

THE IMPACT OF COVID 19 ON DIGITAL PAYMENT

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ABSTRACT

Social distancing, lockdowns, and other restrictions unleashed by the COVID-19 crisis is driving people to switch to online modes to buy essentials and other necessities. As people shop from the safety of their homes to protect against the virus, financial institutions are experiencing an explosion in digital payments. While financial institutions have so far ensured the availability of digital modes of payment without any major disruptions, it is impossible to predict how the crisis will play out in the coming weeks and months. To assess the impact of COVID-19 on digital payments and prepare for unforeseen situations, banks will need to expand access to digital touch points in a secure manner while ensuring round-the-clock availability. This paper discuss on relative impact of the COVID-19 pandemic on various sectors and payment categories.

Keywords: COVID 19, pandemic, digital payment, financial institution

INTRODUCTION

The ongoing spread of COVID-19 has become one of the biggest threats to the global economy and financial markets. To contain the impact of the coronavirus outbreak, India, like many countries across the globe, is taking several measures, including a nationwide

lockdown; limiting movement of the entire population; shutting down public places and transport; and urging the public to stay indoors, maintain social distance, and work from home. The resulting economic disruption is huge and the short term decline in activity for businesses large and small, considerable. With economic growth expected to be severely hit, the financial outlook of the digital payments sector is no different and will follow a similar trajectory, at least in the short term. But the industry's stability and potential for innovation will play an invaluable role in rebooting the economy in the new normal. COVID-19 has damaged both, demand and supply. With lockdown across various parts of the world, many manufacturing and production units are shutting down. It led to a steep fall in the supply of intermediary as well as final goods. The COVID-19 crisis does not seem to be a short-stay guest; it will result in the exit of many small to medium scale businesses from the market. On the demand side, people are facing a threat to their livelihood, pushing the economy generations back.

OBJECTIVE OF THIS PAPER

- To understand the concept digital payment.
- To analyse the impact of COVID 19 pandemic on business

- To analyse the impact of COVID 19 pandemic on various sectors
- To a analyse the impact of COVID 19 pandemic on payment categories
- To make suggestions for better digital payment services.

DIGITAL PAYMENT

Digital payment is an convenient mode to make transactions through online. It is a way of payment which is made through digital mode. All the transactions are done through online. We are all live in the era of digitalization, there are many modern payment instrument used by various financial institutions for delivering transactions through online .Mobile wallet, credit card and debit card, Aadhar enabled payment system, USSD and UPI are the important digital payment.

IMPACT ON BUSINESS

The COVID 19 pandemic are largely affected the Indian economy, with manufacturing, auto, retail, aviation and hospitality bearing the brunt of the lockdown. This in turn has affected fast-growing digital payments which are closely linked to the aforementioned sectors. Shut shops, travel bans and reduced discretionary spends by consumers (on dining out, movies and entertainment and so on) are further negatively impacting digital payments .Digital payment volume declines are seen in airlines, tourism, hospitality, hotels, entertainment, e-commerce (non-essentials) and restaurants, among other sectors .Further, cross-border payments, be they B2B or C2B, have significantly declined owing to the temporary shutting down of borders further, resulting in restricted

movement of goods. International remittances too have been affected and have reduced.

However, there are also a few areas that are seeing an uptick in digital payments by way of increased adoption during the lockdown. These include online grocery stores, online pharmacies, OTT players (telecom and media), Ed Techs, online gaming, recharges and utility/bill payments. Digital payment volumes are also receiving a boost through the Government, which has pledged monetary assistance to the poor via direct transfers to bank accounts .The finance minister and the CEO of the National Payments Corporation of India urged people to increase the use of digital payments in order to make payments contactless. Digital payments, once a convenience, have become a necessity in these times. With a majority of the sectors that contribute to digital payments still in a state of flux, it is still too early to ascertain the long-term impact of COVID-19 on digital payments.

IMPACT ON DIFFERENT SECTORS

Payment players will be impacted differently, depending upon their exposure to various sectors. This view has been taken keeping in mind a timeframe of at least six months for these sectors, depending on how/when the pandemic is affected:

Table 1: Impact of COVID 19 on different sectors

Sectors	Impact (Remarks)
Aviation	An acquirer with large exposure to the aviation industry is at risk due to the threat posed by increased refunds and charge backs as flights are cancelled across the board.
Tourism and hospitality	Acquirers having large exposure to the hospitality industry will face headwinds as complete the lockdown restricts business to a very large extent.
Electronics and consumer durables	Volumes of payment companies having clients in the electronics and consumer durables segment will take a hit owing to the disruption in supply chains, delivery and demand.
Hotels and restaurants	The lockdown has caused severe loss of business for restaurants and hotels. The restrictions on travel have hampered the peak season for many. This in turn will have an adverse impact on payment volumes.
Physical retail (non-essential)	Non-essential physical retail has also taken a hit as forced closure has resulted in loss of business. Payment companies will see a marked decline in these transactions.
E-commerce (non-essentials)	Non-essential e-commerce businesses will be adversely affected as they prioritise essentials given the limited delivery bandwidth due to the lockdown.
Small and medium businesses and capital loans	Players with exposure to SMB and capital loans will be negatively impacted as working capital dries up for many players owing to temporary closure of businesses, impacting repayments and increasing the possibility of non-performing assets (NPAs).
Cross-borderpayments	Payment companies with large cross border transactions will be impacted as supply-side uncertainties, factory closures and trade barriers are affecting cross border trade.
Internationalremittances	International remittances will decrease as wages of Indians abroad would be negatively affected.

