iJRASET
International Journal For Research in Applied Science and Engineering Technology

INTERNATIONAL JOURNAL FOR RESEARCH

IN APPLIED SCIENCE & ENGINEERING TECHNOLOGY

Volume: 13 **Issue:** VII **Month of publication:** July 2025

DOI: https://doi.org/10.22214/ijraset.2025.73207

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International Journal for Research in Applied Science & Engineering Technology (IJRASET)
ISSN: 2321-9653; IC Value: 45.98; SJ Impact Factor: 7.538
Volume 13 Issue VII July 2025- Available at www.ijraset.com

How Digital Payments Drive Financial Inclusion in India

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Abstract: ***India has witnessed a digital payments revolution in recent years, spurred by government initiatives, technological innovation, and private sector engagement. This research explores how digital payments contribute to financial inclusion by reducing the dependence on cash, expanding access to financial services, and enabling low and middleincome (LMI) segments to participate in the formal economy. The study examines key innovations such as UPI, AePS, BBPS, and RuPay, while also identifying barriers and proposing strategies to enhance inclusion across underserved communities.***

I. INTRODUCTION

Financial inclusion, defined as the availability and equality of opportunities to access financial services, has been a longstanding developmental goal in India. Traditionally, geographical barriers, infrastructural deficits, and socioeconomic constraints have hindered broad-based inclusion. However, digital payments have emerged as a transformative solution, offering scalable, cost-effective, and accessible alternatives to conventional banking systems. The convergence of Aadhaar, Jan Dhan Yojana, and mobile technology has created the foundation for a robust digital financial ecosystem.

II. EVOLUTION OF DIGITAL PAYMENTS IN INDIA

India's digital payments landscape has evolved at a CAGR of 38% by volume over the last five years. Key drivers include:

1) Infrastructure Improvements: Expansion of broadband and mobile internet, smartphone penetration.
2) Regulatory Support: Waiver of MDR charges, creation of regulatory sandboxes, and promotion of offline digital payments.
3) Policy Initiatives: PMJDY accounts, Aadhaar-enabled verification, demonetization (2016), and the Digital India mission.
4) Technology Innovations: Emergence of India Stack, UPI, and mobile wallets.

These changes have enabled consumers to "receive, store, spend, invest, and protect" their money digitally.

III. KEY DIGITAL PAYMENT SYSTEMS EMPOWERING INCLUSION

1) Unified Payments Interface (UPI)

UPI is a real-time mobile payment system that has become central to India’s financial ecosystem. With 300+ million users and over 3.8 billion transactions monthly (FY 2021–22), it enables both P2P and P2M payments. UPI’s simplicity and integration with third-party apps like Google Pay and PhonePe have led to widespread usage, even among low-income groups.

2) Aadhaar-enabled Payment System (AePS)

AePS allows biometric authentication-based transactions, especially in rural areas. It supports cash withdrawals and transfers, enabling Direct Benefit Transfers (DBT) to reach unbanked citizens, especially during the COVID-19 crisis. It recorded a CAGR of 34% by volume over five years.

3) Bharat Bill Payment System (BBPS)

BBPS integrates various billers into a single platform, allowing users to pay utility bills, loan EMIs, taxes, and more. The platform simplifies recurring payments, particularly for digitally semi-literate customers, and has grown at a CAGR of 73%.

4) BHIM Aadhaar Pay (BAP)

BAP enables merchants to accept payments directly into their accounts using Aadhaar authentication. It has driven cashless transactions in semi-urban and rural India, empowering micro-merchants.

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5) RuPay Card Network

RuPay, India's domestic card network, gained traction through PMJDY. It offers low-cost card solutions with wide acceptance. Over 60% of debit cards issued in India are RuPay cards, many held by previously unbanked citizens.

IV. DIGITAL PAYMENTS AS A CATALYST FOR FINANCIAL INCLUSION

1) Expanding Access

Digital payment platforms reduce the physical and financial barriers associated with traditional banking. UPI, AePS, and mobile wallets extend services to remote areas, enabling real-time transactions, account openings, and micro-insurance purchases.

2) Promoting Formalization

Cashless payments increase visibility into user behaviour, making it easier for lenders to offer credit products based on transaction data. This is especially critical for micro-entrepreneurs and informal sector workers.

