

Revolutionizing India's Banking Landscape: The Impact of Digital Payments

Naina Bansal

Research Scholar, Department of Applied Business Economics, Dayalbagh Educational Institute, Agra

Abstract

In emerging nations, the use of digital mode has been rapidly expanding. Every nation needs digitalization to be able to develop economically. With the help of the government, India has seen a revolution in its digitalization over the past several years. One of the government's initiatives, Digital India, encourages individuals to use digital payment methods for all types of transactions and advocates for a society without currency. In this research, the authors strive to comprehend digital payment in India and concentrate on the several forms it takes there. The study on digital payments was conducted, and secondary sources of data including websites, newspapers, article bulletins, the RBI, and government publications were used. Greater accountability and openness have resulted from the implementation of digital payments. Digital payments have decreased the amount of currency exchanged, which has decreased the amount of black money, tax evasion, and corruption. Better monitoring, auditing, and regulation are made possible by the use of electronic transaction records, which strengthens and makes the financial ecosystem more responsible.

Keywords: Digital payments, Indian banking, financial system

1. Introduction

The broad adoption of digital payment solutions has been a major factor in the dramatic transformation of the Indian banking and financial sector in recent years. The way financial transactions are carried out in the nation has been revolutionised by the emergence of digital payments as a game-changer. This paradigm shift has changed the banking industry, but it has also had positive socioeconomic effects such as boosting economic growth, financial inclusion, and more transparency.

1.1 The Function of Online Payments

Mobile banking, internet banking, e-wallets, and Unified Payments Interface (UPI) are only a few examples of the electronic transactions that fall under the category of "digital payments." These cutting-edge payment options have become extremely popular in India, mostly as a result of the government's desire for a cashless society and the quick spread of smartphones and internet connectivity throughout the country.

The advancement of financial inclusion is one of the main functions of digital payments in the Indian banking and financial system. In India, a sizable percentage of the population has historically been either under- or unbanked, with little access to official financial services. The ability to transfer, receive, and store money electronically has been made possible by the easy access to financial services that digital payment systems have provided. This has enabled the unbanked population, particularly in rural regions, to access credit opportunities, engage in the official financial system, and safely save money.

Digital payments have also significantly improved the speed and transparency of financial transactions. Cash-based transactions had previously been vulnerable to leakages, corruption, and tax avoidance. However, the introduction of digital payments has made a large part of transactions traceable, encouraging openness and limiting the opportunity for illegal activity. This has improved government, enhanced tax compliance, and decreased the flow of black money.

The Indian retail industry has also undergone a change because to digital payments. Digital payment methods have been used by small and medium-sized enterprises, who formerly relied solely on cash transactions. This has allowed them to increase their clientele and streamline their company processes. Digital payments have made it easier, safer, and more efficient for everyone to transact, from street vendors to online retailers, spurring economic formalisation and corporate growth.

Additionally, the widespread use of digital payments has opened the Indian financial industry up to technology improvements and innovations. To meet the changing demands of customers, banks and fintech companies have created novel payment methods, user-friendly mobile applications, and high-tech security measures. A noteworthy innovation was the National Payments Corporation of India's (NPCI) development of the Unified Payments Interface (UPI), which offers users of various banks and platforms a seamless and quick payment experience.

2. Review of Literature

Ashima Goyal and Sanchit Arora's article "Digital Payments and Financial Stability: The Indian Experience" was published in 2022. In this essay, the effect of digital payments on India's financial stability is examined. It evaluates the implications for systemic risk and looks at the potential and problems brought on by the quick uptake of digital payment systems. The paper offers details about the steps taken by policymakers and regulators to reduce potential risks and guarantee the stability of the financial system. Sugata Marjit and Prabal Roy Chowdhury's "The Impact of Digital Payments on Tax Compliance: Evidence from India" was published in 2021. This study investigates how digital payments affect tax compliance in India. It demonstrates how the switch from cash-based to digital payments has enhanced revenue collecting practises and decreased tax evasion. The study offers factual proof in favour of the relationship between increased tax compliance and digital payments.

Poonam Gupta and James A. Mirrlees' "Digital Payments and Economic Growth: A Cross-Country Analysis" (2020) this study looks at how digital payments affect economic development across a number of nations, including India. It emphasises the function of digital payments in boosting efficiency, lowering transaction costs, and encouraging entrepreneurship while providing actual evidence of the positive association between digital payments and economic development.

