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## An overview on electronic payment systems in India: Problems and prospects

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### Abstract

The term "digital payment" is used to refer to the activity of transmitting monetary value for products and services without the actual exchange of currency. Electronic payment systems enable this by relying on a wide range of digital infrastructures and technology to ensure the safety and efficiency of monetary transactions. The rapid surge in popularity of digital payment methods can be directly attributed to their numerous advantages over conventional currency exchanges. The Reserve Bank of India (or RBI) is the governing body for the Indian monetary system. This construction places an emphasis on safety and security without losing originality or inventiveness. The purpose of this research is to learn more about India's digital payment system and the challenges it faces, as well as any possible remedies.

**Keywords:** Digital payment, monetary value, electronic payment, financial transactions

### Introduction

The introduction of digital payment systems in India has significantly transformed company practises and financial management, leading to notable divergences from traditional approaches. This captivating evolution has unfolded gradually over an extended period of time. During the 1980s and 1990s, the Reserve Bank of India (RBI) assumed the responsibility of establishing the foundational framework for the adoption of Electronic Fund Transfer (EFT) systems, hence facilitating the introduction of digital payment mechanisms in India. The implementation of Electronic Funds movement (EFT) facilitated the electronic movement of payments across many bank accounts, eliminating the need for paper checks and the labor-intensive manual processing associated with them. The advent of Internet banking in the early 2000s has resulted in enhanced customer accessibility to their bank accounts, along with an expanded range of available banking services. The advent of secure payment gateways like Bill Desk and CC Avenue has facilitated the ability of companies to process credit card payments online. In approximately 2010, mobile payment companies such as Paytm and MobiKwik initiated the provision of their services in India. The aforementioned wallets were employed for the purpose of storing digital currency, and they have the capability to facilitate online transactions for the acquisition of goods and services. The concept of "Prepaid Payment Instruments" (PPIs), encompassing mobile wallets and various forms of digital value storage, was introduced by the Reserve Bank of India (RBI). The demonetization of high-denomination currency notes by the Indian government in 2016 resulted in a substantial enhancement of the digital payment system in India. In 2016, the National Payments Corporation of India (NPCI) introduced the Unified Payments Interface (UPI), a mobile phone-based system designed to facilitate expeditious bank-to-bank monetary transactions. The Bharat Interface for Money (BHIM) app was introduced in 2017 to streamline the digital payment experience for customers. The Aadhaar Enabled Payments System (AePS) has facilitated the execution of financial transactions through the utilisation of biometric data embedded in individuals' Aadhaar cards. The Reserve Bank of India (RBI) created an extensive regulatory framework for the diverse payment systems in India, aiming to promote innovation while concurrently safeguarding the country's safety and security. The acceptance of digital payment systems in India experienced a surge due to the COVID-19 outbreak, as a growing number of Indian consumers sought cashless payment alternatives.

The adoption of Near Field Communication (NFC) technology and the use of QR Codes for payment purposes seen a notable rise in prevalence.

### Digital Payment

The term "digital payment," also known as "electronic payment" and "e-payment," denotes a financial transaction conducted by digital means, in contrast to conventional methods like cash or checks. Alternative designations for this particular form of transaction are "electronic payment" and "e-payment." It entails making monetary or other value transfers between parties through the use of digital devices and technologies. Since both "e-payment" and "digital payment" refer to electronic methods of making financial transactions, they are commonly used interchangeably. However, depending on the setting, they may be used slightly differently. Both phrases refer to the practice of transferring funds between individuals or businesses through digital or electronic methods. Let's explore the meanings of these terms.

### E-Payment (Electronic Payment)

E-payment, often known as electronic payment, as a broad term for any type of electronic money transfer between individuals or businesses. It includes a wide variety of digital payments as those made by a credit card, debit card, bank transfer, mobile wallet, or an online payment gateway. Electronic payments have been used for a wide range of purposes, including, but not limited to, making purchases, paying bills, and transferring money. Electronic payment systems typically involve a secure and private channel between the payer and the payee (The Merchant or Recipient). Information about the financial transaction is transmitted electronically, generally via the internet, and processed through encrypted channels to ensure its security.

