

Cash to Click

Revolution of India's Digital Economy

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India has emerged as a global benchmark for the widespread adoption of digital payments. The Government and the Reserve Bank of India (RBI) have been diligently pursuing their vision of transitioning the nation into a cashless economy. Various payment instruments, such as **Unified Payments Interface (UPI)**,

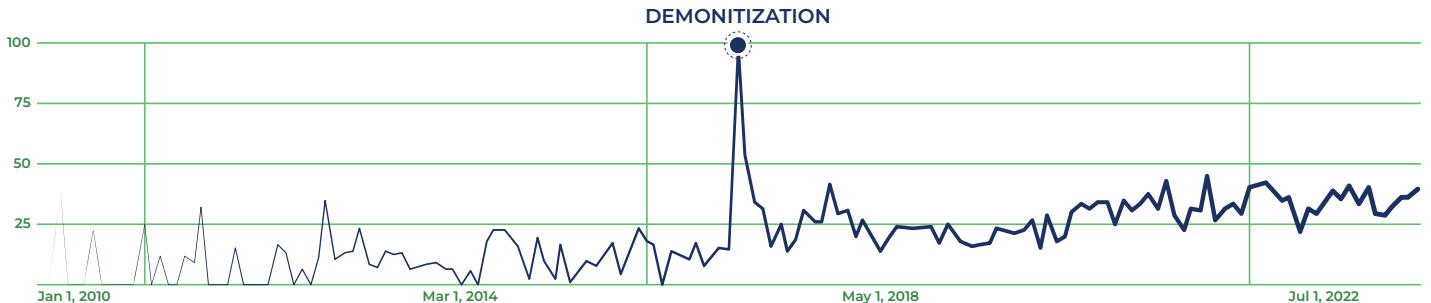
Cards, National Electronic Toll Collection (NETC), and Bharat Bill Payment System (BBPS), have become pivotal elements in the drive to incorporate individuals into a well-structured financial system. The digital payments sector in India continues to experience remarkable growth, primarily due to the relentless innovation fostered by government and financial institutions, including banks, fintech companies, and payment banks. Furthermore, regulatory bodies have been consistently striving to formulate regulations that promote innovation and maintain a **customer-centric approach**.

If we take a snapshot of how the digital payments ecosystem has evolved over the years, we can gain valuable insights into what is driving this digital revolution and what we can expect in the future.

If we have to talk about the single most impactful innovation in the payments space, it must be the **Unified Payments Interface (UPI)**. Let's understand with an example of how UPI has changed the whole payment experience – We can do a walk-through of typical activities a person does and how UPI has emerged as a preferred mode of payment over cash.

				Mode of Payment
Travelling		Uber		
Groceries		zepto	D Mart	
Ordering Food				
Shopping		Flipkart		
Bill Payment			paytm	
Investments				

After demonetization, National Payments Corporation of India (NPCI) developed UPI an instant payment interface that boosted the digital revolution. If we look at the term 'Digital Economy' on Google Trends, we can see that 'Interest' in the term peaked around Dec 2016 and is steadily growing today.



Interest For the word 'Digital Economy' over time

If you recall, I've started this letter by saying "India has emerged as a global benchmark for the adoption of digital payments" one of the reasons for saying so is that, in 2022 India's share in global real-time payments was 46%, with 89.5 million digital transactions. India's digital transactions are more than the other four leading countries combined. (Brazil - 29.2 Mn, China - 17.6 Mn, Thailand - 16.5 Mn, South Korea - 8 Mn)

Today UPI accounts for over **75%** transaction volume of **overall retail digital payments**. As users continue to increasingly opt for UPI for small transactions, the average ticket size has seen a **decline**. For this reason, in value terms, UPI accounts for only 16% of digital transactions. UPI's popularity has grown to the point that the volume of **peer-to-merchant (P2M)** transactions has surpassed **peer-to-peer (P2P)** transaction and contribute more than 50% of the total monthly UPI transactions.