3) Gender and Youth Empowerment

Digital platforms empower women and youth by offering secure, private access to financial services. Aadhaar-linked accounts have helped women gain control over government subsidies and wages.

4) Crisis Response

During the pandemic, digital payments ensured timely delivery of relief through DBT and AePS. The ability to withdraw cash or make payments without visiting branches was vital for low-income households.

V. BARRIERS TO INCLUSIVE DIGITAL PAYMENT ADOPTION

Despite progress, several challenges remain:

1) Customer-Level Barriers

- Low digital literacy, especially among rural women.
- Mistrust in digital channels due to fear of fraud.
- Preference for cash due to perceived simplicity and zero transaction cost.

2) Provider-Level Barriers

- Lack of intuitive UI/UX in fintech applications for LMI users.
- Limited focus on need-based product design for rural and underserved segments.

3) Ecosystem-Level Barriers

- Gaps in last-mile acceptance infrastructure.
- Inadequate agent networks or poor training.
- Connectivity issues in remote locations.

VI. RECOMMENDATIONS FOR INCLUSIVE GROWTH

1) Awareness and Literacy Campaigns

Financial and digital literacy programs must be scaled, especially for rural women, farmers, and small business owners. Use of vernacular content, community influencers, and local NGOs can accelerate outreach.

2) Anchor Use Cases

Promote context-specific use cases like:

- Salary payouts via UPI
- Agriculture payments and microfinance loan repayments
- CoD replacements and utility payments
- Domestic remittances via mobile apps

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3) UI/UX Design Enhancements

Products should be tailored for low-tech environments—feature phones, voice-based transactions, and low-data apps (e.g., UPI 123Pay).

4) Strengthening Acceptance Infrastructure

Expand QR code acceptance, incentivize small merchants, and upgrade offline transaction capabilities in no-connectivity zones.
Create Super Apps for Higher Ease and Utility
Super apps integrate multiple functionalities into a single interface: payments, e-commerce, travel booking, entertainment, consumer finance, and more.
Their rise has significantly boosted UPI transactions post-demonetization.
Financial institutions can use super apps to offer customized products for LMI segments, improving customer engagement.

5) Policy Support

The government and regulators must continue enabling innovation with protective regulation, while maintaining user safety, affordability, and system interoperability.

VII.FUTURE OF DIGITAL PAYMENTS

1) Frictionless Payments

Enable queue-less checkouts, recurring bills, and QR code transactions.
About 4.9 million Bharat QR codes process ~250 million transactions monthly.
RBI's promotion of a sovereign digital currency and tokenization policies enhances seamless payment experiences.

2) Contactless Payments

Gained traction post-COVID; now 15% of digital transactions.
Enabled by NCMC, mobile wallets, and NFC cards.
20% of PoS terminals are NFC-enabled; aims to compete with Visa/Mastercard.

3) Voice-Based Payments

Growing via Amazon Pay, Google Pay, and Indian OEMs.
Useful for ~1 billion LMI consumers comfortable with vernacular voice interaction.
Voice bots are being used in lending and customer service; P2P voice payments are on the horizon.

4) Offline Payment Solutions

India has over 1.1 billion telecom subscribers, but connectivity gaps remain.
UPI 123Pay enables payments via app-based feature phones, missed calls, IVR, and sound-based proximity communication.
e-RUPI allows contactless, voucher-based payments, usable even without bank accounts or smartphones.

5) Analytics-Based Value-Added Solutions

AI/ML and blockchain are transforming digital payments.
NPCI's Vajra platform offers secure, tamper-evident blockchain-based transactions.
Value-added services include payment reminders, expense analytics, digital credit access, CRM tools for merchants.

VIII. INTERNATIONAL REPLICATION OF INDIAN PAYMENT SYSTEMS

1) India Stack

A four-layered digital infrastructure: Presenceless (Aadhaar), Paperless (digital records), Cashless (UPI), Consent (data control).
Over 1.33 billion Aadhaar numbers issued, with 86% bank account linkage.
Countries like Indonesia, Zambia, and Bangladesh seek to replicate India Stack.

2) NPCI International Expansion

NPCI formed NIPL to promote UPI and RuPay globally.

