

# **DIGITAL PAYMENTS REVOLUTION IN INDIA**

Submitted by :- Prachi (2K22/MAE/34)

Prachi (2K22/MAE/48)

Sanjana (2K22/MAE/62)

Take a walk on any street or market in India and little has changed in five years—except for the QR codes adorning every food stall, shops, metro rides, auto rides etc. Go to any corner of the world or many other cities across the emerging world and you find something similar. “Most people only want to use UPI. This is a clear change that is visible from India’s fast-growing payments network.

The Unified Payments Interface (UPI) is a platform that allows free and fast account-to-account transfers using fintech apps such as Phone Pe or Google Pay. It is facilitated by QR codes or easy-to-remember virtual ids. UPI is drawing attention from across the world. “Look at what India has accomplished with the UPI, Aadhaar and the payments stack,” Sundar Pichai, Google’s CEO, has marvelled. Overall, it processed over \$1trn in transactions in 2022, equivalent to a third of India’s GDP. It was bolstered by the government’s surprise “demonetisation” of 2016, when multiple high-denomination banknotes were discontinued. UPI also benefited when covid left consumers scared of cash. It has grown from around 17% of 31bn digital transactions in 2019 to 52% of 88.4bn transactions by 2022. “India leads the world in real-time digital payments by clocking almost 40% of all such transactions,” Narendra Modi, the prime minister, has boasted.

## **Components of Digital Payment Ecosystem:**

The past decade has witnessed a remarkable shift in India’s payment geography with the government’s push towards a digital economy and increase in the number of smartphones acting as catalysts for change. Traditional payment methods, such as cash, are gradually reduced by more accessible and secure digital alternatives. Unified Payments Interface (UPI) has become one of the key drivers of India’s digital payment revolution which is developed

by the National Payments Corporations of India (NPCI). UPI has emerged as the backbone of digital transactions, facilitating easy flawless fund transfers between bank accounts. Its popularity can be seen from its user-friendly interface, 24/7 availability, and compatibility across various platforms.

The demonetization in 2016 marked a turning point, accelerating the adoption of digital payments in India. The withdrawal of high-denomination currency notes led people to explore alternatives for digital payment, and the shift came as a defining moment in India's journey towards a cashless society. Following this, various initiatives by the government like the Digital India campaign and the Jan Dhan Yojana further promoted digital financial services and increased financial inclusion across the country. Different modes of digital payments transactions are -:

- E wallets - Paytm, Freecharge etc.
- UPI - Unified payments Interface Apps
- Plastic Money - Debit/Credit Cards
- Net Banking - Online Fund Transfer
- Aadhaar Card - Aadhaar Enabled Payment System

These digital payment apps have emerged as the face of revolution due to their user-friendly interfaces.

In recent years, India has witnessed an unprecedented surge in digital payment transactions. Most convenient and user-friendly digital payment methods like Bharat Interface for Money-Unified Payments Interface (BHIM-UPI), prepaid payment instruments (PPIs) etc. have endured substantial growth. Traditional payment modes like debit cards, credit cards, NEFT, and RTGS have also experienced rapid expansion.

Globally, India ranks 1 for Real-time payments with 89.5 billion payment transactions in 2022, showcasing a growth of 76.8% (2021-22). India accounted for 46% of all real-time transactions worldwide in 2022.

BHIM-UPI has emerged as the favoured payment method, setting a new record by processing over 9 billion transactions (worth \$179 billion) in May '23. UPI accounts for 75% of the total retail digital payments in India.

Here are some pros and cons of using digital payments-

#### Advantages-

- Easy and convenient:- Digital payments are easy and convenient. One does not need to carry loads of cash, get worried about the theft, or not having perfect change.
- Less Risk:- Digital payments entail less risk when used wisely. If one loses a mobile phone or Aadhar card or debit/credit card then he/she doesn't have to worry a lot. No one can use their money.
- Tracking spends:- If all transactions are on record, it will be very easy for people to keep track of their spending. It will also help while filing income tax returns to explain their spending.

#### Disadvantages-

- Data Theft Risk:- There is a big risk of data theft associated with digital payment. Hackers can hack the servers of the bank you are using and easily get your personal information to steal money from your account.
- Difficult for a non-technical user:- Digital payments, often reliant on mobile phones, the internet and cards. These modes are somewhat challenging for a non-tech person.
- Overspending:- A person keeps limited cash in their physical wallet. Hence the user thinks twice before buying anything. But if users use digital payment modes can lead to overspending as users constantly have money available.

