



## INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE AND MANAGEMENT

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**PAYMENTS IN INDIA GOING 'E-WAY' - AN ANALYTICAL STUDY**

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**ABSTRACT**

*The electronic payment system evolution can be traced back to the 1950s 'with the introduction of ERMA (Electronic record method of accounting) and MICR based on cheque -clearing systems in the USA. Over the last two decades, in India, post implementation of MICR based clearing in 1986, other payments systems like card based payment systems, ECS, EFT, RTGS, and NEFT have come up and they offer a different set of capabilities for the wholesale and retail customers. As a result of the technological development, the proportions of electronic transactions, both in terms of volume and value, have increased sharply. It is indeed heartening to note that electronic payment in India has seen a huge growth and this augurs well for the corporate sector and the economy. The main purpose of the study is to analyze and examine whether electronic payment systems have been growing and effective in India during the period of study. Furthermore, this study reveals that all electronic modes of payments have shown huge growth than the physical paper- based payments like cheques or drafts. Card based payments contribute better to the total payments in terms of both value and number whereas physical cheque- based clearing continues to slowdown. The study also shows that customers prefer electronic mode of transaction to paper based instruments. It can result in reduced printing of notes, cheques, less transaction cost and less tax evasion, and promotes banking habits of the people and paperless e-banking environment in India. The study is based on secondary sources of information collected from various sources.*

**KEY WORDS**

Credit card, Debit card, E-payments, E-commerce, ECS, Internet banking, Mobile banking, MICR, NEFT.

**1. INTRODUCTION**

The primary goal of any national payment system is to ensure smooth circulation of money in the economy. It is recognized world wide that an efficient and secure payment system is an enabler of economic activity. The establishment of safe, secure, sound and "efficient payment and settlement system" is crucial for any country. Payment systems are important for economic growth and they are evolving-- largely driven by innovation, convenience and economic benefits. Efficiency in payment systems in general and electronic payment systems in particular, benefits both customer and country's economic growth. There are diverse payment systems functioning in the country, ranging from the paper based systems where the instruments are physically exchanged and settlements worked out manually to the most sophisticated electronic fund transfer systems which are fully secured and transactions settled on a gross, real time basis. They cater to both low value retail payments and large value payments relating to inter-bank, money market, Government securities and forex transactions. The retail payment systems in the country comprise of both paper based as well as electronic based systems. They typically handle transactions which are low in value, but very large in number, relating to individuals, firms and corporates. These transactions relate mainly to settlement of obligations arising from purchase of goods and services. More recently, with the proliferation of electronic payment mechanisms, the increase in the number of players in the financial area and the payment crises in quite a few countries and regions in the 1990s, have focused attention on policy and security issues relating to the organization and operation of payment systems. Three main areas of public policy have guided payments systems, development and reform namely 1) protecting the rights of users of payment systems, 2) enhancing efficiency and competition, and 3) ensuring a safe, secure and sound payment system<sup>13</sup>.

Electronic commerce (E-Commerce) and finance are growing rapidly. New payments mechanisms designed to aid e-commerce have become routine. Predictions are made about the capabilities of the information and communication technology to bring forth new tools for conducting e-commerce and e-payments. We are in the midst of a wave of innovation and change. In a dynamic economy, markets need to play a key role in the development of infrastructure, including mechanisms like e-payments systems. This means that innovation and competition will be central to the future development of the payments system - as they are in other areas of the economy.

Nowadays, in the electronic payment market, people make payments using different devices. The concept that is used for such devices is electronic channels. Electronic funds transfer (EFT) refers to the computer-based system used to perform financial transactions electronically. In addition to this, inside an electronic payment system, there are many complex financial circuits. A financial circuit is the way the digital money arrives from the payer to the payee, using intermediaries like banks, financial institutions, payment organizations etc.,

Electronic Payment (E-Payment) takes place online between buyers and sellers. The content of this exchange is usually some form of digital financial instrument (such as encrypted credit card numbers, electronic cheques) that is backed by a bank or an intermediary, or by a legal tender. The various reasons that have led the financial institutions to make use of electronic payments are: reduced technology cost, reduced

operational and processing cost, and increasing business volume. There are many problems with the traditional payment systems like lack of Convenience, Security, Coverage, Eligibility, and lack of support for micro-transactions.