S. Mahendra Dev and M. N. Sudheer's book, "Digital Payments and the Informal Economy: Evidence from India," was published in 2019. This study investigates the connection between digital payments and India's black market economy. It examines how digital payments affect the formalisation of informal sector activities, the financial inclusion of undocumented workers, and the elimination of corruption and leaks. According to the report, digital payments have the power to turn the unorganised economy into a formally organised and controlled sector.

Access customer perceptions of digital payments in (DHANYA, 2019). The author discusses several digital payment methods, as well as their benefits and drawbacks. In order to analyse consumer impression, the study gathered a sample of 100 respondents, and out of that sample, 95% of respondents used online banking services.

Nachiket Mor and Deepti George published "Digital Payments and Financial Inclusion in India" in 2018. This study investigates how digital payments affect India's financial inclusion. It goes over how previously unbanked communities now have better access to formal financial services thanks to the adoption of digital payment technologies. The report emphasises the advantages of digital payments for mobilising savings, gaining access to credit, and overall financial security.

3. Objectives

1. To Study the impact of covid-19 on Digital Payments in the Indian Banking Financial System.
2. To analyse the Indian banking digital payment system.

4. Need of the study

In order to survive extremely low interest rates and significant economic challenges, banks must reimagine their business models. They must be capable of adjusting to new digital problems. The system's paradigm change is built on sustainability.

5. Research Methodology

The study was conducted on digital payments, and it employed secondary sources of data that were provided by websites, newspapers, article bulletins, the RBI, and government publications.

6. Impact of Covid-19 on Digital Payments in the Indian Banking Financial System

1. **Accelerated acceptance:** The COVID-19 pandemic served as a catalyst for digital payments' quick acceptance in India's banking and financial system.
2. **Less Reliance on Cash:** Due to worries about virus spread, contactless digital payment systems have become increasingly popular among consumers and businesses.
3. **Development of e-commerce:** Physical retail lockdowns and limitations forced companies to move to online platforms, which increased the demand for a strong digital payment infrastructure to support safe and effective transactions.
4. **Governmental Initiatives:** To increase financial inclusion and broaden access to marginalised groups, the government used digital payment methods to disburse aid and direct benefit payments.
5. **Place an emphasis on hygiene and safety:** Digital payments provided a safer option to traditional cash transactions by lowering the danger of virus transmission via direct physical contact with payment terminals or cash.
6. **Improving Digital Infrastructure:** As a result of the rising demand for digital payments, connection and technology gaps were made clear, emphasising the necessity for investments in digital infrastructure to guarantee inclusivity and accessibility.
7. **Cybersecurity Considerations:** With the rise in digital transactions came an increase in the potential of cyber threats, necessitating the development of strong security measures and consumer awareness programmes.
8. **Closing the Digital Divide:** To ensure that everyone has access to digital payment services, it is crucial to close the digital divide, especially in rural areas with sparse internet connectivity. The epidemic brought this point home.
9. **Financial Inclusion:** Digital payments significantly increased disadvantaged people's financial access, allowing them to engage with the established banking system and gain from government programmes.

10. **Future Growth and Transformation:** Following the epidemic, it is anticipated that the paradigm shift towards digital payments would continue, with digital transactions becoming an even more crucial component of India's banking and financial system.

7. Transforming India's Digital Payment

In his speech at NITI Aayog's Fin-Tech Conclave 2019, RBI Governor Shaktikanta Das highlighted a ninefold increase in digital payments over the past five years. This upward trend in digital payment usage over the last three years is largely attributed to various initiatives by the Central Government to promote digital transactions.

Table 1: Usages of digital payment

Sr. No.	Digital Transaction	Year & Volume (millions)		
		2020-2021	2021-2022	2022-2023
01	RTGS customer transaction	136.63	150.7	159.2
02	RTGS interbank transaction	143	228	184
03	Retail Electronic clearing(ECS, NEFT, NACH & IMPS)	4205	5467	7113
04	Card Usages	3486	4749	6177
05	Prepaid Payment Transaction	1963	3454	4604
06	UPI (Including BHIM)	10,787.54	18,880.89	38,744.55

The digital payment volume table presented above amply demonstrates the rapidly increasing volume of digital payments. In particular, card usage has nearly doubled between 2020 and 2023. After its inception, UPI has grown significantly quicker than other digital payment methods.