Date	Volume (in Millions)	Value (in Crores)
Aug 2016	0.09	0.38
Aug 2018	312.02	54,212.26
Aug 2020	999.57	1,51,140.66
Aug 2022	6,579.63	10,72,792.68
Aug 2023	10,586.02	15,76,536.56

UPI Transactions

This chart shows the comparison of transactions held in the month of August for 2016 to 2023. In terms of value, transactions have grown from a less than a crore in August 2016 to 15 Lakh crores in August 2023. Interestingly, total UPI transactions accounted for **52%** of India's total digital transactions in FY 2022.

UPI continues to maintain its incredible growth story, and it is estimated that UPI will record **1 billion transactions per day by FY 2027**.

There is another concept which I believe is shifting traditional Financial Services to the digital environment - **Embedded Finance (EmFi)**

EmFi involves the integration of Financial Services (FS) into Non-Financial Services providers' platforms and the customer transaction journey. By incorporating offerings such as payments, lending, banking, investment, and insurance through Application Programming Interfaces (APIs). This innovation has become a significant catalyst for the expansion of the FS industry.

FS providers benefit from the reduced customer acquisition cost when acquiring customers through Non-FS provider platforms. On the other hand, Non-FS providers provide a good user experience and enjoy stickiness by delivering customized value propositions expanding their revenue streams.

EmFi use cases have predominantly gained traction in customer platforms within sectors such as e-tailers, lifestyle products, and services - offering seamless payments, lending, and sachet insurance services at the point of consumption.

The most prevalent use cases of EmFi in the FS landscape in India include

Embedded Payments	Online payment options at the point of consumption
Embedded Insurance	Real-time bundling of insurance at points of consumption
Embedded Investments	API-based integration into investment or brokerage platform
Embedded Cards	Cards-as-a-service offering
Embedded Lending	Buy Now pay Later (BNPL) at points of consumption

Embedded Finance

Business-2-Business (B2B) Company

It can provide embedded lending solutions, allowing businesses to access working capital, enable invoice financing, manage cash flow, and improve supplier relationships.

It can enable secure and efficient transactions between businesses, facilitating seamless fund transfers and reconciliations.

- Integration of **Sachetised Insurance** in B2B transaction journeys such as logistics, supply chain, and B2B e-commerce.

Renter's insurance on commercial property management platforms and

- **Logistics Insurance** for cargo protection.

Business-2-Customer (B2C) Company

It can offer embedded lending options, enabling consumers to access instalment-based financing or credit facilities for purchasing products predominantly through the **Buy Now Pay Later (BNLP)** platform. EmFi enables instant loan approvals and flexible repayment options, driving higher conversion rates and boosting sales.

Digital wallets to store value, expense trackers to better manage finances and investments, travel insurance on travel portals, subscription-based insurance on fitness apps, and short-term loans on automobile company platforms are all examples of EmFi.

Digital Wallets to Store Value

Closed Wallet



Open Wallet



Semi-Closed Wallet



Crypto Wallet



Travel Insurance on Travel Portals

The screenshot shows a travel insurance policy interface. At the top left, there is a shield icon and the text "Trip Secure". On the top right, there are logos for "ACROSS ASSET" and "TATA AIG". Below the header, the price is listed as "₹ 199/Traveller (18% GST included)". There are navigation arrows on the right. Below the price, there are three main benefit cards: "24x7 Support Delayed/lost baggage Assistance", "Up to ₹ 2,500 Missed Flight", and "Up to ₹ 2,500 Trip Cancellation".

BNPL at the Point of Consumption

The screenshot shows a payment method selection screen. The "Flipkart Pay Later" option is selected and highlighted with a red box. Below it, there are other payment options: "Credit / Debit / ATM Card", "PhonePe / BHIM UPI" (with an available wallet balance of ₹94.3), "Net Banking", "EMI (Easy Installments)", and "Cash on Delivery". At the bottom, there is a "Gift Card" option, a price of "₹3,899", a "View Price Details" link, and a "CONTINUE" button. A red arrow points to the "Flipkart Pay Later" option.

India's progress toward a **digital revolution** in the financial sector serves as a valuable model for the West. The Indian Government, along with the Reserve Bank of India, Banks, and Financial Institutions, has worked together effectively to turn India's digital revolution dream into a reality. This transformation highlights the successful collaboration between government policies, regulations, and financial innovation and offers important lessons for Western nations looking to achieve similar digital advancements in finance.

----- Thank You For Reading! See You Next Month! -----

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