

Impact of Covid 19 Pandemic on Digital Payments

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Abstract— 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. The adverse effects of the COVID-19 pandemic are trickling down to major sectors of 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. Demonetization in November 2016 and constant push by Government and regulators for less cash economy have propelled the growth trajectory. The digital payments market in India was valued at INR1,638.49 trillion. The industry has been equally supported by technological innovations. In the last 10 years, the country has seen many unique and state of the art product innovations in the digital payment industry. The advent of a younger population who has grown up with mobiles and data, has enabled faster adoption of technological advancements in digital payments. In this paper the author study about the impact of covid 19 pandemic on the digital payments. The objective of this study is to explain the challenges faced by different sector in covid pandemic.

Index Terms— Covid 19, Pandemic, Digital payment system.

I. 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, both 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.

The adverse effects of the COVID-19 pandemic are trickling down to major sectors of 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. Digital payment volume declines are seen in airlines, tourism, hospitality, hotels, entertainment, e-commerce (non-essentials) and restaurants, among other sectors. 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), EdTechs, 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.

Objective of the study

- To find out the effect of Covid-19 on Digital payments.
- To analyse the mode of payment done by the respondents before lockdown and during lockdown.
- To analyse the problems faced by them while during online payment

Sectoral Impact

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 curtailed:















Sector	Impact	Remarks
Aviation		An acquirer with large exposure to the aviation industry is at risk due to the threat posed by increased refunds and chargebacks as flights are cancelled across the board.
Tourism and hospitality		Acquire 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

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		restrictions on travel hampered the peak season for many. This in turn will have an adverse impact on payment volumes.	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.
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.	Insurance		Owing to the COVID-19 pandemic, insurers have seen a rise in digital payments as new and renewal policy payments are made online.
E-commerce		Non-essential e-commerce businesses will be adversely affected as they prioritize essentials given the limited delivery bandwidth due to the lockdown.	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.
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).	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.
Cross-border Payments		Payment companies with large cross border transactions will be impacted as supply side uncertainties, factory closures and trade barriers are affected cross border trade.	Healthcare/ pharma		Payment players associate with the healthcare/pharma sector will see an increase in digital payments due to the COVID-19 pandemic.
International remittances		International remittances will decrease as wages of Indians abroad would be negatively affected.	E-commerce (essential)		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.
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 sectors like e-commerce and mobile ordering would see a hike in fees. Overall network fees would decrease for card schemes.	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.
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.			





Source: Survey report of PWC on impact of covid 19.

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. The finance minister and the CEO of the National Payments Corporation of India have also urged people to increase the use of digital payments in order to make payments contactless.z

Payment category	Relative impact	Remarks
Payment Infrastructure	UPI 	UPI is primarily driven by P2P and P2M payment transactions. With fears of virus transmission through cash, P2M UPI transaction for essential services (including QR based payment) 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 restively higher number of transactions.
	NeTC 	The NETC programme, which facilities FASTag toll payments, will be adversely affected due to restrictions on travelling
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.

Way Forward

As the COVID scenario continues to unfold, its impact on the behaviour and expectations of customers, as well as those of businesses, will become more apparent. However, what is clear now is that we will settle into a new normal once the pandemic dies down. To aid the recovery and lead the emergence into this new normal, it is imperative for the digital payments ecosystem to evolve rapidly and help shape the post-COVID era.

Short term

- Banks offering fee waiver on select digital payments (IMPS, NEFT, RTGS) and cash withdrawals from third-party ATMs.
- RBI offering a three-month moratorium on loans and credit card dues (not many people are expected to avail this as the interest charges will be very high)
- Immediate financial assistance from the Government through DBT
- NPCI fast-tracks contactless and online onboarding for UPI and UPI QR.

Medium to long term

- Continued digital payments push: There will be a

continued push to adopt digital payments from governments, regulators and banks alike. There will be a marked shift away from cash as digital means gain popularity and acceptance and transform from a convenience to a necessity.