India's government has undergone a technological revolution in recent years. Government services have been integrated gradually, and today last-mile delivery can be completed in a matter of seconds with the click of a mouse. As part of the Indian government's plan to digitise the financial sector and economy, digital payment transactions have been steadily rising over the past several years. Additionally, financial inclusion has been promoted as one of the key national goals of the nation through concerted efforts.

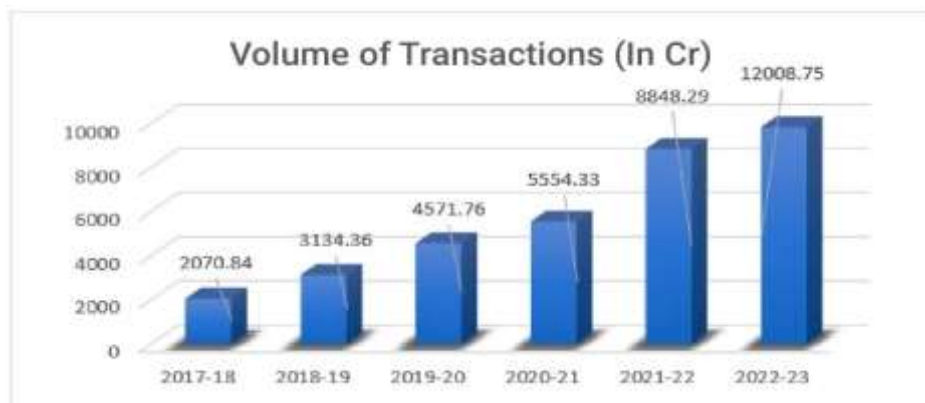
The JAM Trinity, which includes Jan Dhan, Aadhaar, and Mobile, is a key component of India's transformed digital payment landscape. Launched in August 2014, the Pradhan Mantri Jan Dhan Yojana (PMJDY) is one of the largest financial inclusion programs globally, aiming to provide universal banking access to all unbanked families. Aadhaar, a product of the Unique Identification Authority of India, offers a straightforward and effective way to verify individuals and beneficiaries through biometric data. Together, Aadhaar, Jan Dhan accounts, and mobile connectivity have facilitated the creation of a digital India, enabling citizens to access a wide range of government services easily and without intermediaries.

7.1 India's digital payment Environment

Attaining "Faceless, Paperless, Cashless" status is among Digital India's primary objectives. Towards the goal of formally integrating digital payments into every area of our country, the Indian government has made this development its top priority. All Indians should be able to make seamless digital payments in an inexpensive, quick, safe, and practical manner.

Over the last three years, digital payment transactions have grown at an unprecedented rate in India. The National Electronic Toll Collection (NETC) system, Immediate Payment Service (IMPS), Bharat Interface

for Money-Unified Payments Interface (BHIM-UPI), and Prepaid Payment Instruments (PPIs) are a few of the straightforward and useful digital payment solutions that have grown significantly and changed the digital payments ecosystem by boosting P2P and P2M payments. All of the previously widely used payment methods—credit cards, debit cards, NEFT, and Real-Time Gross Settlement (RTGS)—have grown quickly at the same time. The most popular payment option among users is now BHIM-UPI. The introduction of the cashless and contactless e-RUPI digital payment system by the Indian government is expected to have a major impact on increasing the efficacy of Direct Benefit Transfer (DBT) in the country's digital transactions. These resources when combined have created a strong ecosystem for the digital money market.



Source: <https://www.nic.in/blogs/digital-payments-driving-the-growth-of-digital-economy/>

Fig 1: Total Digital Transaction

7.2 UPI: Changing the Face of Digital Payments

The Unified Payments Interface (UPI) has been recognized as a revolutionary product in the payments sector since its introduction in 2016. Developed by the National Payments Corporation of India (NPCI), UPI has become one of the most popular methods for digital transactions in India. This instant payment system consolidates various banking services, enabling seamless fund transfers and merchant payments through a single mobile application that links multiple bank accounts. To further promote the interface, Prime Minister Narendra Modi launched the BHIM-UPI App on December 31, 2016, at the inauguration of the "Digi Dhan Mela."