An e-commerce payment system facilitates the acceptance of electronic payment for online transactions. Also known as Electronic Data Interchange (EDI), e-commerce payment systems have become increasingly popular due to the widespread use of the internet-based shopping and banking. In the early years of B2C transactions, many consumers were apprehensive of using their credit and debit cards over the internet because of the fear of misuse of their cards by hackers. Recent research shows that 30 per cent of people in the United Kingdom still do not shop online because they do not trust online payment systems. However, 54 per cent do believe that it is safe to shop online which is an increase from 26 per cent in 2006. There are different payments systems available for online merchants. These include the traditional credit, debit and charge card but also new technologies such as digital wallets, e-cash, mobile payment and e- cheques. Another form of payment system is allowing a 3rd party to complete the online transaction for us. These companies are called Payment Service Providers (PSP), a good example is Paypal or World Pay.

## 2. CHARACTERISTICS OF E-PAYMENT SYSTEMS

A successful payment system should be one that satisfies all parties to the transaction. As the payment services are promoted using different electronic channels and as they are based on different procedures and financial circuits we can make a synthesis of the requirements that such a system must have

**\*Acceptability:** All parties to a transaction (payer, payee, financial institutions, private companies that own payment servers, recently mobile network operators) should accept the payment system.

**\*Security:** The system must have security systems both at the device level (Special materials and signs, cards that uniquely identify the user) and at the soft level (Cryptographic and authentication algorithms). It must also comply with the local laws and international standards. In addition, all the transactions must be auditable (registered in the accounting system)

**\*Cost:** The transaction cost should be very low. It should not depend on the value of the transaction, but on the number of transactions being made. Eliminating intermediaries and direct funds transfer between the parties (e.g. peer-to-peer) should substantially reduce the cost.

**\*Anonymity:** Researches show that customers using the electronic payment systems, especially the ones making purchases, want to stay anonymous. This will be practically impossible in conventional banking. But the problem with an anonymous payment system is that it is not standard-based and it is non-auditing.

**\*Universality:** The system must be capable of making all types of transactions – P2P (Person to Person), B2B (Business to Business), B2C (Business to Customer), P2G(Person to Government), B2G (Business to Government), with domestic, regional and international coverage, low-value and high value payment and currency conversion.

**\*Usability:** The system must have a user friendly interface and the learning curve must be close to zero. The customer must be able to personalize the payment service by integrating his daily activities and financial needs.

**\*Interoperability:** The system should be combined with other payment systems, no matter the kind of device being used or the financial circuit.

**\*Attractive:** The payment system should have loyalty applications implemented through which customers should get benefits (decreasing the bill value, getting rewards such as goods or some other additional services) by using a specific payment system regularly. Loyalty applications are based on loyalty points, which can be converted into above benefits.

**\*Speed:** Transaction clearing/settlement must be completed promptly/speedily.

**\*Cross border payments:** The e-payment application must be available globally.

## 3. COMPONENTS OF E-PAYMENT SYSTEMS

The four broad tenets of the mission relate to the Safety, Security, and Soundness and Efficiency. It is called the ‘Triple-S + E’ principle in short. Each of the principles, which have a synergistic inter-relationship, would specifically address the following:

Safety will relate to addressing risk, so as to make the systems risk free or with minimal risk. Security will address the issues relating to confidence, with specific reference to the users of these systems. Soundness will aim at ensuring that the systems are built on strong edifices and that they stand the test of time. Efficiency will represent the measures aimed at reduction in costs so as to provide optimal and cost effective solutions<sup>13</sup>

There are various types of electronic clearing systems functioning in the retail payments area in the country. Electronic Clearing System (ECS), both for Credit and Debit operations, functions in 86 places (15 managed by Reserve Bank, 33 by the State Bank of India and 13 by Punjab National bank and the rest by other public sector banks)<sup>16</sup>. The ECS is the Indian version of the Automated Clearing Houses (ACH) for catering to bulk payments. The Electronic Funds Transfer (EFT) System is operated by the Reserve Bank at 15 places. This is typically for individual / single payments. These systems are governed by individual bank's own rules. A variant of the EFT, called the Special Electronic Funds Transfer (SEFT) System is also operated by the Reserve Bank to provide nation-wide coverage for EFT. All these electronic fund transfer systems operate on “deferred net settlement basis”<sup>17</sup>.