Payment fees – card schemes	Major card schemes have delayed the roll-out of their new interchange fee structure. Sectors like real estate and auto would see rate decreases, while growth sectors like e-commerce and mobile ordering would see a hike in fees. Overall network fees would decrease for card schemes.
Physical retail (essentials)	With concerns of transmission of the virus through the exchange of physical currency, digital payments at local grocery stores have increased. Payment players having exposure to this category stand to gain.
Telecom	Telecom companies will also see an increase in transactions as payments and recharges shift to digital channels. Further, the boost in demand for broadband internet services will also fuel the rise in transactions.
Insurance	Owing to the COVID-19 pandemic, insurers have seen a rise in digital payments as new and renewal policy payments are made online.
EdTech	The lockdown and shutdown of schools and educational institutions have proved to be a boon for EdTech companies, with an increase in demand for their services enabled by online payments.
Domestic remittances	The lockdown has caused severe loss of business for restaurants and hotels. The restrictions on travel have hampered the peak season for many. This in turn will have an adverse impact on payment volumes.
Healthcare/pharma	Payment players associated with the healthcare/pharma sector will see an increase in digital payments due to the COVID-19 pandemic.
E-commerce (essentials)	Players catering to online selling of essential items have seen a surge in transactions due to the lockdown. Payment processors having exposure to such retailers stand to gain in relative terms considering the current situation.
Government	Payments involving the Government(s) would increase on two counts: firstly, the financial aid provided by the Government via Direct Benefit Transfer (DBT) (G2P); and secondly, donations made to Government funds like PM CARES and PMNRF. P2G would contribute to an increase in digital transactions.

IMPACT ON PAYMENT CATEGORIES

Payment systems have demonstrated that they are dependable and durable, and continue to command a high level of confidence from the general population. However, closure of businesses and the lockdown have resulted in lower transaction volumes overall. In this section, we look at the relative impact of the COVID-19 pandemic on various payment categories.

Table 1: Impact of COVID 19 on different sectors

Payment category		Impact (Remarks)
Issuance	Cards	Concerns over transmission of the virus through the exchange of physical currency will boost online card transactions.
	Wallets	Wallets will also see increased traction for P2P transfers, bill payments and P2M payments for essential services owing to the lockdown and aversion to exchanging cash. However, some wallet players have increased their fees for merchants and consumers, leading to merchants not accepting their wallets for transactions.
	Bank accounts	Fund transfers to/from bank accounts will likely see an uptick as people substitute cash with digital transfers.
Acquiring	ATM	Transactions at ATMs will decrease as a result of the lockdown being enforced. Not much cash will be required compared to earlier.
	PoS	PoS terminals at stores selling essential items will see an uptick in transactions, while those at most other establishments will see a decline.
	Payment gateways	Payment gateways will see an increase in volumes as transactions go online. They can also tie up with small stores selling essentials who are currently seeking to establish an online presence.
Payment infrastructure	UPI	UPI is primarily driven by P2P and P2M payment transactions. With fears of virus transmission through cash, P2M UPI transactions for essential services (including QR based payments) will see an increase.

	IMPS	The IMPS facility will see relatively increased activity as fund transfers shift to digital means.
	BBPS	With no physical avenues to pay bills, people are adopting BBPS, leading to a relatively higher number of transactions.
	NETC	The NETC programme, which facilitates FASTag toll payments, will be adversely affected due to restrictions on travelling.

SUGGESTIONS FOR BETTER DIGITAL PAYMENT SERVICES DURING COVID19

Bank take actions to:

- Scale up digitalization initiatives
- Upgrade infrastructure to support growth in digital payments.
- Open data access and leverage analytics to design personalized offerings.
- Step up cyber security, cyber surveillance, and financial crime controls.

CURRENT SCENARIO

Banks have achieved more than 4,500 crore digital transactions for the year 2019-20, exceeding its target of 4,019 crore by 12 percent, said the government in a letter addressed to top executives of 56 public and private sector lenders. Digital payments major Paytm Payments Bank has scored 65 in the scorecard with a ranking of 17 as per Meity report card. While the bank has achieved a 100 percent target in terms of PoS deployment, it has reported 79 percent of the merchants as active in the urban areas. In terms of

digital payments, it has achieved around 82 percent of its set target, or around 410 crore transactions. In absolute numbers, the government had allocated the highest number of digital payments target to State Bank of India and Paytm Payments Bank.

CONCLUSION

During the lockdown, the frequency as well as the total monetary value of transactions, has declined. However, with people only buying necessary goods and more goods in one go, the value per transaction is increasing, and people are increasingly relying on digital platforms: in 2019, digital payment adoption was slow and varied significantly by country. Reasons included cultural, demographic and technological – many of which were a function of economies being at different stages of development. But now digital payment adoption are more fast in various country. In the context of COVID19, digital payment are more useful to customers for their transactions by using different modes of online payment.

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