



THE FUTURE OF PAYMENT SYSTEM IN INDIA – A STUDY

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Abstract

The Indian banking sector is making significant efforts to promote digital payments, gaining momentum following demonetization and the Digital India initiatives. To enhance digital payment services, the National Payment Corporation of India (NPCI) introduced the Unified Payment Interface (UPI), a groundbreaking and cost-effective solution. The widespread adoption of smartphones, technological advancements, and improved internet connectivity have all contributed to the growing use of mobile payment options among smartphone users, financial institutions, and banks. UPI presents a promising method for fund transfers through a virtual payment address created by NPCI, playing a crucial role in moving towards a paperless and cashless economy. Therefore, it is essential to evaluate UPI's potential to contribute to the development of a digital economy. This paper mainly focus the future of payment systems in India.

Keywords: *NPCI, UPI's, digital economy, Information and Communication Technology, virtual payment address*

Introduction

India's banking system is undergoing significant structural reforms, characterized by an increased reliance on Information and Communication Technology (ICT). This shift has transformed banking operations from traditional paper-based processes to a more streamlined virtual system, enabling faster and more secure fund transfers between bank accounts. ICT has facilitated a wide range of electronic payment methods, commonly referred to as digital payment services, among which the Unified Payments Interface (UPI) has emerged as a leading option.

UPI is an innovative e-payment system that allows users to conduct various financial transactions using their smartphones. By utilizing a virtual payment address (VPA), users can send and receive money on the UPI platform without needing to disclose their bank account details. However, to initiate UPI transactions, users must have a bank account and register on a UPI-enabled application. For businesses, a current account is required, similar to a point of sale (PoS) terminal setup.

Several UPI apps are currently available in the market, including SBI Pay, Union Bank UPI App, PhonePe, Google Pay, BHIM, Axis Pay, and WhatsApp Pay. All banks and fintech companies are actively providing UPI services through their respective mobile applications, making digital transactions more accessible to a wide range of users.

The primary aim of this paper is to explore the role of UPI as a digital payment service and its integration within the broader digital ecosystem. It will analyze UPI's strengths, weaknesses, opportunities, and challenges (SWOC analysis) to provide a comprehensive understanding of its impact. The paper begins with an overview of the current landscape of digital payments in India, focusing specifically on UPI's position within this framework, supported by a critical analysis of relevant UPI data.

As UPI continues to evolve, it is vital to assess its contributions to the digital economy and identify areas for improvement. This assessment will help stakeholders—including financial institutions, businesses, and consumers—understand how to leverage UPI's capabilities for enhanced financial transactions, ultimately promoting a more inclusive and efficient financial system.

In the present century, everything is fast moving. It has become an era of digital revolution. People avoid waiting in long queues. Earlier, if a person wants to buy a product his/her physical presence at the store was essential to buy goods and services. At present they can select and buy the product from any location. Cashless society concept has evolved and is being promoted in and around the world. India is also in the same path. Cashless payments are being promoted for financial inclusion. For the smooth functioning of payments and settlements, there requires a payment system. Government is emphasizing more on cashless payments for enabling transparency in payments, preventing money laundering and corruption. To promote digitalisation, RBI and IBA introduced NPCI. It is an organisation formed to control retail payments and settlements. NPCI aims to make India a less-cash society. It focuses on bringing innovations in retail payment systems. It also facilitates secure payment solutions with nationwide accessibility at minimal cost. India's aspiration to be a fully digital society is being fulfilled. NPCI was incorporated as a “Not-for-profit Company”, and Certificate of Commencement of Business was administered in April 2009. Now it is registered under Companies Act, 2013.

Review of literature

Singh & G, (2018) His objective was to examine the role of the cashless economy in India's economic development scenario, analyse the merit and demerits of the cashless system, to know the benefits of a cashless economy and future trends in India. The Digital India programme aims to transform the country into a cashless society. The use of ATM cards, USSD, wallets, AePS, Net banking etc. helped in leading to a cashless India in the future. The merits of this trend have helped people switch to electronic modes of sending and receiving money. Now India is slowly moving on to a cashless economy. Digital transactions help in financial inclusion. The entire nation is experiencing the procedure of modernisation in cash exchanges by adopting e-payment services in all areas. Countless, even street sellers use electronic payments, inciting the general population to figure out how to execute the cashless route faster than at any time in recent memory. In any case, there are still different difficulties to be tended to if we need to bode well. India is a big country, and the comfort of making exchanges through online mode isn't accessible to the nation all over. The general population generally endure in small urban towns because of an intense money crunch.

