



Impact Of The First Wave Of Coronavirus On Upi Payments: A Major Boost To Digitalization

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ABSTRACT

The global economy is devastated by the adverse effect caused by the Covid-19 pandemic. The same has had a negative effect on economic growth, GDP, employment rates, etc. The International Monetary Fund (IMF) forecasted a sharp decline of 3% in the global economy for the year 2020 on account of the pandemic. However, the same has bolstered the mission of cashless India of the government, by promoting the use of online payments. This paper makes an attempt to analyze the impact of the first wave of Coronavirus on the UPI payments in India. At the same time, it aims to address whether covid-19 has proved to be a catalyst to promote the usage of UPI against cash payments, making the Indian economy move one step closer to digitalization. It also seeks to address what factors have promoted the growth of UPI payments in India.

Keywords: Covid-19, UPI, Digitalization, Online payments.

1. INTRODUCTION

The digital revolution in the Indian economy has transformed the payments system of the country fostered by numerous innovations and developments in the payments ecosystem. The rising penetration of smartphones and the proliferation of the internet have led to the amelioration of mobile banking services (Bhardwaj & Kaushik, 2018). The Unified Payment Interface (UPI) is one such predominant innovation advanced under the umbrella of the National Payments Corporation of India (NPCI) that has brought a paradigm shift in the Indian economy, which has eventually accelerated the pace of India's journey towards the digital path. Government initiatives, myriad innovative technologies and changes in policies have bolstered the aim of Digital India, where the demonetization of 2016 has emerged as one of the unprecedented determinants. Eradication of counterfeit notes, reduction of the circulation of black money, etc. were the

immediate aims of Demonetization, but the same also resulted in increased use of digital payment modes (Balaji & Balaji, 2017). As per the statistics released by NPCI, the value of transactions carried out using UPI jumped from 100.46 Crores in November 2016, to 707.93 crores in December 2016, one probable reason accounting for this massive jump is the demonetization of 500 and 1000 rupee currency notes. Post demonetization, the world was hit by another enormous unprecedented challenge- The novel Coronavirus, also referred as Covid-19, in the year 2019, which shook the entire global economy, leading to widespread consequences in the form of economic disturbances. Apart from the treacherous health impacts of Covid-19, the International Monetary Fund (IMF) forecasted a sharp decline of 3% in the global economy for the year 2020 on account of the pandemic. In comparison to 2.9% in 2019, the economic growth around the globe is estimated to fall to 2.4% in 2020 which is projected to fall to 1.5% also due to a sharp decline in global activities (OECD, 2020). It was delineated that the virus will lead to economic disturbances in three ways viz., Loss of jobs, reduced quality of work concerning wages and negative effects on temporary employees (ILO, 2020).

1.1 OBJECTIVE OF THE STUDY

This paper makes an attempt to analyze the impact of the first wave of Coronavirus on the UPI payments in India. At the same time, it aims to address whether covid-19 has proved to be a catalyst to promote the usage of UPI against cash payments, making the Indian economy move one step closer to digitalization. Subsequently, it aims to study the factors that have promoted the growth of UPI since its inception.

2. BACKGROUND & LITERATURE REVIEW

2.1 OVERVIEW OF UPI

The UPI system was officially launched on the 11th of April, 2016, by the then RBI governor. The same was readily available for the users on the 25th of August, 2016 (NPCI). It can be defined as a Peer-to-peer fund transfer mechanism that inculcates the functioning of multiple bank accounts into one mobile application of the participating bank, without limiting the transaction time to official banking hours. (NPCI, 2016). It was conceptualized with the aim of boosting the pace of the Digital India program, launched by the government of India (GOI) in 2015. The lack of Point-of-Sale terminals (POS), made Automated Teller Machines (ATM) the centre point of dispensing cash, it was recognized that banking customers were drawing out the money 6.2 times more from the ATMs than POS machines. Thereby, using more cash to pay for their daily transactions. Eventually, the launch of UPI enabled ease of carrying out transactions both for the merchants and the customers in an economic way, since the need for POS terminals was eliminated (Gochhwal, 2017). It is accounted as one of the most cost-effective innovations in the history of digital payments evolution (Sumathy, & Vipin, 2017, Bagla, & Sancheti, 2018, Gupta & Kumar, 2020). The system functions on three pivotal players (see fig.1) viz, Payment Service provider, Participating Bank and NPCI.