## 4. ISSUES AND CHALLENGES

Although electronic money can provide many benefits—such as convenience and privacy, increased efficiency of transactions, lower transaction fees, and new business opportunities with the expansion of economic activities on the Internet—there are many potential issues with the use of e-money. The transfer of digital currencies raises local issues such as how to levy taxes or the possible use of [money laundering](#). There are also potential macro-economic effects such as exchange rate instabilities and shortage of money supplies (total amount of electronic money versus the total amount of real money available, basically the possibility that digital cash could exceed the real cash available). Another issue is related to computer crime, in which computer criminals may actually alter computer databases to steal electronic money or by reducing an account's balance of electronic money. One way to resolve these issues is by implementing cyberspace regulations or laws that regulate the transactions and watch for signs of fraud or deceit<sup>21</sup>.

Banks as well as consumers view the security threat as perhaps the most serious threat. Denny (2000) observes that the security of Internet access to client account is the biggest challenge facing banks. For success in the increasingly competitive financial services market, banks are



realizing that a comprehensive online banking strategy is essential which also satisfies essential security requirements. Security policy should include management commitment, technological support and effective disseminations of the policy and the security awareness by all users.

## 5. EMERGING E-PAYMENT OPTIONS IN INDIA

The traditional aspects of cash management focus on paper-based instruments and making them more efficient. They are lock box, cash pooling, concentrated banking, and slow disbursal. These methods are losing significance today because of emerging EP options. The EP options can be classified generally into two categories: those that just replicate the physical process but do it electronically and somewhat faster than physical, and the other category of new EP processes. Electronic options in India have evolved over a period of time. Significant improvement has come in post reform in 1991<sup>2</sup>. The important events in the evolution of new age payment system in India are:

Arrival of card based payment –debit card, credit card-late 1980's and 1990.

Introduction of Electronic Clearing service (ECS) in late 1990's.

Introduction of Electronic Fund Transfer (EFT) in the early 2000's.

Introduction of Real Time Gross Settlement (RTGS) 1st March, 2004.

Introduction of NEFT as replacement for EFT/SEFT in 2005/2006.

Implementation of cheque truncation system in New Delhi in 2007.

These apart, implementation of core banking system by many banks in India and proliferation of internet and mobile banking services provide many opportunities for Indian firms and customers.

## 6. CURRENT STATUS OF E-PAYMENTS SYSTEM IN INDIA

Indian banks are quickly upgrading their payment systems, largely driven by the need to modernize and meet regulatory requirements. For modernizing the payment and settlement systems in India, Reserve Bank of India (RBI) is strengthening the computerized cheque clearing and expanding the reach of Electronic Clearing Services (ECS) and Electronic Funds Transfer (EFT). The critical elements of RBI strategy involve opening of new clearing houses, interconnection of clearing houses through the Indian Financial Network (INFINET), development of RTGS system, Centralized Funds Management System (CFMS), Negotiated Dealing System (NDS) and the Structured Financial Messaging System (SFMS) and introduction of Cheque Truncation System.

The discussion till now largely focused on the use of e-payments between businesses and individuals. However, banks also need to make payments to each other to settle the accounts arising of the transaction carried out for their customers, and also for transactions initiated by themselves (for borrowing or repayments, investments, sale and purchase of various assets etc.). These payments have to be effected in central bank money (through their accounts maintained with the RBI). Such inter-bank payments carry a settlement risk if done on a deferred net settlement (DNS) basis. The introduction of the Real Time Gross Settlement (RTGS) System by many countries has not only resulted in compliance with the Core principles for Systematically Important Payment Systems enumerated by the Bank for International Settlements (BIS), Basel, but has also paved the way for risk-free, credit push-based fund transfers settled on a real time basis and in the central bank money. RTGS facility is available in India as many as 62,000 branches of 94 banks as at the end of November, 2009. As on 14 Jan 2010 NEFT was set to cover all banks which were participating in the Special EFT/NEFT clearing is conducted by Reserve Bank of India (RBI) and presently Reserve Bank of India has designated as many as 69395 branches as on July13, 2010. The minimum transaction value for RTGS is Rs. 1, 00,000, whereas there is no minimum value for NEFT and it is used mainly to transfer funds below Rs. 1, 00,000.

