



Original Article

Digital payment system in India –A study of growth trends, challenges and impacts on small scale entrepreneurs

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Abstract

Using of digital payment system has been increased even in rural parts of Indian today. Digital Payment is useful for transfer the value from one payment account to others using a digital device or channel. Different digital payments methods to diverse user needs, including mobile wallets, online banking, and card based systems. There are many factors that are responsible for these increased trends in digital payment transaction. These factors are initiatives taken by government, advancement in technology; change in customer's behavior, Introduction of digital payment system has caused to boost up in the digitalization process, in Indian. Government has taken many initiatives to improve the digital payment infrastructure to make this system accessible and cost effective. The digital payment system has brought a great revolution in the society the government has taken continuously various initiatives to facilitate and enhance digital payment all over Indian. Faceless paperless, cashless is one of the important objectives of digital India. In the contemporary business and emerged as a transformative force in Indian. Through the present trends study an attempt has been made to explore the growth trends in the retail digital payment transaction in Indian, and its positive and negative impacts on the small-scale entrepreneurs. The present study has also focused on the top digital payment systems linked with banks; challenges faced by small scale entrepreneurs in the digital payment transactions.

Keywords: Digital payment System, Small Scale entrepreneurs, impacts, growth trends

Introduction

Today, the digital payments have indicated continued growth in the domain of financial transaction in Indian. Advancement in technology and changes in customer's preferences are some of the important factors responsible for this growth. The utilization of digital payment systems has revolutionized the modes of transactions which are now conducted globally, and Indian is not exception for that. Growth in using Internet, the digital payment methods like- Net banking and unified payment Interface (UPI) have become prevalent. The growth in utilization of digital payment system has had a significant impact on the small scale entrepreneurs. To become a digital economy. The government of India has made concerted efforts to improve the digital infrastructure to facilitate and encourage transactions. The rationale behind the present study is to understand the growth trends in retail digital payment transactions in India during the last five years (that is 2019 To 2024) and to explore the positive –negative impacts of digital payment system especially on small scale entrepreneurs and focused on the top digital payment systems linked with banks etc.

Literature Review

1. Sonia Lascar and Moudipa Daffa (2024) have explored the advantages and disadvantages of digitalization for small scale entrepreneurs in India. Through the study authors have also focused on the influencing factors in the utilization of digital payment and studied the costs related to the use of digital payments by small scale. The problems and challenges faced by small entrepreneurs.
2. N. Velmathi (2019), has discussed on the significance of the digital payment system in today era; and explore the awareness of the advantages of digital payment system among the small vendors in Tripura city. Through the study Author has found that, there are some illusions about the digital payment regarding payment system in the minds of retailers. Through the study Author has also focused on the willingness of the small vendors towards digital payment in future.

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Authors have concluded that there should be initiatives taken by the banks and other government authorities to create awareness among small scale vendors.

3. CHASE India (2024) - Report has focused on the digital payment landscape in India and adoption and utilisation of digital payment system by consumers and retailers. this survey report also deals with the extent of awareness benefits of digital payment system. this report focused on the various challenges in utilisation of digital payment system. this report provides some important recommendation to remove the constraints in using digital payment system.
4. C.H. Padmaja and P.V. Durga Rao (2019) - Have focused on the various digital payment systems using in India and discuss the on the opportunities and challenges in using digital payment system by small scale businessman's. Through the study authors have also focused on the various efforts made by the government in encouraging digital payment system in India. Other has concluded that cash instruments should be more simple, acceptable and adaptable by consumers and retail businessman.

Method of the study

The present study is exclusively based on the secondary information. The secondary information has selected through the publicly report of government banks and author agencies, study papers, Articles published in domestic and international journals and also collected through authenticated websites. The presence today is descriptive in nature.

Growth trends in digital payment transaction in India (2019-2024)

The utilisation of digital payment systems for various transactions is indicating upward trends today. This trend can be attributed to a number of factors like initiative by government advancement in technology and changing behaviour of consumers. The upper trends in digital transactions have caused drastic transformation in the Indian economy especially in banking and retail sectors. The following table indicates the total number of digital financial transactions made during the 2019 to 2024.

Total number of digital transaction (2019 to 2024)

Financial Year	Total Number of Transactions
2019-20	3400
2020-21	4374
2021-22	7195
2022-23	11394
2023-24	16443

Source: RBI, NPCI and Banks

The modes of digital payment are BHIM, UPI, IMPS, NETC, debit-credit cards etc. The numerical information presented in the above table indicates the growth trends in the digital payment transactions during the years 2019-2024. During the financial year 2019-20 the number of digital payment transactions was 3400 billion which increased up to 16443 billion in 2024. This group demonstrates the significant shipped in the digital payment landscape in India. To know about the scope of digital payment systems in India it is essential to know the top digital payment systems which are linked with banks. The following table indicates the facts in this regard.

