing Business; Innovation and Technical Capability; Sustainability; and Integration with the World.

With 66 offices, including 9 Centres of Excellence, in India, and 9 overseas offices in Australia, Bahrain, China, Egypt, France, Germany, Singapore, UK, and USA, as well as institutional partnerships with 320 counterpart organizations in 106 countries, CII serves as a reference point for Indian industry and the international business community.

Confederation of Indian Industry

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