### Review of Literature

Kim H (2016) <sup>[5]</sup> Consumer Behavior and Adoption Patterns: Kim's study primarily concentrates on the patterns of consumer behavior and adoption in relation to digital payment systems. The author explores the elements that influence users' decisions to adopt or switch between various digital payment systems. These aspects include ease of use, trust, and a user's perception of their own level of safety.

Smith J (2017) <sup>[1]</sup> Evolution and Adoption of Digital Payment Systems: The work of Smith gives light on the historical development of digital payment systems, beginning with early electronic funds transfer (EFT) and progressing all the way up to contemporary mobile wallets and cryptocurrencies. The study places an emphasis on the reasons that are driving the adoption of digital payment systems. These variables include technological innovation, changing consumer preferences, and developments in regulatory framework.

Martinez R (2018) <sup>[16]</sup> Regulatory Framework and Policy Implications: Martinez analyses the difficulties posed by regulations and the implications digital payment systems have for policy. In this article, the necessity of having dynamic regulations that strike a balance between innovation and consumer protection, compliance with anti-money laundering (AML) laws, and the prevention of financial crimes in the digital arena is discussed.

Johnson A (2019) <sup>[3]</sup> Security and Privacy Concerns in

Digital Payments: Johnson's research delves into the security and privacy challenges associated with digital payment systems. The author explores issues such as data breaches, identity theft, and cyberattacks that can compromise user information and financial assets. Strategies for mitigating these risks, such as encryption and multi-factor authentication, are discussed.

### Objectives of the study

- A. To study the history of digital payment system India.
- B. To study the types of digital payment method.
- C. To analyse the impact of digital payment system in India.
- D. To study the progress of digital payment services in India
- E. To know the problems and prospects of digital payment system in India.

### Progress of Digital Payment services in India

The government's efforts, technology developments, shifting customer preferences, and rising smartphone penetration have all contributed to the explosive expansion and evolution of India's digital payment systems over the years. Digital payment is a subset of e-payment that pertains to the execution of transactions facilitated by digital methods. The practise of encoding information using binary digits (0s and 1s) is commonly known as "Digital", and the term "Digital" is employed to signify this practise. The utilisation of digital payment systems, characterised by their reliance on digital data instead of physical currency, enables individuals to conduct transactions without the necessity of tangible cash. In contemporary times, individuals possess the capacity to engage in financial transactions and acquire goods and services through a diverse range of digital modalities. Several techniques that fall under this category include credit cards, debit cards, mobile payment applications, QR Codes, online banking transfers, and various other digital systems. In contemporary society, characterised by technology advancements, an increasing number of individuals are opting for digital payment options due to their convenience, timeliness, and efficiency.

- A. **Demonetization:** The rapid adoption of digital payment systems in India can be attributed in large part to the government's decision in November 2016 to demonetize high-denomination currency notes. This change was designed to prevent the use of counterfeit money and other fraudulent financial instruments. There was a noticeable shift away from the usage of real cash and towards the use of various kinds of digital payment after its unexpected fall.
- B. **Unified Payments Interface (UPI):** The National Payments Corporation (NPCI) of India brought about a significant transformation in the digital payment infrastructure of the country through the implementation of the Unified Payments Interface (UPI) in 2016. The implementation of UPI facilitated expedited money transfers across many financial institutions by enabling customers to consolidate their multiple accounts into a single mobile application. The proliferation of digital transactions has experienced a significant surge due to the implementation of a standardised and open-source infrastructure.
- C. **Mobile Wallets and Payment Apps:** In recent years, there has been a significant surge in the adoption and

usage of mobile wallets in India, with platforms such as Paytm, PhonePe, and Google Pay experiencing remarkable development. These applications offer users the functionality to save funds in a digital format and facilitate transactions for a diverse range of services, including but not limited to mobile recharges, bill payments, online shopping, and other similar activities. Furthermore, they offered cashback and discounts as a means of incentivizing adoption.

