

Union Budget 2017

Impact on Digital Financial Services

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February 2017

Our Point of View

The Union Budget 2017 has a number of positive measures to move towards a “less-cash” and more included society. Increased digital payments, a key focus area of the budget would catapult digital lending, both of which are key elements of digital financial services. Additional incentives may need to be provided to merchants to address the hurdles of cost of transactions and to customers to move away from the habit of cash.



A number of measures for Digital Payments, a key focus area

	Budget Announcement	Analysis	Impact on Digital Finance	
Payments	Vision for Digital Payments	25 Bn digital transactions targeted in 2017-18 through UPI, USSD, Aadhar Pay, IMPS and debit cards. <i>(Paragraph: 114)</i>	This is an ambitious target as the current digital transactions stands at 4 to 5 Bn (through IMPS, Debit Card usage at PoS, PPI transactions and Mobile Banking, excluding ATM cash withdrawal), which means an increase of about 5x for digital transactions.	Positive
	New Payments Regulatory Board	Proposed to create a Payments Regulatory Board in the Reserve Bank of India by replacing the existing Board for Regulation and Supervision of Payment and Settlement Systems. <i>(Paragraph: 119)</i>	This is aimed at increased representation from the government and industry on policy issues related to payments.	Positive
	Building infrastructure for Digital Payments	Banks will be encouraged to introduce 20 lakh Aadhar based POS by September 2017. <i>(Paragraph: 114)</i>	The integration of Aadhar technology, in the payment value chain, at the point of sale implies integration of traditional payment and new to the world (NTW) payment model.	Positive
		Banks have targeted to introduce additional 10 lakh Point-of-Sale terminals by March 2017. <i>(Paragraph: 114)</i>	This will bring new merchants in the ecosystem enabling the creation of network effect of acceptance infrastructure.	Positive
		A merchant version of Aadhar-enabled payment system, will be launched shortly for those without debit cards, mobile phones or e-wallets. <i>(Paragraph: 114)</i>	An effort towards financial inclusion of the segment that is new/uncomfortable with plastic money and other mobile based payment models.	Positive
		Miniaturised POS card reader for m-POS micro ATM standards, Finger Print Readers Scanners and Iris Scanners and on their parts and components for manufacture of such devices to be exempt from BCD (Basic Customs Duty), Excise/CV (Countervailing) duty and SAD (Special Additional Duty). <i>(Paragraph: 163)</i>	This will reduce the cost of PoS machines but not sure if this will reduce cost adequately.	Positive

Mandating Digital payments will provide the push towards formal systems

		Budget Announcement	Analysis	Impact on Digital Finance
Payments	Limitation on Cash expenditures	It was proposed to limit the cash expenditure allowable as deduction, both for revenue as well as capital expenditure, to 10,000. Similarly, the limit of cash donation which can be received by a charitable trust is being reduced from 10,000/- to 2000/-. (Paragraph: 161)	Mandating digital payments will improve transparency and provide a push to digital payments	Positive
		The Special Investigation Team (SIT) set up by the Government for black money has suggested that no transaction above INR 3 lakh should be permitted in cash. The Government has decided to accept this proposal. Suitable amendment to the Income-tax Act is proposed in the Finance Bill for enforcing this decision. (paragraph 162)	Capping high value cash transactions will push the economy further for a digital payment economy and will also lead to increased transparency	Positive
	BHIM	1.25 crore people have already adopted BHIM App for digital payments. The government will launch two new schemes to promote the use of BHIM. These are referral bonus schemes for individuals and cashback schemes for merchants (Paragraph: 113)	This is a good incentive for merchants to adopt BHIM as a platform for payments. This will promote the usage of digital payments for both personal and business cases. However, it would have been good to see more incentives for all digital transactions, not limited to BHIM	Positive
	Digital Security	A Computer Emergency Response Team for our Financial Sector (CERT-Fin) will be established. (Paragraph: 101)	Greater thrust on security will foster acceptance of digital payments in populace.	Positive
	Quick resolution of cheque dishonour	Government is considering the option of amending the Negotiable Instruments Act suitably to ensure that the payees of dishonoured cheques are able to realise the payments (Paragraph: 120)	This initiative will help in terms of early realisation of payment in case of dishonoured cheques in the future electronic payments	Positive

Refinancing of unsecured loans to provide a boost to digital lending

	Budget Announcement	Analysis	Impact on Digital Finance	
Lending	SIDBI Refinance for unsecured loans	Government will encourage SIDBI to refinance credit institutions which provide unsecured loans, at reasonable interest rates, to borrowers based on their transaction history (<i>Paragraph: 115</i>)	This is a very good initiative for any financial sector company operating in the unsecured credit business.	Positive
	NPAs Accounting for non-scheduled co-operative banks	Tax interest receivable on actual receipt instead of accrual basis in respect of NPA accounts of all non-scheduled cooperative banks also at par with scheduled banks. This will remove hardship of having to pay tax even when interest income is not realised. (<i>Paragraph: 157</i>)	This change is as of now applicable for banks only. In future, it is expected to get extended to NBFCs too.	Neutral
	Priority Sector	The target for agriculture credit is fixed at Rs 10 lakh crore (<i>Paragraph: 22</i>)	This is a 11% increase from the 2016-2017 target of Rs 9 lakh crore.	Neutral
Taxation	Reduced taxes for MSMEs	Reduce the income tax for smaller companies with annual turnover upto INR 50 crore to 25%. (<i>Paragraph 156</i>)	To some extent this is expected to incentivise MSMEs to the formal system. This will have augur well for lending.	Positive

Thank You

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