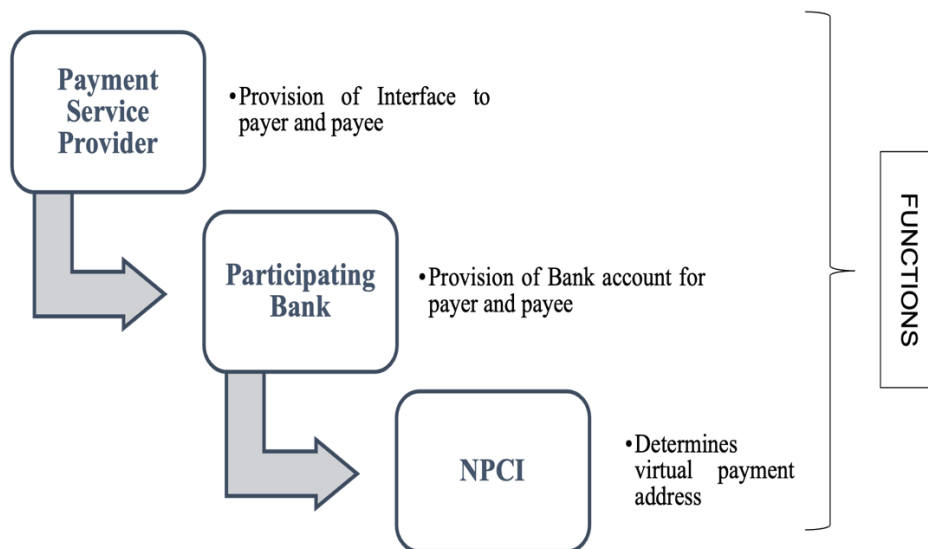


Figure 1: Key Players of the UPI Ecosystem

2.2 FACTORS PROMOTING THE GROWTH OF UPI

The growth of UPI since its inception has been phenomenal, which has subsequently surpassed the growth of all other digital payment modes in India. The section entails a table (see Table 1) of factors that have promoted the growth of UPI in India.

Table 1 Factors promoting the growth of UPI

S.No	Factor	Description	Source
1.	Cost Efficiency	The absence of transaction fee makes this system cost efficient both for the payer and the payee. At the same time, the payee need not to spend any additional amount on the setup, such as in case of POS machines, wherein extra funds have to be paid for the installation.	Bagla & Sancheti (2018)
2.	Speed of transactions	The fast transaction processing speed makes the system user friendly fostering lesser usage of time compared to carrying out transactions using formal institutions.	Kakadel, & Veshne, (2017), Balasubramanian & Amanullah, (2019)
3.	Mobility	The ease of using the system from anywhere and at any time makes is mobile and convenient for the users to carry out transactions at their own ease.	Gupta et al. (2019)

4.	Security	The two factor authentication makes the transaction process secure and safe, since the payer and payee can make and request payments without sharing their respective banking credentials.	Gochhwal (2017), Dhamija & Dhamija (2017), Hota (2016), Patil (2018), Balasubramanian & Amanullah (2019).
5.	Digital India Initiatives	The initiatives take by government such as amplifying financial inclusion, launching of schemes for the unprivileged section of the society, developing the economy's infrastructure has amplified the level of financial inclusion in the country, which in turn have boosted the growth of digital payments.	Joshi (2017), Harikeshav (2019)
6.	Demonetization	The cash crunch in the economy led by demonetization resulted in huge waiting queues outside ATMs, thereby, residents had to use online payments for their daily transactions.	Kalyani (2016),
7.	Interoperable User Interface	The Interoperable User Interface of UPI enables users to request the payment on one interface, wherein, the other party can complete the transaction using a different interface.	Kakadel & Veshne (2017) Neema, K., & Neema, A. (2016).
8.	Abstraction of Bank Details	A distinct VPA i.e. Virtual payment address is created in order to send or receive payments. This VPA is unique for every user and enables security of transactions, since no other confidential information related to bank account has to be shared.	Kakadel & Veshne (2017)
9.	Pull Based System	The traditional digital payments systems apply a push-based approach wherein payments can only be sent by the payer, leaving no scope for payment requests. However, UPI works on a Pull based approach, which allows the users to make and request payments.	Chaterji & Thomas (2017)

10.	Rewards & Cashbacks	UPI applications give interesting rewards and cashbacks to their users, that encourages repeated use of the system.	Bagla & Sancheti (2018) Gupta et al, (2019),
11.	Ease of Use	The speed of transactions, 24*7 operability, mobility, one-click two factor authentication makes the system easy and convenient to use.	Bagla & Sancheti (2018) Gupta et al. (2019)

3. METHODOLOGY

To achieve the aforementioned objectives, this paper employs secondary data obtained from the official website of NPCI and the Reserve Bank of India (RBI). The study includes only those articles for the review which has been published after the year 2016 since UPI was launched in the same year. A brief analysis of articles published in newspapers has also been conducted to identify the trends in the UPI ecosystem.

4. DATA ANALYSIS & INTERPRETATION

The pace of digitalization in the Indian economy is increasing rapidly, with internet power, infrastructure development, and new and innovative technologies, among which UPI has emerged as a ground breaking innovation.