UPI has played a crucial role in steering India toward a cashless economy and fostering a culture of digital payments. In August 2022 alone, UPI facilitated 6.58 billion transactions amounting to over ₹10.73 lakh crores, with 346 banks actively participating in the system.

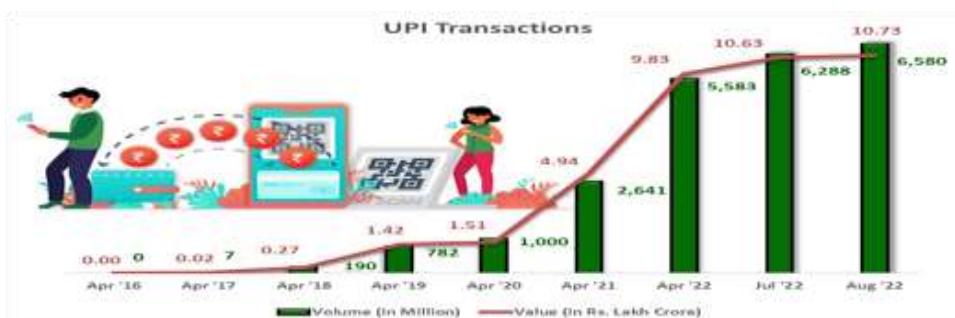
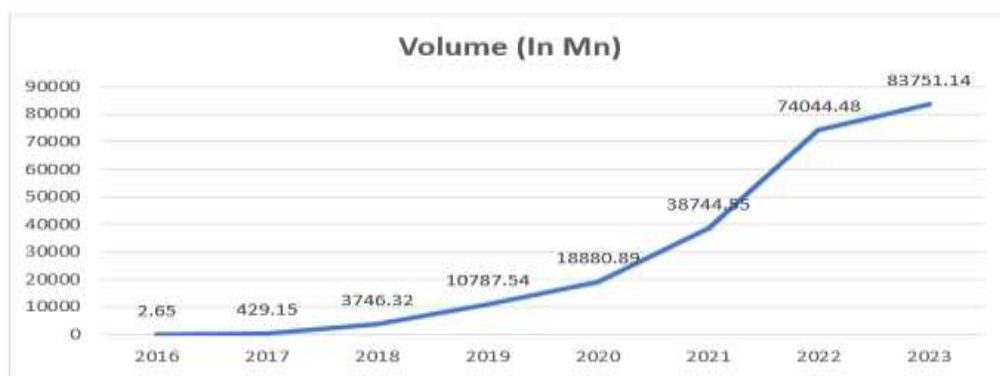


Fig2: UPI Transaction

At the moment, UPI accounts for far over 40% of all digital transactions occurring in India. Modest companies and street vendors have benefited from it since it makes bank to bank transactions, even for very modest amounts, quick and secure. For migrant employees, it also makes swift money transfers possible. The technology is simple to use because it involves no physical effort and enables money transfers with just the scan of a QR code. The Covid-19 pandemic has also been helped by UPI, whose popularity is growing quickly as a result of its capacity to support simple, contactless transactions. Since National Payments Corporation of India (NPCI) launched UPI (Unified Payments Interface) in 2016, the country has experienced a considerable increase in its use. The UPI journey in India is summarised here, along with year-over-year growth figures through 2023.



Source: <https://www.nic.in/blogs/digital-payments-driving-the-growth-of-digital-economy/>

2017 saw a YoY rise of 900% for UPI, handling more over 100 million transactions of INR 67 billion. With almost INR 1.5 trillion worth of transactions executed in 2018, the YoY growth was 246%. With over INR 2.9 trillion worth of transactions executed in 2019, the YoY growth was 67%. With nearly INR 4.3 trillion worth of transactions conducted by December 2020, UPI saw a YoY rise of 63% in 2020. With more than 1.49 billion transactions valued INR 5.6 trillion completed in June 2021, the YoY growth in 2021 was 72%. According to the NPCI, UPI's total transaction value at the end of the 2022 calendar year was INR 125.95 trillion, an increase of 1.75 X year over year (YoY). Remarkably, in FY22, the total value of UPI transactions represented about 86% of India's GDP. By the end of 2023, there will have been 83.75 billion transactions made over UPI.