The NEFT system went live with effect from 21 November 2005. NEFT was set to cover all banks which were participating in the Special Electronic Fund Transfer (SEFT) clearing. NEFT was made on the Structured Financial Messaging Solution (SFMS) platform and is Public Key Infrastructure (PKI) enabled. RBI made it mandatory for all the SEFT banks migrate to NEFT by 15 December 2005. As NEFT would be serving all the bank customers using SEFT, the SEFT system was discontinued from 1 January 2006. Banks which fulfill the eligibility criteria for participation in RTGS were invited by RBI to participate in the NEFT

Mobile banking (M-banking) in India is set to explode - approximately 43 million urban Indians used their mobile phones to access banking services during quarter ending August, 2009, a reach of 15 per cent among urban Indian mobile phone user. Checking account balances is the most popular banking service used by urban Indians with almost 40 million users followed by checking last three transactions, 28 million and status of cheques with 21 million users. Mobile banking is popular among the Rs.1 to 5 lakhs per year income group with almost 60 per cent of mobile banking users falling in the income bracket, an indicator of adoption of this service by younger generation. ICICI bank maintains its position as country biggest private lender on mobile screen as well with 17.75 million users. HDFC accounts for second most subscribers with 9.1 million subscribers followed by State Bank of India with 6.13 million subscribers.

Presently, banks are permitted to offer M- banking facility to their customers subject to a daily cap of Rs. 5000/- per customer for funds transfer and Rs.10, 000/- per customer for transactions involving purchase of goods/services. The services shall be restricted only to customers of banks and/or holders of debit/credit cards. Only banks who have implemented core banking solutions would be permitted to provide mobile banking services. Mobile banking is the next big step for banks and it will change the nature of banking in India. Financial inclusion cannot be achieved without inclusive growth and every initiative should be directed at the rural poor. "If merchants, bank and operator can come together, they can develop a platform for mobile banking," trying to set up new platforms for the new generation.

The e-payments business is a reliable revenue generator for banks. Global payment revenues were at \$805 billion in 2008, up from \$654 billion in 2006, and are forecast to reach \$1.4 trillion by 2016. In the US, credit card growth has slowed thanks to the sub-prime crisis. Debit cards are realizing double-digit revenue growth. It is expected that banks will continue to increase debit card issuance and also the usage of the card at every point of sale. Mobile banking is a part of successful growth strategy for banks in the US. Here, the mobile phone becomes an extension of online banking.

## 7. REVIEW OF LITERATURE

Ashok singh (2010), in his article "Mobile banking –Evolution and Business Strategy for Banks" will pave the way for the formulation of wider business strategies covering each segment of economic development and social activities for Indian banking systems. Several aspects of M-banking such as its scope, business model, transaction types, application technologies, security in wireless transactions are discussed. Business strategies for Indian banking such as enabling financial inclusion, e-payments to a larger segment of users and enabler for e- money. M-banking

can be a powerful tool to bank the unbanked. As customer confidence about mobile transaction security increases, it is expected that mobile phones will be the most preferred and convenient device for conducting banking transactions and will emerge as one of the major payment channels in India.

Linda Eagle (2010) in her report, as more bank customers begin to use electronic banking solutions, hackers and money launderers are becoming more creative in their fraud tactics. Simply put, EFTs is subject to high risk and exposure to fraudulent activities, and fraudulent activity is damaging to a financial institution's relationship with its customers. To counter this, financial institutions must proactively invest in AML training to better prepare their employees to identify the risks that may occur in ETF transactions, and to educate their customers on how to protect themselves from threats to the security of their funds. Specialized training from an accredited training provider should be considered by all management of financial institutions to manage the risks and meet demand as this banking trend continues to grow.

Sumanjeet (2009) in his study concluding remarks first is that despite the existence of variety of e-commerce payment systems, credit cards are the most dominant payment system. This is consequences of advantageous characteristics, most importantly the long established networks and very wide user's base. Second, alternative e-commerce payment systems are some countries are debit cards. In fact, like many other studies, present study also reveals that the smart card based e-commerce payment system is best and it is expected that in the future smart cards will eventually replace the other electronic payment systems. Third, given the limited users bases, e-cash is not a feasible payment option. Thus, there are number of factors which affect the usage of e-commerce payment systems. Among all these user base is most important. Added to this, success of e-commerce payment systems also depends on consumer preferences, ease of use, cost, industry agreement, authorization, security, authentication, non-refutability, accessibility and reliability and anonymity and public policy.

Raja *et al.*, (2008) in their study the success of electronic commerce depends upon effective electronic payment systems. The Internet and on-line businesses are growing exponentially. Due to this explosive growth, electronic commerce on the Internet uses various electronic payment mechanisms that can cater for much diversity of applications. This paper discusses the evolution and the growth of electronic technologies, which can provide more advanced technical supports for electronic payment systems. The focus of this paper is to identify and explain the different methods of e-payment the authors analyses the challenges of electronic payments from different perspective and provide preliminary security countermeasures for each of the issues. Finally a number of solutions have been proposed based on the problem and discussed on the prospect of electronic payment system.