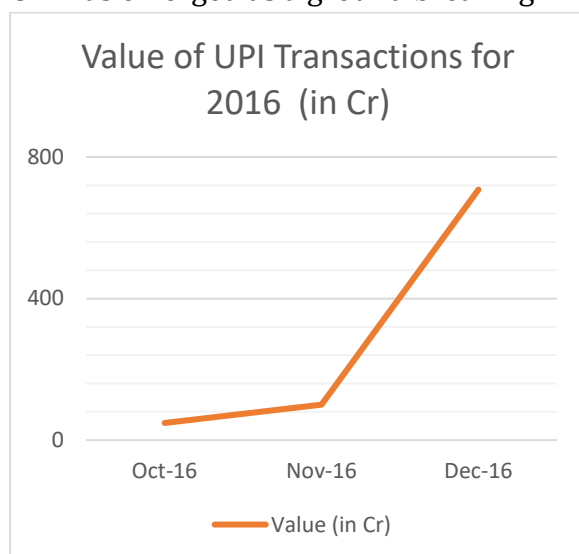


Figure 2 Value of UPI Transactions for 2016

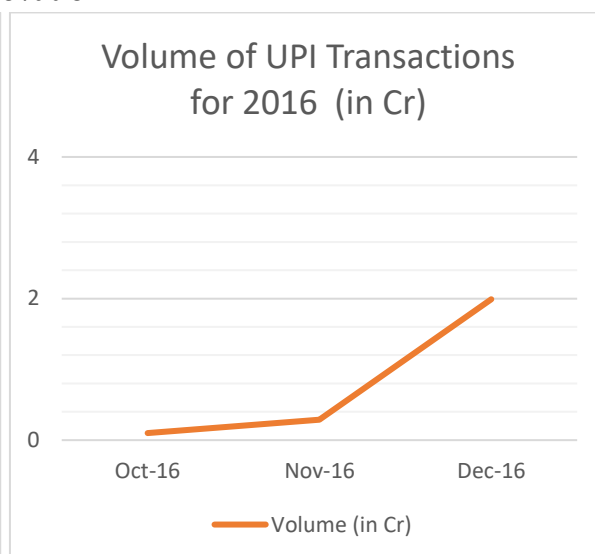


Figure 3 Volume of UPI Transactions for 2016

An increasing trend has been observed in UPI payments, since its inception in 2016. The demonetisation of 2016, has positively boosted the entire digital payment system of the country (Gupta & Kumar, 2020). The volume of UPI payments jumped by 605% from November 2016 to December 2016. Since, the cash crunch forcefully led residents to use online payment options, therefore, UPI emerged as one of the convenient mode, and the value of transactions increased by Rs. 607 Crores, from November 2016 till December

2016. At the same time, the volume of transactions also rose from 0.29 Crores to 1.99 Crores. Since then, UPI payments have been constantly increasing at a phenomenal pace.