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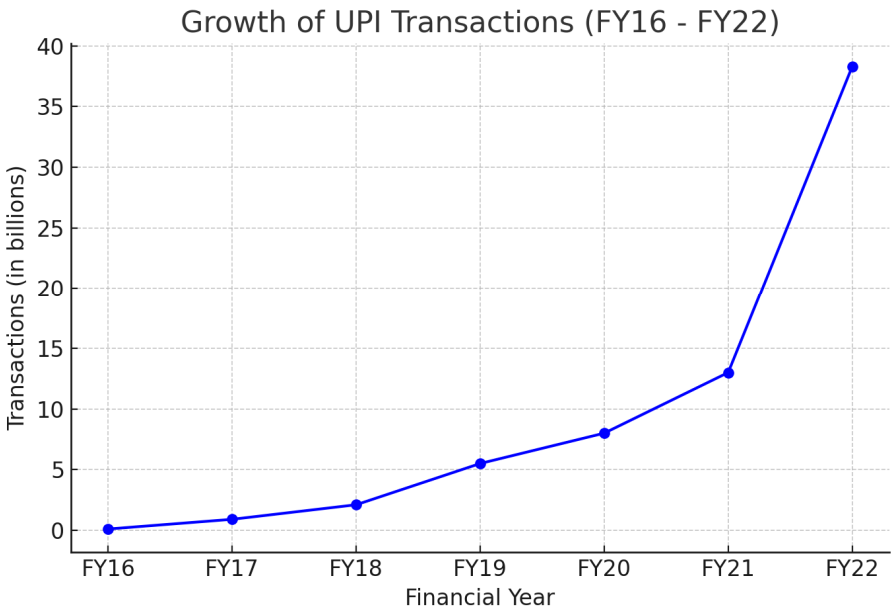
Partnerships: NETS (Singapore), Discover Financial (USA), PPRO, TerraPay.
UPI is live or planned in Singapore, UAE, Nepal, Bhutan, and France.

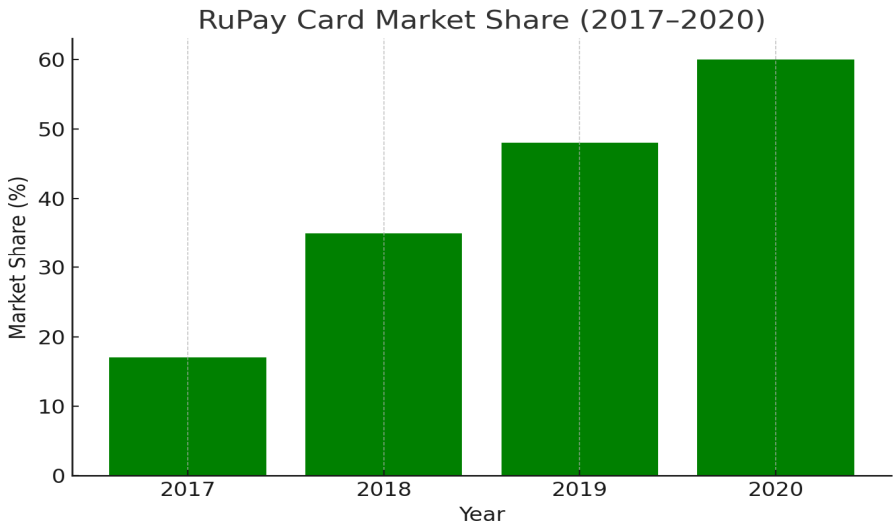
3) Biometric Payments

India's Aadhaar-based biometric system enables BHIM Aadhaar Pay.
Used extensively in DBT schemes like Ujjwala and MGNREGS.
Saved over INR 75 billion (USD 1 billion) by reducing leakages and fraud.
Figures and Charts
Figure 1: Growth of UPI Transactions (FY16 - FY22)



Source: NPCI, 2022. The chart illustrates exponential growth in UPI transactions, reflecting increased adoption and usage across diverse user segments.

Figure 2: RuPay Card Market Share (2017–2020)



Source: RBI Reports. The rising share of RuPay debit cards, especially among PMJDY beneficiaries, indicates successful penetration of low-cost digital instruments.