Banknet India (2008) in their report that the findings of the "bank customer survey on payment systems." According to the survey findings, Debit cards have become very popular in India. But, as of date, ATM/Debit cards have still their primary usage for cash withdrawal from the ATM machines, while credit cards are more popular in making payments online. Interestingly, many customers have been unable to use internet banking due to the non availability of site or connectivity problems. As far as mobile banking is concerned, its popularity is limited mainly due to the charges for sending SMS's are not justified.

Balakrishnan(2007) in his article published the adoption of new age electronic payments systems and use of new practices in inventory and production management help the companies achieve long-term reduction in working capital management requirement. It was further stated that moving customers to electronic clearing service (ECS) would provide the firms cost benefit in terms of collecting these payments quicker, give them regularity in payment and provide the much needed visibility to payments.

Shrivastva *et al.* (2004) in their article explains the concept of marketing has not changed in essence as a result of using the Internet as a new marketing channel but Internet offers an unlimited opportunity for business.

Denny (2000) observes that the security of Internet access to client account is the biggest challenge facing banks. For success in the increasingly competitive financial services market, banks are finding that a comprehensive online banking strategy is essential which also provides the essential security requirements. Security policy should include management commitment, technological support and effective disseminations of the policy and the security awareness of all users.

Furst *et al.* (1998) in their U.S. based study found out a significant shift by consumers and businesses to electronic payments. The gains from technological advancements in banking and payments are likely to be substantial both from the point of view of individual financial institutions and economy. In this environment, banks should review and, if necessary, adjust their risk management practices in tandem with upgrading their technology activities.

Crocin (1998) observes that the implementation of SET, the standard for secure electronic transactions on the Internet and its widespread adoption including security measures like encryption, digital authentication, and verification of on-line identity increase consumer confidence. To compete in a market transformed by globalization and technological revolution, banks have been forced to seek alliance and establish joint ventures to maintain their competitiveness and efficiency<sup>6</sup>.

## 8. METHODOLOGY

The study covers the secondary sources of information's collected through reference from books, IBA journal, RBI Bulletin, Published Articles and related banks Websites. The study covers during the financial year (FY) ending 31<sup>st</sup> March 2003-04 to 2009-10. The tool for analyses is percentage.

## 9. ANALYSIS AND DISCUSSION

As a result of the technological development, the proportions of electronic transactions both in terms of volume and value have increased sharply. It is indeed heartening to note that e-payment in India has seen a huge growth and that augurs well for the companies and the economy.

The tables 1&2 capture through -put of various electronic payments channels in India during the financial year ending on 31<sup>st</sup> march 2003-04 to 2009-10 both in terms of value and volume. This data clearly indicate that all the EPs are growing at phenomenal rate in India in volume and in value. During the year ending 2008-09, Electronic Clearing Service (ECS) debit has increased by an incredible 36.86 per cent by value and 25.91 per cent by volume. ECS credit down to -87.54 per cent by value and grew up 12.80 per cent by volume of transactions. The EFT/NEFT grew by 79.55 per cent by value and 141.61 per cent by volume, debit cards grew by 48.13 per cent by value and 44.56 per cent by volume, and Credit cards grew by 12.76 per cent by value and about 13.74 per cent by volume of transactions. The paper-based transaction did not grow up alternatively these have negatively grown up in India for -4.42 per cent by volume and -6.92 per cent by value of transaction.

In recent years, the use of electronic payments has witnessed manifold increase, partly reflecting increased adoption of technology. The growth volume of transaction directed through electronic payment method, decelerated from 41.35 to 24.75 per cent by value and 342.10 per cent to -51.98 per cent by value during FY 2007-08 to 2008-09. More strikingly, the value and volume of transactions directed through e-payment method declined sharply during 2008-09. The entire decline (-87.54%) is due to fall in value of transaction in respect of ECS – credit. It is noteworthy in this regard that the sharp rise in ECS credit value during 2007-08 was mainly due to the refund of the over subscription amount of IPOs floated by companies using electronic mode as mandated by the Stock Exchange (cf: RBI Report 2008-09). Therefore, the decline in value in ECS credit transactions during 2008-09 may be interpreted more as returning to normal trend rather than a matter of concern. The volume of ECS credit and more significantly ECS debit continued to show an increasing trend during 2008-09 in line with the trend witnessed during past few years.