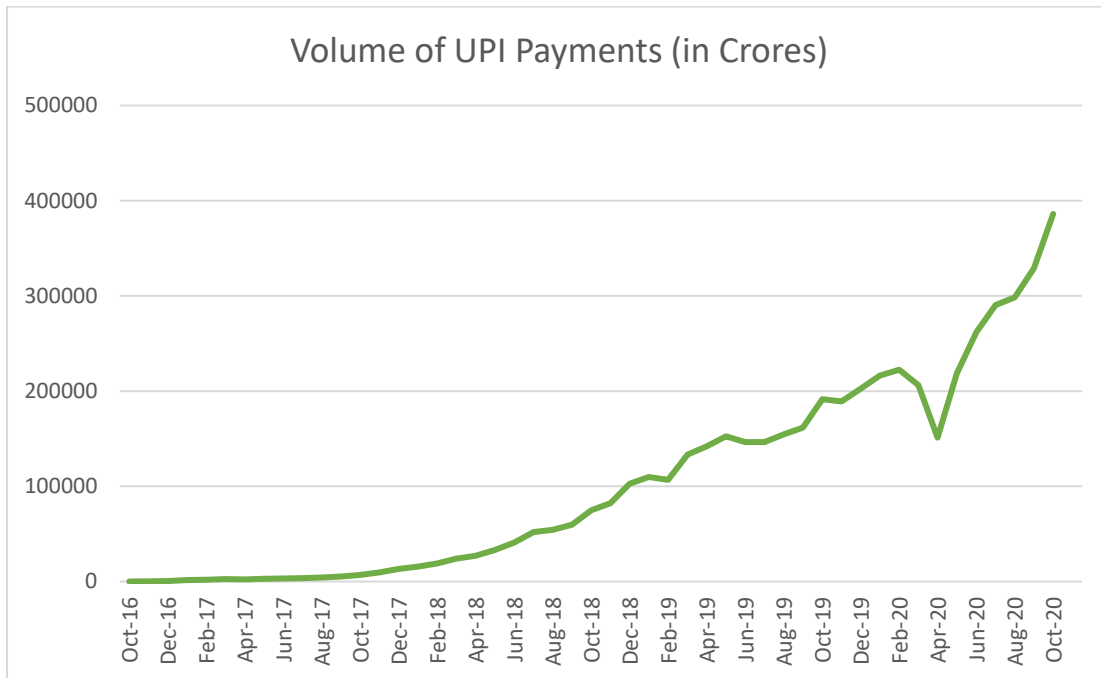


Figure 4 Volume of UPI Payments

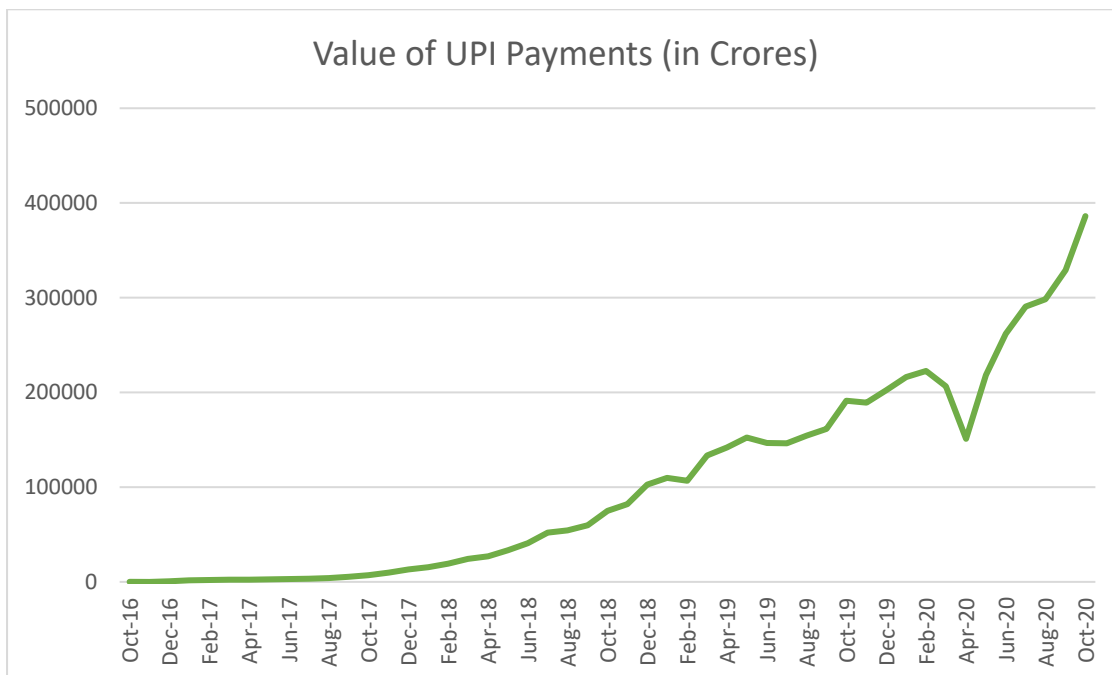


Figure 5 Value of UPI Payments

The global economy got hit by the pandemic in the year 2019, when the first wave of virus was spreading from China to the other parts of the world. The Chinese economy, was completely devastated during the first quarter of 2020 (OECD, 2020). In the meanwhile, residents in India lost their jobs, resulting in low purchasing power on account of nationwide lockdown in India imposed in the month of March, 2020. Therefore, a sudden

downfall is clearly observable in the UPI Payments in the month of March 2020 (see Fig. 4 & 5). The value of UPI transactions fell by 26% from April 2020 to March 2020. For the same period the volume fell by 20%. This downfall, fortunately, did not sustain for a longer period. Sooner the lockdown requirements were laid back by the regulatory authorities, the UPI payments started upholding its upward trend. Since, people were led by the annotation that the virus was spreading faster by the use of cash. Therefore, they started using the digital payment options, wherein UPI was the most convenient amongst all. The volume and value of UPI payment went up by 24% and 31% respectively from April 2020 to May 2020. Thereafter, it kept on increasing since people were already adapted to the use online payments for their daily needs. Thus, it is clearly notable, that the first wave have had a positive effect on the adoption of UPI payments

5. CONCLUSION

UPI has become the most preferred payment option for people in India. Despite all these negative consequences on the society and the economy, the first wave of covid-19, fortunately, had a positive impact on the digital payment system in India. However, the entire impact cannot be predicted at this point of time, since, the cases of Covid-19 are still arising in India and many other parts of the world. However, it can be concluded, that the same has proved to be a catalyst to promote the adoption of UPI payments in India, since people have become habituated with the convenience and ease of use of the online payment option rather than the traditional use of cash for making payments.

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