- **Consumer behaviour:** People's anxiety of immediate survival, be it food and/or medicines, is counteracting long-standing apprehensions of digital transactions that may have inhibited greater adoption until now. There will be a marked shift in consumer behavior, with a significant population of first-time adopters continuing with digital payments even after the current crisis ends.
- **Real-time contactless payments:** Real-time contactless payments will gain traction. They will assist in moving the needle on digital payments toward high-volume but low-value transactions from the current low volume, high-value tilt and eventually lead to a decline in cash usage. Wearables will also gain traction as people look to adopt contactless payment modes.
- **QR/link-based payments:** QR code payments will see an uptick – as they are cost-effective and contactless. Offerings such as offline to online payments will also increase. These will gain traction as they will assist a lot of small and individual business owners (like milk and vegetable vendors) to collect payments when people are hesitant to use cash, and eventually lead to a decline in cash usage.
- **DBTs:** Higher utilisation of DBT rails will be seen as India recovers, thereby enabling instant infusion of money to the bottom of the pyramid. This in turn will drive rural spending, which will help in kick-starting the economy.
- **EMI transactions:** We may also see a slightly larger proportion of transactions being converted to EMIs owing to the slowdown that may result from the COVID-19 pandemic.
- **Increased online presence:** Companies with a large online presence will likely suffer to a smaller extent owing to the expected slowdown. Players with zero or limited online presence as well as small businesses may need to contemplate tie-ups with payments specialists. Banks and other payment service providers may offer subsidised prices to such businesses to start operating online.
- **Process overhaul:** The disruption caused by the pandemic will compel financial players to priorities a process overhaul. Touch point experience will change overall with all channels moving to social distancing norms along with associated regulatory hurdles. Banks and NBFCs will offer unsecured and consumer durable loans as well as credit cards with zero paperwork and no in-person contact. Adoption of video KYC is expected to gain momentum. Further, increase in virtual card issuance and usage will also be seen.
- **Payment processors:** They will be encouraged to invest in service quality and to increase

infrastructure and capacity owing to the expected increase in digital transactions going forward. New growth for both retail and corporate payments will come from industries which are transitioning to increased digital adoption: EdTech, entertainment, telemedicine, pharma, etc. The focus will shift to omnichannel payment services. And with more players providing digital payment platforms, the resulting competition should also help to enhance the overall service experience for end users.

- **Customer education:** There will be an increased focus on customer education to reduce contact during payments – for instance, asking customers to insert the card in the POS machine themselves as opposed to handing over the card to the salesperson, or using the contactless feature on cards for payments below INR 2,000.
- **Catalyst for innovation:** The current crisis will act as a catalyst for innovation with FinTechs being at the fore. There will be greater e-commerce based offers as against PoS. The rapid buildout of omnichannel capabilities—which will link payments in any environment, physical or digital—will become a baseline requirement for all payment players.
 - **Driving productivity:** Incumbents would have to focus on a productivity agenda by leveraging technology for their sales force (e.g. feet on street selling cards or relationship managers of transaction banking teams) and on streamlining operations in work from home scenarios. Installing collaboration tools is only the first step. Further, companies that had created lending adjacencies would probably need to reskill people as collections are not happening due to moratoriums and new business is slow.
 - **Combat fraud:** With rising digital transactions, fraud will see an increase, with fraudsters using the surge in online activity to target unsuspecting consumers and merchants. All ecosystem players will have to increase risk monitoring, make use of business intelligence tools and ramp up real-time monitoring systems while also ensuring customer education initiatives are in place. Tokenised payments will also see a spike.
 - **Payments industry consolidation:** The trend of consolidation among payment processors and acquirers will continue as companies look at survival.

Digital payments companies are essentially cash businesses and depend on the risk capital they carry. As transactions dip, there could be more deals action in this space.

Conclusion

In this study, it is concluded that the downward impact of COVID-19 on the payment landscape has been profound and significant, yet not irreparable. Elements in the payment ecosystem are most adaptable to disruption and least dependent on physical infrastructure have been able to withstand, mitigate and even so far as capitalize the crisis,

turning an imminent threat to their advantage. The pandemic has compelled individuals as well as organizations to re-evaluate their payment framework and infrastructure so as to incorporate considerations of disruption mitigation and continuity planning.

Additionally, the pandemic has put a spotlight on inherent flaws brought forth by rigidity or inflexibility of being overly reliant on cash as a sole method of payment, for many legacy players in the industry as well as individual consumers.

The COVID-19 crises called into question the assumption of cash being the ultimate liquid asset, causing payers to evaluate its consideration as a sacrosanct payment method with the most access and convenience. Payers have displayed considerable apprehension to revert to cash payments once they have accepted digital modes of payment. That being said, cash is not expected to disappear anytime in the near future. Cash withdrawals in the NFS network have displayed signs of rebounding to pre-COVID-19 levels indicating that the Indian populace has a certain proclivity and propensity to transact in cash.

Thus, COVID-19 may have given a sizable push in the endeavour to marginalize cash transactions, but not so far as to eradicate it completely.

Nevertheless, COVID-19 has been a silver lining, in many ways, for acceptability of digital payments in India. A key factor that served as a festering barrier towards the growth of digital was the impenetrability of existing payment infrastructure. However, the disruption caused by the pandemic allowed businesses the bandwidth to step back

and reconsider their payment protocols for inclusion of digital from a streamlining and ease perspective. Also, individuals were inclined to consider digital payments in lieu of prevention to physical access to their funds. As highlighted by the polls conducted, apprehension towards digital payments, due to lack of awareness, infrastructure availability, technicality and costs involved played key reasons for non-adoption of digital payments.

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