

CII event on Digital Payments and the Indian Media Consumer

22 December 2021 | 12 – 1pm

Speaking points for PSM

Digital economy is creating value for consumers and small businesses

During the last few years, and spurred by pandemic in particular, digital transactions in India have risen manifold, and this trend is likely to continue.

In tier-II and tier-III cities, the share of overall e-commerce sales volume grew to 46 percent from 32 percent, and value grew to 43 percent from 26 percent during 2020.

India's online retail market is expected to reach USD 350 billion by 2030 from USD 45-50 billion at present, and is likely to contribute nearly 40 percent to the USD 800 billion consumer digital economy.

The number of active internet users in India is also expected to grow to 900 million by 2025 compared to 622 million in 2020.

Thus, digital economy has, and continues to, create significant value for consumers, small businesses, and start-ups in tier-II towns, who are expected to push its growth. Small towns in India are likely to write the next chapter of India's start-up story.

However, not everybody is benefitting equally

Indian women are 15 percent less likely to own a mobile phone, and 33 percent less likely to use mobile internet services than men.

In 2020, 25 percent of the total adult female population owned a smartphone versus 41 percent of adult men.

Digital illiteracy and unfamiliarity with digital platforms deterred nano, micro, and women entrepreneurs from moving to online marketplaces.

Micro, nano, and small enterprises face significant transition challenges, while attempting to shift to digital.

The gendered digital divide is also preventing women and girls from accessing government social security benefits.

Even if women, elderly, and differently abled persons are able to use phones for personal use, they are unable to make financial transactions online, and are unlikely to use phones for their businesses.

Sub-optimal regulation is resulting in unintended consequences

The massive uptake in digital transactions has prompted regulatory agencies to issue guidelines aimed at lessening information asymmetry, reducing cost, and putting in place robust security mechanisms to reduce frauds.

For instance, the Reserve Bank of India has imposed conditions for processing of electronic mandates for recurring payments, and more recently, directed adoption of card-on-file tokenization framework.

Similarly, the TRAI has prescribed choice architecture that broadcasters and distributors must adhere to in their offerings to consumers, having features like bundling of TV channels, and price caps, among others.

While issued with the right intent, these directives seemed to have assumed consumer preferences, capacity, and ecosystem readiness to transition to the new frameworks within a limited time period.

Lack of empirical research about consumer perspectives, and inadequate consultations with stakeholders, including consumers and small businesses, has the potential to adversely impact the stakeholder groups which the regulators would like to protect.

For instance, implementation of e-mandate framework without ecosystem readiness reportedly led to loss of around 70-85 percent income of MSMEs, freelancers, start-ups. Cross border payments were adversely affected.

A recent survey conducted by CUTS International revealed that without being able to store card information with their merchants, consumers worry about the inconvenience and risks that might accrue to them, and are likely to reduce the frequency of card-based online transactions.

Consumers' primary preference appears to be to shift to alternate modes of payment, including cash on delivery wherever applicable, which will dent the government's vision of digital India.

These unintended but adverse consequences for consumers will be a reality if no card storage rules are implemented without complete ecosystem readiness that allows for successful consumer transactions at scale across multiple use-cases.

Need for collaborative approach to regulation making and implementation

We cannot brush aside consumer concerns as acceptable transition costs, and thus request the regulator to take a holistic view of the matter.

Consequently, the regulator should undertake the due process while issuing such forward looking frameworks. This should include:

- Issuing a white paper and undertaking robust consultations with stakeholders, including small entrepreneurs
- Conducting empirical research about perspectives of consumers, merchants, and small businesses
- Deciding implementation timeframe while taking the stakeholders into account, going for phased implementation and learning with experience
- Issuing FAQs in multiple languages for consumers and small entrepreneurs to understand the process
- Working with consumer groups to generate awareness, build capacity, get on-ground feedback and address associated challenges.

This collaborative approach can go a long way in creating digital ecosystem truly inclusive and beneficial for all.