INDIA IS THE GLOBAL FRONTRUNNER IN PAYMENTS ACCOUNTING FOR 46% OF ALL INSTANT PAYMENTS GLOBALLY

By Panagiotis Kriaris
October 13, 2023
Adapted from a Linkedin post

When it comes to real-time #payments India is the global frontrunner, accounting for 46% of all instant payments globally (2022). But to take UPI to the next phase, #India needs to revamp its business model. Let's take a look.

UPI or the Unified Payments Interface has become in just 7 years the most popular online payment method for consumers in India with over 300 million active users and 10 billion transactions monthly.

UPI is a real-time payment system that powers multiple bank accounts into a single app. It is A2A-based, meaning that it allows users to transfer money between accounts - both peer-to-peer (P2P) and person-to-merchant (P2M) - in real-time. UPI connects over 300 banks and is being used by all major players: Paytm, Google Pay, Amazon Pay, PhonePe.

Several factors are behind its success:

— Sponsored by the government with a large degree of standardisation and centralisation

— Participation from all major financial institutions in India

— Infrastructure built on top of the Immediate Payment Service (IMPS)

— Bank account information is kept to the back-end - users need only the UPI ID to send money

— The system makes use of Aadhaar, which is the world's largest biometric ID system

Essentially UPI was the tool for India to meet 3 goals: 1) reduce the usage of cash and the inevitable black market and corruption that comes with it 2) turbo-charge digital payments' growth by making it easy for hundreds of millions of people to join 3) create a credible alternative for card payments.

But UPI has one big problem: it doesn't have a #business model. To boost its growth it was decided that UPI will not charge any merchant fees. The government offers a subsidy instead, but it was never enough to cover the costs for banks and for other ecosystem participants.

As a result, UPI is practically a low-value infrastructure replacing small-ticket transactions, but not used for larger tickets. The inexistence of a business model sits at the center of the explanation:

— There is uncertainty whether the #infrastructure is robust enough to handle large amounts (as there no incentive to invest in its maintenance)

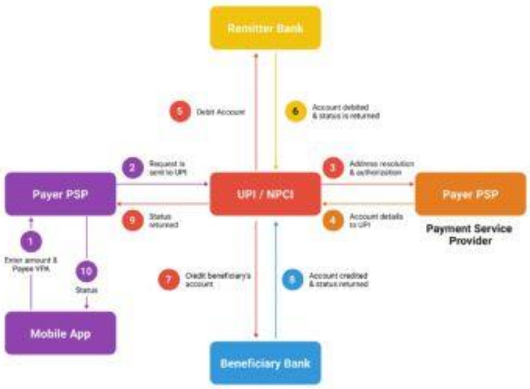
— There is a relatively high percentage of non-reconciled or lost transactions and therefore a higher risk when sending larger payments

— UPI is a loss-making business for ecosystem participants, which is particularly unattractive for smaller players and PSPs that have few other options to make money

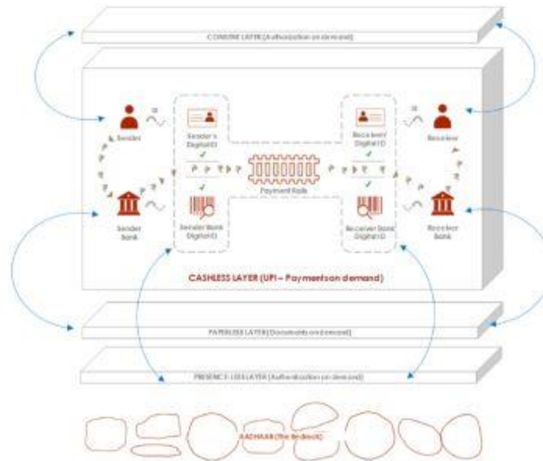
As UPI increasingly expands internationally and the weaknesses of the local model become more evident, voices for a revamp will become louder. However, the current status quo will prove hard to change: the no-cost model keeps Visa and Mastercard away (local RuPay is promoted instead), the government benefits from increased tax collection and reduced cash-associated costs and growth is still the primary goal.

India's real-time payments success story
...and the learnings for UPI and for other schemes

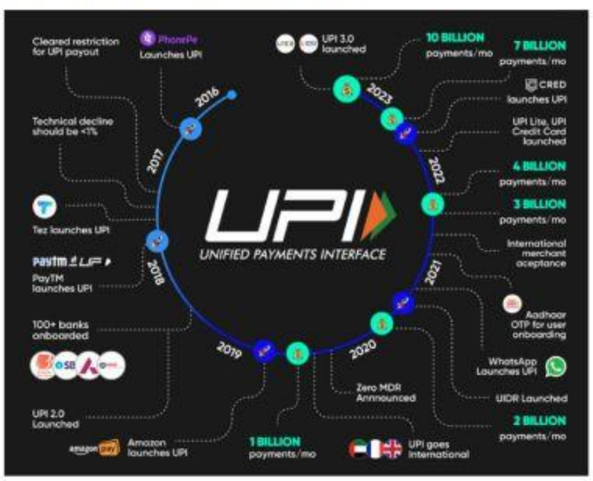
1. The UPI flow



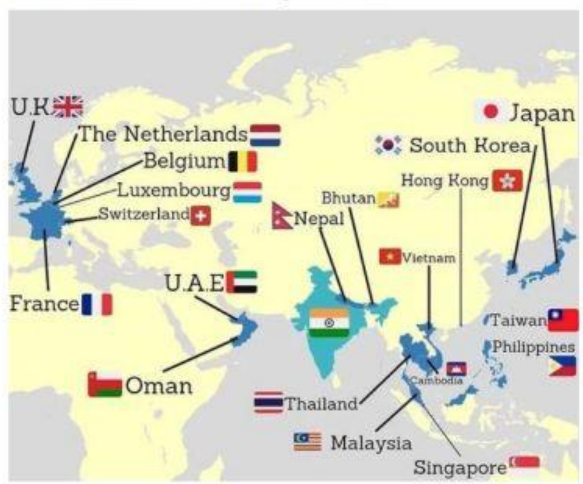
2. The system architecture



3. The rise to 10bn transactions



4. The international expansion



Graphic sources: Bacancy, Medium, GrowthX, imgur

Adapted by: Panagiotis Kriaris