- D. **Government Initiatives:** The Indian government has implemented the BHIM (Bharat Interface for Money) application as part of its efforts to encourage the adoption of digital payment systems. This app has been developed using the Unified Payments Interface (UPI) framework. The government's provision of subsidies, welfare payments, and other forms of monetary assistance has witnessed a growing trend towards digital disbursement.
- E. **QR Code Payments:** In recent years, the majority of transactions in India have been completed using QR codes. In order to accept payments from clients' mobile wallets, shops, small businesses, and street vendors quickly adopted QR codes. Because of this, both parties felt more comfortable and safer completing the purchase.
- F. **Adoption in Rural Areas:** The availability of digital payment systems has spread beyond major cities and into more remote places. The spread of cheaper telephones and government programmes aimed at expanding access to financial services like the Pradhan Mantri Jan-Dhan Yojana both played key roles in this expansion.
- G. **Security and Privacy Concerns:** With the rise of online payment systems came new worries about security and privacy. Stakeholders' focus has switched from preventing fraudulent transactions and data breaches to strengthening the security architecture underlying digital payment systems.
- H. **Cashback and Incentives:** To encourage customers to switch to digital payments, businesses and banks have provided incentives including cash back, rebates, and loyalty programmes. These incentives helped boost the profile of smartphone apps that facilitate digital payment.
- I. **Integration with E-Commerce and Services:** E-commerce platforms and other service providers have included diverse forms of digital payment methods into their range of offerings. The implementation of this interface resulted in a streamlined process for customers to place online orders and make payments.
- J. **Regulatory Developments:** The Reserve Bank of India (RBI) and other regulatory bodies have developed guidelines and techniques to oversee digital payment service providers in order to protect consumers and keep the integrity of the system intact.

#### Types of digital payment methods:

- A. **Credit/Debit Cards:** The most commonly used digital payment methods allow users to engage in transactions such as purchases or money transfers by utilizing the data held on their credit or debit cards. The card data is inputted either through a secure internet interface or by utilising a physical card reader at the point of sale.
- B. **Mobile Payments:** Mobile payment systems, which

have been made possible by the widespread adoption of smartphones, are rapidly expanding in popularity. Users can choose to pay with a variety of digital wallets and mobile payment apps, including Apple Pay, Google Pay, Samsung Pay, and many more. You may use these apps to make in-store or online contactless purchases since they either save your payment information or connect directly to your bank account.

- C. **Online Banking:** Digital transactions can be routed through online banking services. Users can log into their accounts via a secure website or mobile app and do a wide range of banking-related tasks. Bill payments, wire transfers, and online shopping all fall under this category.
- D. **Electronic Funds Transfer (EFT):** EFT, or electronic funds transfer, eliminates the need to write physical checks when moving money from one bank account to another. Direct deposits, online bill payments, and wire transfers between banks are some of the most prevalent uses for it.
- E. **Peer-to-Peer (P2P) Payments:** These services enable instantaneous monetary transactions between users by means of digital infrastructures. Venmo and PayPal are two popular examples of such services.
- F. **Cryptocurrencies:** Examples of cryptographically secure digital or virtual money include these. Cryptocurrencies like Bitcoin and Ethereum are transacted in a decentralised manner. Bitcoin, Ethereum, and other cryptocurrencies provide their users with a measure of privacy and freedom from centralised monetary authorities.

#### Benefits of digital payments include

- A. **Convenience:** Transactions can be completed more quickly and easily using digital payments, making this method advantageous for customers as well as retailers.
- B. **Security:** Using techniques of authentication and encryption that are secure helps protect sensitive financial information while transactions are being processed.
- C. **Record-keeping:** The maintenance of detailed transaction records by digital payment systems simplifies both financial management and the monitoring of expenditures.
- D. **Global accessibility:** The utilisation of digital payment systems across international boundaries facilitates the conduct of international business and electronic commerce, hence enhancing convenience and efficiency.
- E. **Contactless options:** The prevalence of contactless payment systems and other digital methodologies contributes to heightened cleanliness and safety measures, particularly in the context of epidemics.

As the technology behind digital payments improves and more people start using it, it quickly becomes an integral part of today's economies. This leads to a reduced need for hard currency and fosters a more cohesive and effective monetary ecology. However, constant vigilance in the realm of cybersecurity is required to ensure the protection of one's private data and financial data during digital transactions.

#### Characteristics of e-payment systems

Electronic payment systems, sometimes referred to as e-

payment systems, have experienced a surge in popularity owing to their ability to facilitate financial transactions with ease and enhanced security measures. The reason for the widespread use of electronic payment systems might be linked to its alternative name, namely e-payment systems. The subsequent elements delineate the fundamental components of electronic payment systems.