Further, the data clearly indicates that during the year ending 2009-10, ECS credit incredible of 20.64 per cent by value and 11.02 per cent by volume of payments. The NEFT also grew up by 62.53 per cent by value and 106.27 per cent by volume. Due to the notification issued by the RBI allowing free use of ATM-debit card in all the banks throughout the country would increase further by value and volume of e-payments. During the year 2009-10, the paper based transaction was continuing to slow down further in value (16.51%) and in volume also. The total EPs would increase further by value (37.10%) and volume (7.53%). It reveals that during the financial year from 2003-04 to 2009-10, the paper based transaction did not grow much but e-payments transaction has grown up around twelve (12) time in value and three (3) time in volume. It is concluded that customers prefers electronic mode of transaction than paper based instruments which is healthy for Indian economic growth. These are clear indications that corporate India is aware of these options and are beginning to use them. The banks in India are also aggressive in promoting e-payments options as part of their cash management options as they also benefit from the migration of paper based payments instruments (that are inherently costly) to EP options which are more cost effective. The EP options also allow the companies to track the receipts in a more transparent manner and manage payments and liquidity more efficiently. Corporate customers have greater awareness of the usage of e- payments than individual customers.

Recently, the RBI working group on e-payments has suggested a number of measures to accelerate the adoption of e-payments in India. These include providing incentives to electronic transactions by either not having any charges (RBI has implemented this from April 1, 2009, customers were allowed to use their ATM cards free of charge to withdraw cash from Automated Teller Machine of any commercial banks across the country) or keeping them lower than the charges for paper based instruments and expanding NEFT enabled branches. Therefore, Indian firms are well advised to quickly adopt electronic payments options to ensure that their financial transactions costs do not increase. Moving customers to ECS would provide the firms cost benefit in terms of collecting these payments quicker, give them regularity in payment and provide the much needed visibility to payments. All these help in better cash management by the organization. The focus of RBI and all banks in India in promoting EPs is quite evident from the increasing number of branches covered for EPs and the huge growth that we are witnessing the EPs options in the last few years in India. If organizations indeed focus on moving to EPs, they stand to gain-and so does the Indian economy. That would also make Indian industries more competitive in nature and the Indian growth story can continue.

Although the e-payments systems in India have evolved, a lot remains to be done to increase the usage of e- payments. According to RBI estimates, cheque and draft still account for more than 80 per cent in terms of volume of payments in India. During the past century, usage of cheque and draft become the preferred mode of payment for all economic activities, and their volumes kept growing. It is despite the fact that a majority of the Indian population still uses cash for retail payments. Financial exclusion and illiteracy are the two major reasons for the use of cash for payments by consumers. Other reasons for use of cash for payments are largely driven by tax evasion and other illegal activities. But recent years, paper based payment did not grow up. Alternatively, these have negatively grown up in India. Migration from paper -based payment mechanism (other than cash and cheque) has become a necessity on account of cost of printing notes, large volumes, costs of physical handling and storage, delays in realization and finality of payment.

## 10. CONCLUSIONS AND IMPLICATIONS

In concluding that as the new capabilities and technologies are incorporated into our financial services environment, the RBI will continue to develop/upgrade e-Payment infrastructures, encourage and extend support for such innovations that are both value adding and profitable. However, keeping in mind the safety and soundness of e-payments and banking systems, Reserve Bank of India will continue to monitor applications and development in the field of both e-payments and e-banking in the country. Raja et.al, also concluded that with the advent of modern technologies in telecommunications, infrastructure and protocols, future payments will be made through e-payments by Business to Business, Business to Customer, and Customer to Government. Furthermore, lots of challenges are to be overcome for a successful implementation of e- payments to be widely accepted as a mode of payment. Businesses, merchants and consumers have to come forward and make value-producing investments. A regulatory framework and widely accepted standards will be the pillars on which e- payment applications will be built.

Payments and settlement systems constitute the backbone of the financial sector and enables settlement of financial contracts. The country has made phenomenal progress in enhancing the reach and improving the efficiency of the e-payment system. Payments Cards, Electronic Bill Presentment and Payments (EBPP), Internet banking, Mobile payments are some of the e-payment mechanism that are likely to replace paper based payment. Easy access to internet, innovation, incentives, security risks, simplified e-payment infrastructure, creating customers' awareness and reducing resistance to change, convenience and legal framework are the critical factors that will decide the future of e-payments systems and its usage growth in India. But as things stand now, a judiciously designed system of incentives is definitely required further to promote e-payments as the currency of the future in our country. Thus, the e-payments are as good as cash as they carry the real value. They have cut across distance, space and even time. This study has number of limitations that must be acknowledged. Data on Internet banking and Mobile banking were not available. Therefore, these results of this study are not applicable to the full extent of entire e- payments in India. This is the future scope for the further research.