Kumar & Menon, (2020) This research paper attempted to analyse customers' perceptions of UPI services and to determine the relationship between UPI service characteristics and customer happiness. According to this survey, customers have a favourable attitude toward unified payment interface services, and there is a link between many features of UPI services and consumer happiness. This study also identifies some issues that users confront when using UPI services. The government should conduct more education campaigns regarding the NPCI's wide range of services for internet and banking users.

Objectives of the Study

1. To examine the evolution of the payment systems and NPCI in India
2. To study the NPCI in promoting cashless society.

The Evolution of Payment Systems and NPCI in India

The landscape of payment systems in India has undergone remarkable transformation over the past few decades. This evolution is characterized by the shift from traditional cash-based transactions to increasingly sophisticated electronic and digital payment methods. A key player in this revolution is the National Payments Corporation of India (NPCI), established to create a robust and inclusive payment infrastructure in the country. This document delves into the historical context, the role of NPCI, and the advancements in payment systems in India.

Historical Context of Payment Systems in India

1. **Pre-1990s: Cash-Dominated Economy** Prior to the 1990s, India operated primarily on a cash-based economy. The banking system was limited, and payment methods were rudimentary. Most transactions occurred in person, and the concept of electronic payments was virtually nonexistent. The banking sector was heavily regulated, which stifled innovation.
2. **1990s: Liberalization and Initial Digitalization** The economic liberalization in the early 1990s paved the way for technological advancements. The introduction of computers in banks and the establishment of ATMs marked the beginning of digital payment systems. However, these systems were often fragmented and not widely accessible to the average consumer.
3. **Early 2000s: Introduction of Electronic Payment Systems** With the advent of the internet and mobile technology, India saw the launch of various electronic payment systems. The introduction of the National Electronic Funds Transfer (NEFT) system in 2005 and the Real-Time Gross Settlement (RTGS) system in 2004 allowed for faster and more efficient interbank transactions. However, these systems still lacked user-friendly interfaces and broad adoption among consumers.

The Formation of NPCI

1. **Establishment and Objectives** In 2008, the Reserve Bank of India (RBI) established the National Payments Corporation of India (NPCI) to create a unified and efficient payment infrastructure in the country. NPCI was tasked with promoting digital payment systems, ensuring interoperability among different platforms, and increasing the reach of financial services.
2. **Key Initiatives** NPCI has been instrumental in launching several innovative payment solutions:
 - **Immediate Payment Service (IMPS):** Launched in 2010, IMPS allowed for real-time interbank money transfers via mobile phones, marking a significant advancement in digital banking.
 - **Unified Payments Interface (UPI):** Introduced in 2016, UPI revolutionized digital payments by enabling users to transfer money instantly using a mobile app with a virtual payment address, making transactions simpler and more secure.
3. **Collaborative Approach** NPCI adopted a collaborative approach by partnering with various stakeholders, including banks, fintech companies, and regulatory bodies. This ensured a comprehensive ecosystem for digital payments that could cater to diverse user needs.

Advancements in Payment Systems Post-NPCI

- 1. Proliferation of Digital Payment Solutions** The introduction of UPI led to a surge in digital payment transactions. By allowing users to link multiple bank accounts to a single mobile application, UPI simplified the payment process for consumers and businesses alike. This system has seen exponential growth in user adoption and transaction volume, making it one of the most popular payment methods in India.
- 2. Integration with Other Services** UPI has also been integrated with various services such as e-commerce platforms, utility bill payments, and government services. This integration has further fueled the adoption of digital payments, making transactions seamless for users.
- 3. Focus on Financial Inclusion** NPCI has played a crucial role in promoting financial inclusion through initiatives like the **Bharat Interface for Money (BHIM)** app and the **AePS (Aadhaar-enabled Payment System)**. These initiatives target the unbanked and underbanked populations, providing them with access to digital payment services and fostering greater economic participation.

Challenges and Future Directions

- 1. Security Concerns** As digital payments grow, so do concerns about cybersecurity and fraud. Ensuring the security of transactions and building consumer trust remain paramount for the continued success of payment systems.
- 2. Infrastructure Development** To support the increasing volume of digital transactions, ongoing investment in technological infrastructure is necessary. Improving internet connectivity, especially in rural areas, is critical to expanding access to digital payment systems.
- 3. Regulatory Framework** As payment systems evolve, a robust regulatory framework will be essential to address new challenges and ensure a level playing field for all stakeholders involved.

Conclusion

The evolution of payment systems in India, driven by the initiatives of NPCI, has transformed the financial landscape of the country. From a predominantly cash-based economy to a thriving digital payment ecosystem, the journey has been remarkable. As NPCI continues to innovate and expand its services, it will play a pivotal role in shaping the future of payments in India, promoting financial inclusion and contributing to the overall growth of the digital economy. The ongoing efforts to enhance security, develop infrastructure, and establish a strong regulatory framework will be crucial for sustaining this growth in the coming years.

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