- A. **Digital Transactions:** E-payment systems facilitate the electronic execution of financial transactions and the transfer of funds, eliminating the necessity for tangible currency or paper checks.
- B. **Real-time Processing:** The overwhelming majority of online payment systems exhibit the capability to swiftly process transactions, either instantaneously or within a brief temporal interval. This expeditious processing facilitates prompt fund transfers and fast confirmations.
- C. **Convenience:** The convenience of electronic payment systems lies in their ability to facilitate transactions through the use of a suitable device and internet connectivity, irrespective of the user's location.
- D. **Multiple Payment Options:** E-payment systems frequently facilitate a diverse range of payment methods, encompassing credit cards, debit cards, bank transfers, e-wallets, and mobile payments. This feature provides customers with the opportunity to select the payment method that is most suitable for their individual requirements.
- E. **Security:** E-payment systems include several powerful security elements, including encryption, secure sockets layer (SSL) technology, two-factor authentication, and tokenization. The implementation of these procedures serves the purpose of safeguarding sensitive financial information and preventing fraudulent activities.
- F. **Accessibility and Global Reach:** These systems are accessible 24/7, allowing users to engage in commercial activities at any given moment, including weekends and holidays. Electronic payment systems, encompassing a variety of platforms, facilitate international commercial transactions and streamline participation in global commerce and financial activities for both individuals and organisations.
- G. **Reduced Transaction Costs:** In contrast to traditional payment methods, e-payment systems often yield reduced processing fees and decreased paperwork, hence facilitating cost reductions. The seamless integration of electronic payment systems with diverse online platforms, including e-commerce websites and mobile applications, is a feasible undertaking. This facilitates a streamlined process for users to engage in online transactions.
- H. **Transaction History and Reporting:** Due to the availability of extensive transactional data and history, users of e-payment systems possess enhanced capabilities to monitor their financial activities and exercise control over any superfluous expenditures. Moreover, given their inherent capability to facilitate the establishment of regular payments, these systems are also well-suited for the purpose of remitting payments for subscription-based services and utility bills.
- I. **Reduced Risk of Loss:** Electronic payment systems eliminate the necessity for physical currency, hence reducing the likelihood of financial loss due to theft or inadvertent misplacement.

### Importance of Digital Payment Method

In contemporary society, characterized by its heavy reliance on technology, the utilization of digital payment systems holds significant significance. Digital finance, also known as electronic finance, encompasses the process of conducting financial transactions by digital means, rather than engaging in physical exchanges involving the transfer of cash for products or services. The advent and widespread adoption of digital payment methods have significantly transformed business operations and financial management, offering a multitude of advantages and benefits, which might be summarized as follows.

- A. **Convenience:** Digital payment systems have the advantage of swift and convenient transaction completion, while also providing continuous availability throughout the day. Individuals have the capability to conduct financial transactions through the utilisation of their mobile phones, computers, or other digital devices, so affording them the convenience of making payments from the comfort of their residences or during periods of absence from home.
- B. **Security:** Encryption, multi-factor authentication, and tokenization are among the robust security techniques commonly integrated into digital payment systems. Due to the presence of these characteristics, individuals are safeguarded against identity theft and fraudulent activities, hence enhancing the security of digital transactions in comparison to the conventional practise of carrying physical currency.
- C. **Financial Inclusion:** Especially in remote areas or regions with limited access to traditional banking services, digital payment systems have the ability to extend financial services to underserved communities. This is especially true in places where access to standard financial options is limited. This has implications for both people's ability to participate in the financial system and to exercise economic agency.
- D. **Transparency:** Both customers and sellers derive advantages from the transparency facilitated by the comprehensive transaction records generated by digital payment systems. The implementation of transparency measures facilitates the monitoring of expenditure, enables the conduction of audits, and reduces the probability of fraudulent actions.
- E. **Cost-Effectiveness:** The fees related to digital transactions generally exhibit a lower magnitude compared to the fees associated with conventional payment methods such as cheques and money orders. This phenomenon can lead to financial benefits for organisations, especially in terms of reduced processing fees and less administrative overhead.
- F. **Real-Time Transactions:** Instantaneous money transfers are made feasible by the utilisation of diverse digital payment systems that provide support for real-time transactions. The expeditious nature of this function, which eliminates the delays associated with traditional banking procedures, proves highly advantageous for expediting urgent payments and facilitating global business transactions.
- G. **Enhanced Business Efficiency:** The implementation of digital payment methods in commercial companies has led to a streamlining of financial processes, resulting in a reduced need for manual and paper-based procedures. The enhanced efficiency can result in increased levels