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**APPENDIX-1**

**TABLE 1.**  
**Value of Transaction through Electronic and Paper based Payment Methods**  
**from 2003-04 to 2009-10**  
**(Rs. in crore)**

Year	EFT/ NEFT	ECS (Credit)	ECS (Debit)	Credit cards	Debit cards	Cheques/ DD*	EP (Total)
2003-04	17,125	10,228	2,254	17,663	4,874	1,15,95,960	52,143
2004-05	54,601	20,180	2,921	25,686	5,361	1,04,58,895	1,08,750
2005-06	61,288	32,324	12,987	33,886	5,897	1,13,29,134	1,46,383
2006-07	77,446	83,273	25,440	41,361	8,172	1,20,42,426	2,35,693
2007-08	1,40,326	7,82,222	48,937	57,959	12,521	1,33,96,066	10,41,992
2008-09	2,51,956	97,487	66,976	65,356	18,547	1,24,69,135	5,00,322
2009-10	4,09,507	1,17,613	69,524	62,882	26,418	1,04,09,942	6,85,944
Growth(%) 2007-08	81.19	839.35	92.36	40.13	53.22	11.24	342.10
Growth(%) 2008-09	79.55	-87.54	36.86	12.76	48.13	-06.92	-51.98
Growth (%) 2009-10	62.53	20.64	-03.80	-03.79	42.44	<b>-16.51</b>	<b>37.10</b>

Source: RBI, Money and Banking - Monthly Bulletin (June, 2010).

EPs-Electronic Payments, ECS-Electronic Clearing Service, EFT-Electronic Fund Transfer,  
NEFT-National Electronic Transfer.

**TABLE 2.**  
**Volume of Transaction through Electronic and Paper based Payment Methods**  
**from 2003-04 to 2009-10**  
**(Rs in lakh)**

Year	EFT/ NEFT	ECS (Credit)	ECS (Debit)	Credit Cards**	Debit Cards***	Cheques/ DD*	EP (Total)
2003-04	08.19	203.00	79.00	1,001.79	377.57	10,228	1,670
2004-05	25.49	400.51	153.00	1,294.72	415.32	11,669	2,289
2005-06	30.67	442.16	359.58	1,560.86	456.86	12,868	2,850
2006-07	47.76	690.19	752.02	1,695.36	601.77	13,673	3,787
2007-08	133.15	783.65	1,271.20	2,282.03	883.06	14,606	5,353
2008-09	321.61	883.94	1,600.55	2,595.61	1,276.54	13,974	6,678
2009-10	663.38	981.33	1,492.81	2,341.91	1,701.70	13,803	7,181
Growth(%) 2007-08	178.78	13.57	69.04	34.60	46.74	06.82	41.35
Growth 2008-09 (%)	141.61	12.80	25.91	13.74	44.56	-04.42	24.75
Growth(%) 2009-10	106.27	11.02	-06.73	-09.77	33.31	<b>-01.22</b>	<b>07.53</b>

