THE IMPACT OF DIGITAL PAYMENTS(UPI) ON FINANCIAL INCLUSION IN INDIA

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ABSTRACT:

This Research examines the role of the Unified Payment Interface (UPI) in advancing financial inclusion in India by reviewing a few RBI policies: the National Strategy for Financial Inclusion (2019-2024) and the Statement on Developmental and Regulatory Policies (April 7, 2021) . The study explores how these frameworks collectively provide a path towards India's transition from access-based inclusion to digitally driven financial participation available to all. The NSFI (2019-2024) report establishes a long-term vision aiming at universal access to formal financial services by integrating digital infrastructure, financial literacy, and coordination among institutions, with UPI and other digitally operated platforms forming the backbone of a cashless economy. Furthermore, the 2021 policy statement helps in invoking these through regulatory and systemic reforms. A few of these were the Financial Inclusion Index, direct RTGS, NEFT, and IMPS access for non-banks. Together, these measures illustrate the RBI's approach to improving technology for inclusive growth. The research shows that digital payment innovations like UPI have not only improved transaction efficiency but also strengthened transparency, access, and trust in the financial system, helping to include digital inclusion as the cornerstone of India's sustainable economic development.

INTRODUCTION:

Financial Inclusion refers to the process of ensuring access to useful, affordable, and responsible financial services such as savings, credit, and insurance – available to all individuals, especially to those from low-income families or marginalized communities. In India, financial inclusion has been recognized as a vital policy goal for achieving equitable economic growth and also in reducing poverty. For two decades, the Reserve Bank of India and the government have also launched several initiatives to help bring low-income or marginalized communities into the formal financial system. Despite some progress, challenges remain, such as low account usage, limited credit access, and a persistent digital divide. To overcome these barriers, technology-enabled solutions have emerged as the backbone of India's modern financial inclusion agenda (Reserve Bank of India, 2019).

Among all these innovations, one that stood out was the introduction of Unified Payment Interface (UPI)- launched in 2016 with the help of the National Payments Corporation of India (NPCI) under the guidance of the Reserve Bank of India- has truly become a revolutionary platform for digital transactions. UPI enables users to link multiple bank accounts in a single mobile app and helps perform instant, low-cost transactions using a virtual payment address. The app's structure promotes simplicity, security, and accessibility, allowing individuals and small business owners to transact without the need for a traditional banking system. The volume of transactions carried out through UPI today is extremely large and reflects how central it has become to India's payment system. In fact, in recent years, UPI has grown significantly, with around 18-20 billion transactions every month, with the monthly value often exceeding 25-30 lakh crores. Which means on an average day, 600-700 million transactions are executed via UPI, ranging from very small payments like tea and bus fares to high-value business and personal transfers. The growth in UPI adoption has been exceptionally rapid over time. When UPI was launched in 2016, usage was negligible, with only a few million transactions in its first year. By 2018, annual transactions had crossed **3–4 billion**, and by 2019, they were already above 10 billion. The real acceleration occurred after 2020, when digital payments became more common during the pandemic. Over the next few years, the number went up to 170 billion transactions. UPI even supports the Reserve Bank's National Strategy for Financial Inclusion (2019-2024), which identifies digital payments as a core instrument for universal access.

The Statement on Developmental and Regulatory Policies (RBI,2021) further establishes this directive more by introducing measures such as the Financial Inclusion Index, expanded access to real- time payment systems (NEFT and RTGS) for non-bank entities. These Initiatives aim to strengthen the digital payment ecosystem and ensure that technology contributes to inclusion rather than exclusion. Furthermore, this research seeks to determine the role of digital payments- particularly UPI- in addressing financial inclusion in India. Specifically, emerging from this question addressed in the study is : To what extent has UPI led to improvements in inclusivity regarding accessibility, affordability, and the use of formal financial services in India?

Many countries have shown that, with technology-based payment systems, transaction costs can be reduced, making it possible for the excluded population to access the system. International experiences provide valuable insights into how digital payment infrastructure can drive inclusive growth.

Brazil is often cited as an early example of successful digital financial inclusion. The expansion of correspondent banking and electronic payment systems enabled financial institutions to reach remote and low-income populations without relying solely on traditional bank branches. Studies on Brazil's inclusion model show that digital channels reduced geographic barriers and increased access to savings and payment services, particularly in rural and semi-urban regions. The integration of government welfare payments with digital banking further strengthened financial participation and reduced cash dependency.

Kenya's experience with mobile money, particularly through the M-Pesa platform, is among the most widely studied cases of digital inclusion. Research indicates that mobile payment systems in Kenya significantly increased households' access to financial services, enabling previously excluded households to join the formal banking system. Mobile money adoption enabled users to save securely, transfer funds instantly, and manage financial risks more effectively. Studies have linked mobile payments in Kenya to improvements in household resilience, poverty reduction, and women's economic empowerment, demonstrating the broader socio-economic impact of digital financial access.

While policy frameworks and international examples highlight the potential of digital payments, their real impact is best understood through everyday usage. In India, financial inclusion is no longer just about opening bank accounts- it is increasingly about how frequently and comfortably people use financial services. Digital payment platforms have shifted the focus from access to participation. A farmer receiving government support directly into a bank account, a street vendor accepting QR payments, or a student transferring money instantly to family members are all examples of how digital finance has become embedded in daily life. These routine transactions may seem small, but collectively they represent a significant transformation in how individuals interact with the formal financial system.