#### Comparison of the digital evolution of America, China, and India:

Country	Digital Evolution	Key Approach	Key Companies
America	Broad adoption of the internet and digital technologies across various industries.	Ecosystem play, focusing on core assets and capabilities and continuously investing in them.	Amazon
China	Adoption of mobile-first digital platforms, especially in payments, resulting in the rise of	A focus on core capabilities and the aggregation of multiple services around payments.	Alibaba, Tencent, WeChat, Alipay

	super apps.		
<b>India</b>	Growth in internet access and smartphone penetration driven by public-private-partnerships in telecoms.	Ecosystem play, with a focus on developing moats by investing in adjacencies.	Reliance Jio, National Payments, Corporations of India (NPCI), Aadhar.

## A Decline In Cash Transactions

The use of cash in India has decreased significantly as a result of UPI, from 71 percent of POS transaction value in 2019 to just 27 percent in 2022.

Urban areas are not the only places seeing a decline in cash transactions; due to the accessibility of digital payments, rural areas have also embraced them. This change has been accelerated by elements like the widespread use of smartphones and internet access.

Cross-border trade has increased by the emergence of online payment systems by central banks; however, data indicates that the value of cash transactions is predicted to decline by an additional 34% by 2026.

## Digital Payments Infrastructure showcased at G20

India presented its Unified Payments Interface (UPI) and Digital Public Infrastructure (DPI) technologies to the world at large during the G20 Summit , allowing delegates from different countries to make payments without the need for a local bank account. The main aim behind this was to showcase the convenience and accessibility of India's digital payment ecosystem. The delegates were also shown flagship platforms like Aadhaar, eSanjeevani, Digi-locker, DIKSHA, Bhasini, and the all-new Gita app.

All of this occurred at the perfect moment. In August of this year, digital transactions crossed the 1,000 crore mark. The National Payment Corporation of India consequently introduced

six additional UPI features in September which included UPI Lite X, Billpay Connect, UPI Tap & Pay, a credit line on UPI, and the conversational payment mode "Hello UPI."

Because of its simplicity, UPI is a widely accepted payment option. The National Payments Corporation of India (NPCI) decided to launch UPI internationally to facilitate Indian travellers making such payments while overseas by scanning their UPI applications.

Bhutan was the first nation to accept UPI through the BHIM app in July 2021. Malaysia and a few other South-East Asian nations followed in August and September of the same year. Approximately 20 countries currently have access to the digital platform; Sri Lanka was added in July 2023 via the Lanka Pay app.

### **Government Initiatives to promote Digital Payments**

- The Reserve Bank of India (RBI) and the government of India have taken a number of measures to guarantee the safety and security of digital payments.
- To encourage citizens to use digital payments, a number of promotion and awareness campaigns have been launched using both traditional and emerging media outlets, including social media.
- The Ministry of Electronics & IT launched the scheme titled “Pradhan Mantri Gramin Digital Saksharta Abhiyan (PMGDISHA)” to usher in digital literacy in rural India.
- Various other Incentive/cashback schemes such as BHIM Cashback schemes for Individuals & Merchants, BHIM Aadhaar Merchant Incentive Scheme etc. were introduced by MeitY to alter the behaviour of merchants and customers in order to speed up the adoption of digital payments.
- MeitY launched an incentive programme to promote RuPay Debit cards and low-value BHIM-UPI transactions (P2M) in an effort to increase the amount of digital transactions that occur in the nation. This programme helps banks create a strong digital payment ecosystem.

### **Future of Digital Payments**

Talking about the future of digital payment in India, there are several trends that are shaping up to be the likely driving factors of the payment landscape., these are:

- Increasing prevalence of UPI
- The increasing popularity of the Buy Now, Pay Later (BNPL) model
- Rise of Ecommerce since COVID
- Fear of Demonetisation like process

The future of online payments and related fintech companies seems bright in the near future, as owing to the promotion of India's technologically advanced payment system at the G20, India has a lucrative opportunity to change the world's payment paying behaviour by giving them a sustainable paperless mode of payment.

During the time when even the advanced countries of the world doesn't have access over such payment methods, It's a matter of pride for an emerging, developed country like India to have made something applaudable and unique