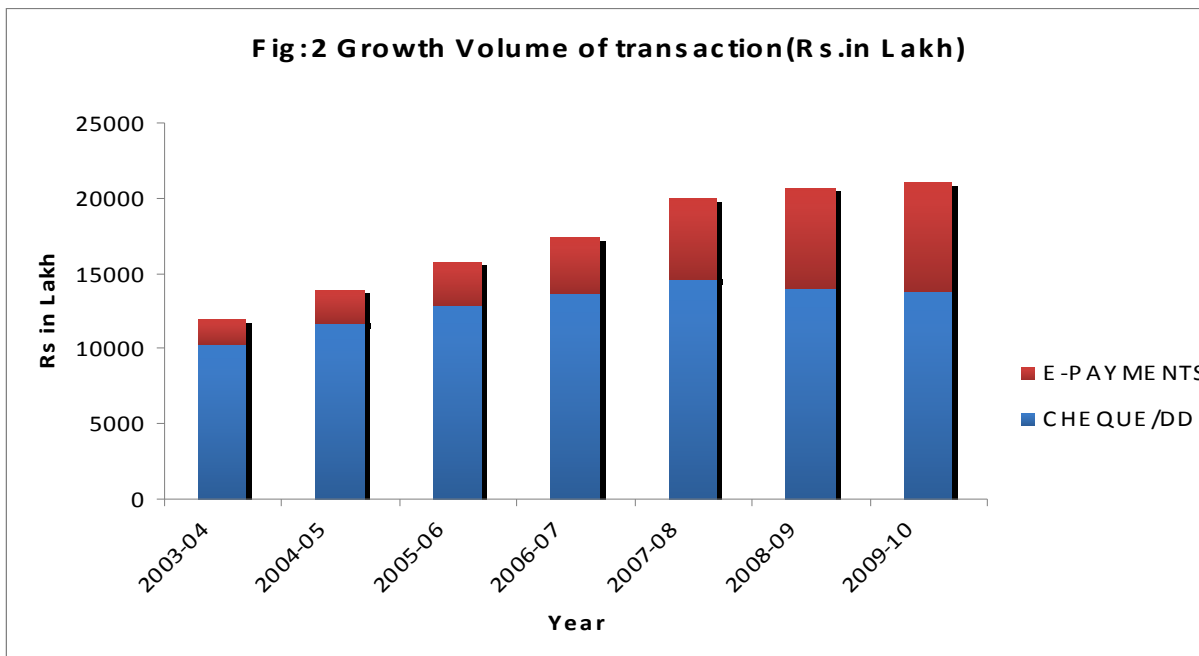
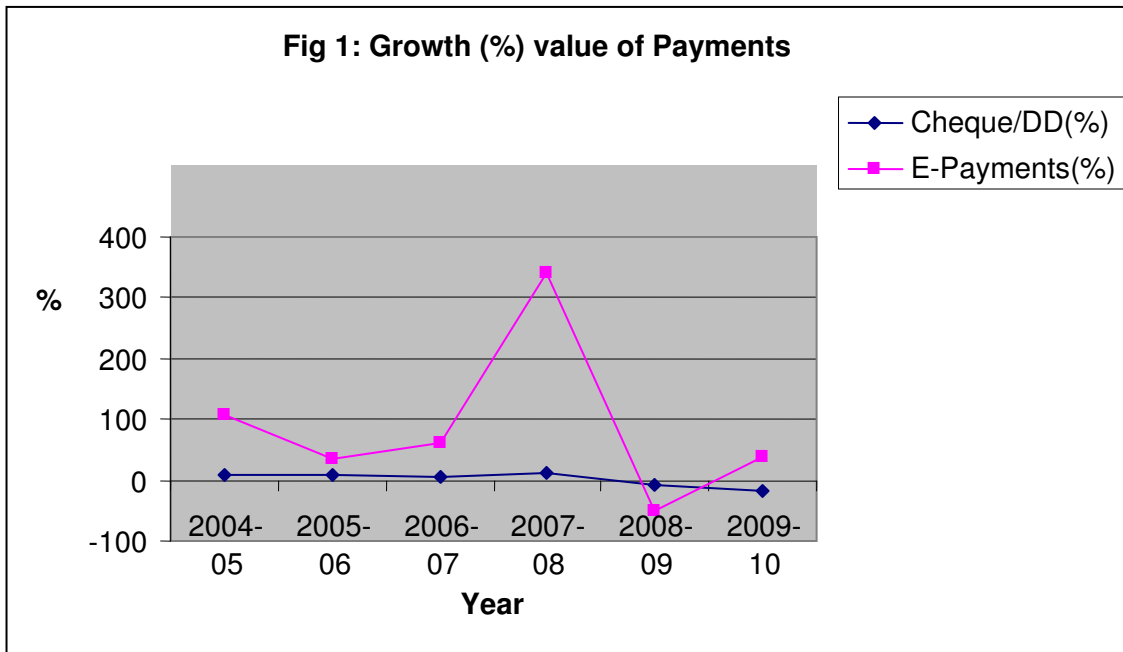
Source: RBI, Money and Banking - Monthly Bulletin (June, 2010).

\*More than 80 per cent of the cheques by volume got cleared in Magnetic Ink Character Recognition (MICR) - Automated Cheque Processing Centres.

\*\* Card payments figures pertain only to Point of Sale (POS) transactions.

\*\*\* Debit card figures for 2003-04 and 2004-05 are estimated based on 2005-06 figures.

## APPENDICES-2



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