of production and a more simplified consumer experience. The facilitation of contactless payment mechanisms is enhanced by the utilisation of digital payment systems, including mobile wallets and contactless cards. Contactless payments have demonstrated increased significance in periods of public health crises, such as the COVID-19 pandemic, due to their ability to mitigate the transmission of germs and promote individual well-being.

- H. **Data Analytics:** Digital payment networks produce huge amounts of data as a result of their transactional activity. By analysing this information, firms may better tailor their products and services to their consumers' needs and interests, as well as their advertising campaigns.
- I. **Encouraging a Cashless Economy:** An efficient and transparent cashless economy may result from the broad adoption of digital payment methods, which may reduce the reliance on physical cash.

The importance of digital payment lies in its ability to simplify transactions, enhance security, promote financial inclusion, and drive economic growth in the digital age. As technology continues to advance, digital payment methods are likely to become even more critical in our daily lives and economic activities.

### Problems and Prospects of Digital Payment Problems

- A. **Digital Literacy:** A significant proportion of India's population, particularly in rural regions, exhibits a deficiency in both technological proficiency and the requisite understanding to effectively utilize technology. As a result, the adoption and utilisation of digital payment mechanisms are impeded.
- B. **Infrastructure Challenges:** Insufficient power supply and limited internet connectivity might pose challenges to the effective functioning of digital payment systems in certain regions across the globe.
- C. **Security Concerns:** A growing number of digital payment methods has led to a corresponding increase in concerns over cybersecurity, data breaches, and online fraud. It is imperative to provide users with comprehensive knowledge regarding safe practices for internet usage.
- D. **Lack of Trust:** There exists a segment of the population that continues to favour cash as a means of conducting transactions, primarily due to a perceived lack of trust in digital payment networks. The erosion of trust can be exacerbated by the occurrence of security breaches and scams.
- E. **Interoperability:** There is a wide variety of digital payment platforms in India, many of which operate in isolation from one another. It can be challenging to ensure seamless interoperability between all of these systems.
- F. **Transaction Costs:** Although digital transactions are generally more economically efficient, clients may be discouraged from utilising this approach due to the fees and levies imposed by banks and payment service providers, especially for smaller transactions.

### Prospects

- A. **Financial Inclusion:** Digital payment systems offer the

potential to enhance accessibility to banking and financial services for a larger segment of the population, particularly individuals residing in rural and suburban regions that have previously experienced limited access to such services.

- B. **Convenience and Efficiency:** When compared to digital payments, cash transactions are less convenient, slower, and less efficient, making it harder for individuals and businesses to keep track of their finances.
- C. **Government Initiatives:** The Indian government has been actively engaged in promoting the adoption of digital payment systems through the implementation of several initiatives and campaigns, including the Unified Payments Interface (UPI) and the Digital India programme. Both of these projects are directed towards the objective of transforming India into a technologically advanced nation.
- D. **Innovation:** The rapid development of digital payment methods has stimulated advancements in the field of financial technology (FinTech), leading to the creation of novel products and services that cater to diverse monetary needs.
- E. **Cashless Economy:** The overarching goal of reducing the dependence on tangible currency while concurrently promoting the adoption of digital transactions aligns with the concept of an economy devoid of physical cash. The extensive adoption of digital payment systems holds the capacity to foster more transparency, mitigate the prevalence of illicit funds, and stimulate growth within the official sector.

### Research Methodology

The study adopts a descriptive research strategy in order to meet the requirements of the objectives. The investigator used secondary sources to compile the data. The study relied significantly on secondary information found in public domain sources like the Internet, libraries, and bookstores, as well as periodicals and scholarly journals.

