



# Raghuram Rajan on rise of Digital Payments

- By Ankit Agrawal



**Ravi Shankar Prasad** ✓ @rsprasad · 17h



Digital Payments are on all time high and this month on month surge in UPI transactions is testimony of India's progressive digital payments ecosystem. In March 2021, UPI has recorded the highest ever 273 Crore transactions, crossing value of ₹5.04 Lakh Crore in a month.

The infographic features a hand holding a smartphone displaying the UPI app interface on the left. In the center, the text 'HIGHEST EVER FOR UPI' is written in large, bold, yellow letters. To the right, three circular insets show different UPI app screens: a transaction list, a 'Payment Done' confirmation screen with a green checkmark, and a 'PAY' screen. At the bottom, a red curved arrow points from the 'HIGHEST EVER' text towards the transaction statistics. The statistics are presented in a light blue box with the text: 'UPI has recorded 2.73 Billion transactions worth ₹5.04 Lakh Crore in March 2021.' The top right corner of the infographic includes the 'Digital India' logo with the tagline 'Power To Empower'. The bottom of the infographic contains a row of social media handles: /ravishankarprasad, /RaviShankarPrasadOfficial, @rsprasad, /RaviShankarPrasad, and /RaviShankarPrasadMP.

**HIGHEST EVER  
FOR UPI**

UPI has recorded  
**2.73 Billion transactions**  
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in March 2021.

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## Raghuram Rajan: What the rise of digital payments means for central banks



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## WHAT HAPPENED?

Transaction **volumes** over the Unified Payments Interface (UPI) **more than doubled over a year, touching 2.73 billion** in March 2021 compared to 1.25 billion a year ago.

The March numbers are also a 20% jump from February's 2.29 billion.

Transactions **value crossed ₹5 trillion in March**, up 18% from February.



## REASON

Digital payments are **attracting growing interest**. At one level, the reason is straightforward:-

Digital payments **allow buyers to pay sellers without physical currency** changing hands.

Though the **technology** has been around for a long time, it is **finally becoming much easier** to use for **small-value retail payments**.



Moreover, the pandemic has accelerated the switch to digital payments,

As people have shifted to e-commerce and taken steps to avoid handling currency in ordinary purchases.

# DATA GENERATION & PAYMENT PROVIDER

Digital payments also generate real-time data on sellers' businesses, the timing of cash flows, and buyers' purchasing habits,

Allowing payment providers to offer credit, savings, wealth management, collections, insurance and other financial services.

But a provider who handles only a fraction of a customer's payments has only a partial picture of that customer.

Payment providers **therefore are eager to control all means of payment**: bank accounts, e-wallets, credit cards, cryptocurrencies, and so on.

And **e-commerce and social-media platforms want to go a step further** by combining their powerful **data-collection engines with payments**.

## BENEFICIAL FOR CUSTOMERS?

With near-total knowledge of users' behaviour, a provider can both address customers' every need and lock them in for the long term,

Because their costs of seeking similar services elsewhere will be too high.

This tie-in need not be entirely exploitative: a merchant who uses a provider for a wide suite of services can be offered more credit,

Because she will be less likely to risk losing those services by defaulting.



## ON CRYPTOCURRENCY

There is also **much excitement** about crypto-currencies, **which are just one form of digital payment**, typically requiring an initial exchange of a fiat currency like the US dollar into a given unit.

A cryptocurrency like **Bitcoin** offers **ostensible benefits** as a means of payment because, unlike fiat currencies, **it cannot be inflated** away (as its supply is fixed), & it allows for **decentralized payment verification**,

Eliminating the need for any party to trust the others involved, let alone trusting government or regulators.

But there are **impediments** to Bitcoin's use. Its **value** is not managed by a central bank, so it **can fluctuate wildly**.

**Firms**, barring those led by true believers, **do not want to keep a currency whose value** can fluctuate by 10% every day.

By some estimates, the **annual electricity use needed to verify Bitcoin transactions exceeds** that of a medium-size country.

Cryptocurrencies are **thus a work in progress**.

## POLICY CONCERNS

In any case, the emergence of a dominant digital-payment provider, cryptocurrency or otherwise, would raise important public policy concerns,

Such as whether it could be trusted to collect and handle customer data responsibly.

Owing to its mixed track record on data and privacy issues, Facebook's proposed stablecoin (Libra) met with scepticism from financial regulators.