IX. CONCLUSION

Digital payments have become a cornerstone of financial inclusion in India, offering immense potential to bridge socioeconomic divides. While transformative progress has been made through platforms like UPI, AePS, and BBPS, true inclusion will require persistent collaboration between the government, regulators, fintech companies, banks, and civil society. By addressing existing barriers and customizing digital solutions for diverse customer segments, India can continue leading the world in inclusive digital finance.

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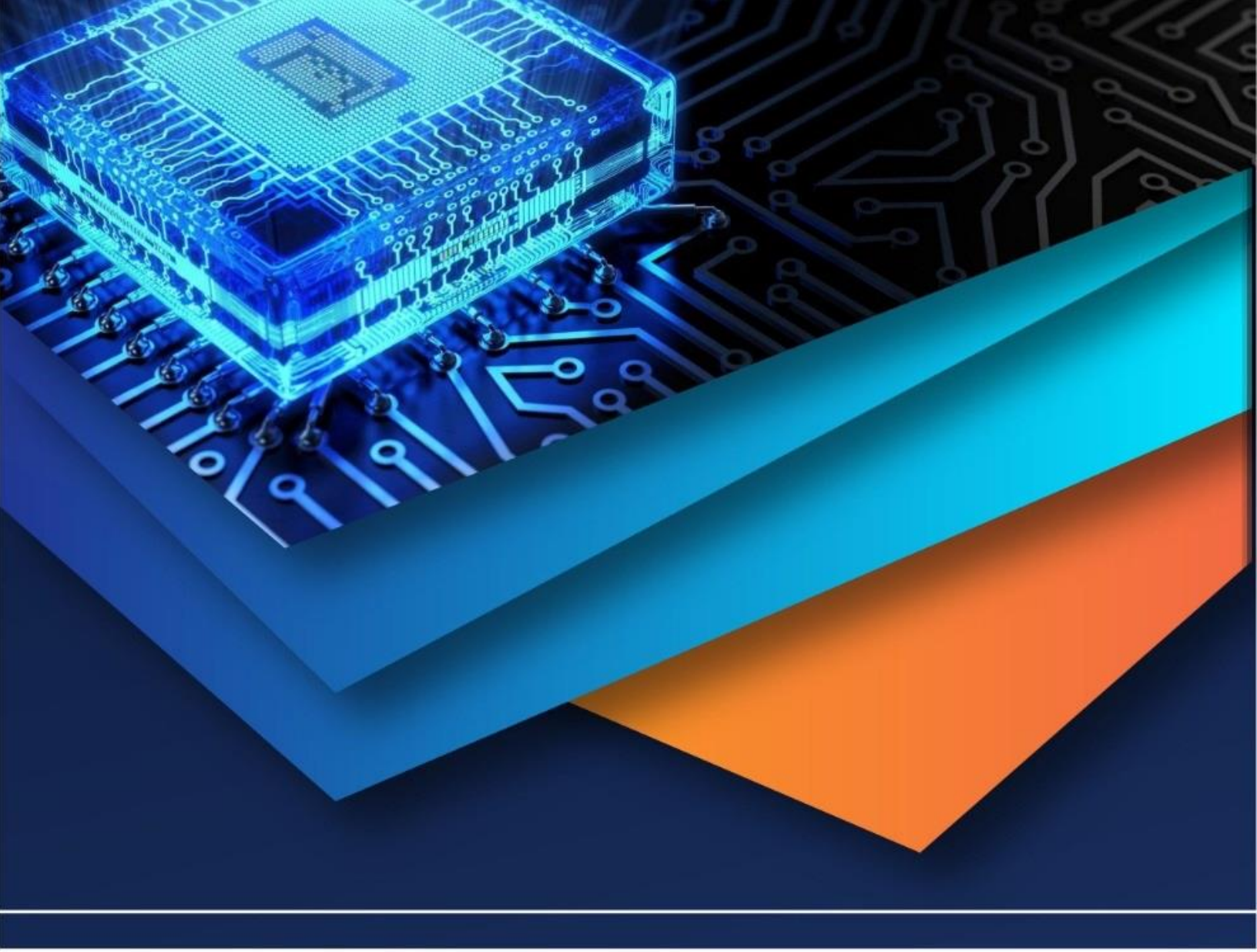

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