### Future of Digital Payments in India

- A. **Continued Growth of Mobile Wallets and UPI:** Mobile wallets and the Unified Payments Interface (UPI), which is a standardized protocol for digital transactions, have experienced a significant surge in popularity within the Indian context. It is probable that this trend will persist as an increasing number of consumers become aware of the advantages associated with conducting digital transactions, such as the convenience and security it offers.
- B. **Rise of Contactless Payments:** The widespread adoption of contactless payments facilitated by Near Field Communication (NFC) technology is expected to increase significantly. The increasing prevalence of smartphones and other NFC-enabled devices is expected to drive the adoption of contactless payment methods among both customers and retailers.
- C. **Digital Lending and Microfinance:** Digital payment platforms possess the capacity to serve as gateways to digital lending and microfinance services. With the increasing familiarity of digital payment systems among individuals, it is conceivable that they may also explore the potential of utilising these platforms for borrowing and lending purposes.

- D. **Integration of AI and Biometrics:** The potential exists for enhancing security and optimizing the payment process through the amalgamation of artificial intelligence (AI) with biometric authentication techniques, such as fingerprint or facial recognition. This integration has the capacity to further enhance the seamlessness and security of financial transactions.
- E. **Blockchain and Cryptocurrencies:** The potential utilisation of blockchain technology and cryptocurrencies in the advancement of digital payment systems in India is a subject of interest, notwithstanding the potential necessity to address legislative challenges. The assistance provided by these entities has the potential to enhance the speed and efficiency of cross-border transactions.
- F. **Government Initiatives:** The Indian government has been vigorously advocating for the adoption of a cashless economy and has been aggressively endorsing the utilisation of digital payment mechanisms through initiatives such as Digital India. These endeavours could potentially lead to further technological improvements and the widespread use of digital payment alternatives.
- G. **Security and Data Privacy:** With the growing prevalence of digital payment methods, there will be a heightened focus on safeguarding client data and ensuring the integrity of financial transactions. The preservation of client trust will necessitate the use of advancements in encryption and other cybersecurity measures.
- H. **Rural and Remote Adoption:** The promotion of digital payment systems in India's rural and remote areas will remain a key emphasis. In order to enhance the accessibility of digital payment methods, it is imperative to leverage technology advancements that address connectivity issues and offer user-friendly interfaces.

### Conclusion

There has been a dramatic shift in the way digital payments are handled in India as a result of developments in both technology and law. Several causes, including government-led programmes like Digital India and the Unified Payments Interface (UPI), the widespread adoption of smartphones, and the recent demonetization of paper currency, have contributed to the dramatic rise in the use of digital payment systems. Substantial changes have occurred in India's payment landscape as a result of the widespread adoption of various digital payment systems in recent years. There are a number of variables that have contributed to the rise of digital payment systems, including the quick pace of technological advancement in related industries and government initiatives aimed at fostering digitization. Mobile wallets have become in popularity as a quick and secure way to pay individuals and businesses. Popular examples are Paytm, Phone Pe, and Google Pay. This pattern is likely to persist. When it comes to transferring funds across different types of bank accounts, the Unified Payments Interface, or UPI, has recently become the de facto standard.

In 2016, demonetization had a crucial role in propelling the widespread adoption of electronic payment systems. The government's efforts to increase UPI usage, together with the BHIM (Bharat Interface for Money) app, have provided

more impetus towards cashless exchanges. Access to banking services in underserved areas via mobile phones is one way that digital payments have facilitated financial inclusion. Direct Benefit Transfer (DBT) programmes, including those associated with the Aadhaar database, have simplified the delivery of subsidies and other forms of government assistance. The use of digital payment systems has helped to formalize economies by decreasing the flow of untraceable "Dark" money. Because digital transactions are so simple, e-commerce and internet enterprises have thrived. As the number of digital transactions rises, so do worries about cyber security and personal data protection. In rural areas and places with a lower concentration of tech-savvy people, digital literacy is still a problem. Lack of reliable Internet service in outlying areas is a barrier to widespread use of online payment systems. It is anticipated that new technologies and creative solutions will contribute to the ongoing development of the digital payment ecosystem. The future of digital payments in India is likely to be determined by biometric authentication, contactless payments, and blockchain-based solutions. Security improvements, closing the digital divide, and encouraging regulation are all crucial to the expansion of digital payment usage. The influence of digital payments in changing India's economy and financial environment is likely to grow as technology advances.

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