A related issue concerns **antitrust**.

Does **a single payment provider** that handles all business services—including e-commerce and logistics—have an **excessive amount of market power**?

The **recent tensions between Chinese regulators and Ant Group** owe something to the fear that

E-commerce platforms like Alibaba are **using their market power—enhanced through payments—to restrict competition**.



One remedy here would be to **create public payment bridges, such as India's Unified Payments Interface,** where the key payment services are open to all comers and not controlled by any one private entity.

# THE BIGGER CHALLENGE

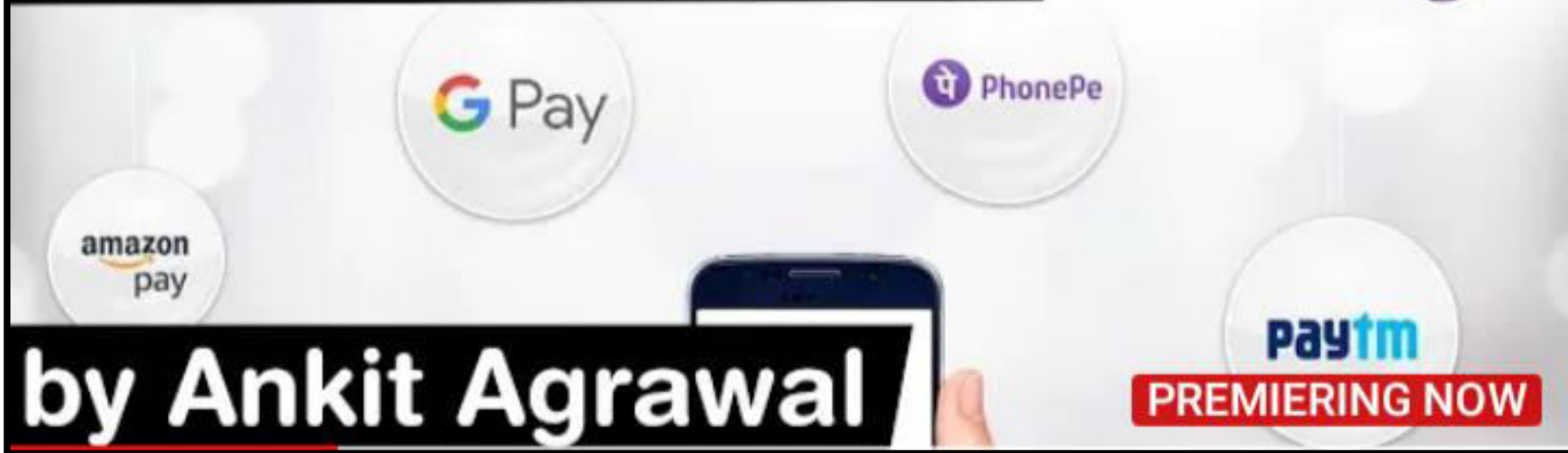
But perhaps the greatest regulatory concern is systemic risk.

When one or two providers dominate an entire country's digital retail payments, commerce could be devastated if anything goes wrong.

The only way around this is to have multiple providers, multiple bridges and multiple technologies in the payment arena.

# Reliance, Paytm & others to end NPCI monopoly

## What is NUE licence?



## CONCLUSION

Central banks are now contemplating getting into the digital-payments game themselves.

They fear losing control over payments as physical cash becomes redundant, that the private sector will get it wrong, or that other central banks will steal a march on them.

Central bank digital currencies would ensure a public presence in payments.



Q. Which among the following activities are not permitted to payments banks?

- A) Remittance services
- B) Issuing ATM cards
- C) Issuing credit cards
- D) Accepting demand deposits



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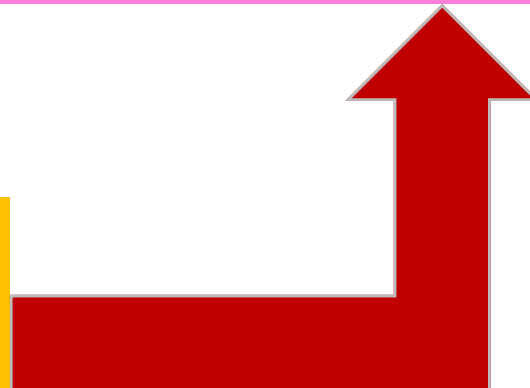
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