8. Findings

- 1. Enhanced Financial Inclusion:** Access to banking services has greatly improved thanks to digital payment channels, especially in underserved and rural areas. As a result, there is now less distance between the unbanked and official financial services.
- 2. Reduced Transaction Costs:** Banks and customers now see decreased transaction costs as a result of the migration to digital payments. Because of this, banking is now more economical and efficient, which is good for the economy as a whole.
- 3. Improved Transparency and Accountability:** The electronic trail left by digital transactions has decreased corruption and increased transparency. As a result, there is now greater faith in the banking system, and the financial sector is becoming more responsible.

4. **Increased Efficiency and Convenience:** Digital payments have expedited banking procedures, hence decreasing the duration and exertion needed for transactions. This has improved client happiness and loyalty and raised financial operations' efficiency.
5. **Support for Government Initiatives:** Government initiatives like the Pradhan Mantri Jan Dhan Yojana (PMJDY) and Direct Benefit Transfers (DBT) have benefited greatly from the use of digital payments. In order to minimise leakage and guarantee on-time delivery, many programs have depended on digital payments to provide subsidies and benefits directly to citizens.
6. **Boost to Economic Growth:** Digital payment acceptance has created a more dynamic and inclusive financial ecosystem, which has boosted economic growth. It has aided in trade, raised consumer expenditure, and encouraged entrepreneurship, all of which have boosted the economy as a whole.
7. **Enhanced Security and Fraud Prevention:** By introducing sophisticated security features like multi-factor authentication and encryption, digital payments have decreased the likelihood of fraud and financial crimes. The banking system is now more reliable and safe as a result of this.
8. **Encouragement of Financial Innovation:** The emergence of new financial services and products is a result of financial innovation sparked by the digital payments revolution. Digital payment technology have been used by both traditional banks and fintech companies to develop cutting-edge solutions for businesses and consumers.
9. **Challenges and Opportunities:** Notwithstanding the advantages, the shift to digital payments has presented difficulties like the requirement for digital literacy, infrastructure development, and cybersecurity concerns. There are chances to significantly develop India's digital payment ecosystem by addressing these issues.
10. **Future Prospects:** Digital payments in India appear to have a bright future because to government laws that encourage them and the continuous developments in technology. It is anticipated that as this industry develops further, banking will undergo changes that will improve accessibility, effectiveness, and inclusivity of financial services.

9. Conclusion

Undoubtedly, the current state of digital payments in India has altered. Apart from the initiatives of the government, Indians have demonstrated a significant inclination towards adopting novel technologies. While several industrialised nations are having problems because they lack the digital infrastructure necessary to transfer money from their citizens' bank accounts, India has emerged as a leader in the creation of digital assets, setting an example for many other nations.

Furthermore, the Indian government is making every effort to establish India as a global leader in digital payment systems and to assist it in developing into one of the most efficient payment marketplaces worldwide. Rising fin-tech businesses will be crucial to the future growth of digital transactions because they provide secure, fast, cheap, transparent, and efficient operations that benefit the whole digital payments ecosystem.

The expansion of financial inclusion has been one of the main effects of digital payments on the Indian banking sector. The previously unbanked population now has access to financial services, particularly in rural areas. This is thanks to digital payment platforms. People who were previously shut out of the formal banking system are now able to take part in online transactions, get government subsidies straight into their bank accounts, and participate in the digital economy.

Additionally, the move to digital payments has promoted accountability and transparency in financial activities. Due to the fact that digital transactions create a trail that is simple to track and audit, it has decreased the occurrence of black money and tax evasion. As a result, the tax base has grown and the nation's overall financial situation has improved.

Adoption of digital payments has also sparked innovation and entrepreneurship. By providing cutting-edge solutions and fostering competition in the industry, fintech companies have become significant actors in the Indian financial landscape. Digital payment platforms have helped startups and small enterprises grow their clientele, get credit, and improve their company processes.

However, it's critical to recognise the difficulties associated with our growing reliance on electronic payments. To ensure the ongoing development and viability of digital payment systems, challenges like cybersecurity risks, data privacy difficulties, and technological infrastructure deficiencies must be resolved.

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