The Unified Payments Interface (UPI) is remarkable in that it has overcome a number of typical constraints usually associated with banks. Customers do not have to physically visit banks, fill out paperwork, or even rely on cash. Instead, financial transactions are completed in seconds using mobile phones. This ease of use has been particularly beneficial for small businesses and informal workers, who often operate outside traditional banking structures. For them, UPI is not just a payment tool- it is a gateway to financial visibility, record-keeping, and greater economic participation.

Nevertheless, there is no single story of digital inclusion across every segment of society. Variations in internet and digital literacy, and in the availability of smartphones, result in differential benefits from digital payment systems. Users in rural areas, seniors, and women experience additional strains as they embrace new technologies. Such disparities emphasize that there is much to be done to enhance digital payment infrastructure, as well as educating and protecting consumers. Financial inclusion, thus, must be recognized as an ongoing process and not an achievement. While this will continue to further build the digital payment system infrastructure in India, ultimately, what will make digital payment tools, such as UPI, successful will lie in their ability to bring into to their fold those who are left out of the digital economy.

ANALYSIS:

The growing use of digital payments in the Indian market, especially the UPI, has altered the landscape of financial inclusion achievements for various demographic segments. In this section, the use of UPI for financial inclusion, by region and gender, will be discussed. Achievements in the Financial Inclusion Index and the challenges that could impede the optimum utilization of financial inclusion would also be covered.

The usage of UPI has increased dramatically in both the urban and rural areas. However, the pattern of usage differs.

Urban areas continue to show a higher preference and usage of UPI, with surveys indicating that over 80% of urban Indians prefer UPI for transactions, compared with only about 38% in rural and semi-urban regions. Urban areas demonstrate faster adoption due to higher smartphone ownership, greater digital literacy, and a higher density of merchants accepting digital payments. According to secondary data from NPCI, Tier-1 and Tier-2 cities lead UPI volume and value growth, driven by youth adoption and e- commerce payments. Rural regions, however, show increasing participation primarily through integration of UPI with Aadhar-based identity verification and the widespread rollout of Jan Dhan accounts. The National Strategy for Financial Inclusion (2019-2024) reinforces that expanding digital infrastructure and Business Correspondent (BC) networks is critical for deeper UPI reach in underserved regions (Reserve Bank of India, 2019, pp.17-20). Although rural transaction volumes remain smaller on average, rapid growth suggests that UPI has become an important gateway to financial services for previously excluded populations.

Gender based trends reveal both progress and disparities. Women's financial participation has increased significantly through UPI linked to Jan Dhan accounts and Direct Benefit accounts (DBT). The NSFI emphasizes women as a targeted beneficiary group and highlights digital payments as a key tool for their empowerment (Reserve Bank of India, 2019, pp. 2-3).

However, adoption remains uneven between genders due to :

- Lower smartphone ownership among women
- Cultural barriers restricting independent financial decisions
- Digital safety and fraud concerns disproportionately impact female users.

Despite these gaps, the ability to transact privately and securely via mobile phones represents a major step toward economic agency for women, especially in rural settings.

The introduction of the FII in 2021 provides an objective measure of progress in inclusion. The index is based on three pillars- **Access, Usage, and Quality**- and captures how deeply individuals are integrated into the financial system (Reserve Bank of India, 2021, p.4). As UPI adoption surged between 2020 and 2024, the index reflected notable improvements in:

- The number of active deposit accounts
- Frequency of digital transactions
- Customer trust in digital payments

The RBI's 2021 reforms – e.g., expanding RTGS/NEFT access to non-banks and mandating wallet interoperability – aim to address these gaps by strengthening competition and accessibility(pp.4-5). Yet policymakers must continue enhancing digital safety, literacy, and infrastructure to ensure inclusion does not become exclusion for digitally underserved groups.

CONCLUSION:

This research set out to evaluate the extent to which the Unified Payments Interface (UPI) has contributed to improving financial inclusion in India by enhancing accessibility, affordability, and the use of formal financial services. The findings demonstrate that UPI has fundamentally transformed the digital finance landscape and has become a major driver of financial inclusion. RBI's strategic and regulatory frameworks indicate a strong association between UPI adoption and improvements in the Financial Inclusion Index (FII) .

The research concludes that UPI has successfully increased access to formal financial services, especially among underserved groups that previously faced barriers such as distance from bank branches, high transaction costs, and limited documentation. The ability to perform real-time transactions with minimal infrastructure has strengthened economic participation for small merchants, rural residents, and women. Nonetheless, disparities remain. The findings show that although great strides have been made, true universal inclusivity can still be achieved by reducing the structural barriers that prevent easy access to digital payment systems.

To ensure continuity and further inclusion of such transactions, the following three major recommendations have been put forward in the study. Firstly, improving digital and financial literacy skills for secure and confident UPI transactions, especially for women and those in rural areas, will play a vital role. Secondly, providing connectivity and smartphone availability directly affect UPI adoption in remote areas and will further shift the focus away from the main gaps in the digital world. Lastly, improvements in protective policies, such as fraud prevention measures, consumer grievance redressal, and interoperability enhancements, will increase overall confidence in and usage of UPI transactions. This will further promote India in its own successful journey of secure and inclusive transactions because of UPI and will move towards a financially empowered nation in the true sense of the term through digital empowerment. This study rightly points out that UPI can serve as a backbone for the overall inclusive development in India.

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