Top digital payment systems LinkedIn with banks in India (in 2024)

Digital Payment system	Number of Banks
Unified payment interface (UPI)	598
Ru Pay	1254
Immediate payment service (IMPSs)	871
National Automated clearing House (NACH)	1360
Aadhar enabled systems (AcPS)	149
National Electronics Toll (WETC)	38

Source: national Payments Corporation of India (NPCI)

The above information indicated that in India the digital payment systems like Rupay, UPI, NACH, IMPS etc. Are leading payment systems which are linked with majority of banks? The increasing Trends of using these digital payment systems can be attributed to the development of applications and an open technology agnostic Structure which able to make digital payment across multiple third party application providers. User friendly interfaces and absence of transaction cost for users have also caused to increase in utilising digital payment system also in rural parts of the country. all the digital payment transactions

are possible through the mobile number or identity based proxies and interoperable quick responses (QR) codes. This digital payment system provides the facility of quick and easy payments from multiple banks accounts in a single mobile application in delivery digital payment services banks are playing an important role as a financial intermediate. the following table indicates the year wise volume of digital payment transactions during 2019-20 to 2022-23

Total volume of digital payment transactions (in crore)

Financial Year	Volume of digital transactions
2019-20	5471.76
2020-21	5554.33
2021-22	8848.29
2022-23	12008.75

The above table indicates the increasing trends in total volume of digital payment transactions in cores rupees. In the financial year 2019-20 the total volume of digital payment transactions were 5471.76 cores rupees which were increased upto 12008.75 cores rupees in 2022-23. It was increased by 7436.99 cores.

The following table shows the initiations of major Indian banks in the digital payment system.

Major Indian Banks in digital payment system (Percentage)

Bank	Percentage
AXIS Bank	21%
ICICI Bank	19%
RBL Bank	17%
HDFC Bank	17%
State Bank Of India	16%
IndusInd Bank	3%

At the end of financial year 2022-23 Axis Bank, ICICI Bank, RBL Bank, HDFC Bank, State Bank of India, IndusInd bank etc collectively accounted for 95% initiation in the digital payment systems. Canara Bank, Yes Bank Limited, Kotak Mahindra Bank, Bandhan Bank Limited and other banks collectively accounted for 7% initiation in the digital payment systems in India.

Positive and negative impacts of digital payment system on small scale Enterprises

Due to utilisation of digital payment systems there are positive and negative impacts on the small scale entrepreneurs in India. Some important positive impacts have elaborated in the following,

1. **Growth in sales-** due to utilisation of digital payment system small entrepreneurs are now able to get a wide consumer base who are prefer for cashless transactions. This has caused to increase the sales and profit for the small scale business.
2. **Reduction in risk in handling cash-** There is a drastic reduction in the risk of theft of cash. Through utilisation of digital payment system small scale entrepreneurs can minimise the risk in handling cash and get security for their daily income.
3. **Improvement in keeping up cash transaction records-** due to widely using of digital payment system there is an improvement in keeping records of daily cash transactions in the business. digital payment transaction prod as helpful to the small entrepreneurs as it provides streamline accounting process and also helps in keeping accurate records of transactions and provides easy tax compliance.
4. **Fast access to cash-** due to using of digital payment system the cash is directly transferred to the entrepreneur's bank account and it provide first access to cash flow compared to conventional cash transactions.
5. **Customer friendly business environment-** The application of digital payment system has provided customer friendly business environment to the small entrepreneurs which is help them in attracting more customers.
6. **Growth and development opportunity-** utilisation of digital payment systems provides opportunities to the small entrepreneurs to expand and development beyond their geographical areas. There is an opportunity available for them to involved in online market places and typing into a large market places.

Negative impacts of digital payment system

1. **Risk to cyber security** - there is a risk of the cyber security by hacking, phishing and by other cyber threats. Apart from this there is a risk to the security of personal information and financial data of small traders.
2. **Technical problems** - server down time may create constraints in the transaction and other business activities some small scale entrepreneurs faced difficulty in integrating digital payment systems with their business procedure.

3. **Burden of transactions fees** – some digital payment systems are cost effective, others transaction fees which is caused for heavy burden on the small entrepreneurs.
4. **Issues of customer exclusion** – there may be negative impact on the business due to customers without access to digital payment modes. Apart from this poor internet connectivity may also create negative impact on the business.
5. **Reduction in personal contacts** – due to utilisation of digital payment systems there is a drastic reduction in the personal contacts but win customers and entrepreneurs. it may we weakening customer relationships.

Challenges Small entrepreneurs in digital payment

1. **Challenge due to lack of interoperability**- This is one of the key challenges faced by small entrepreneurs. lack of interoperability among different payment systems induces entrepreneurs and customers to rely on multiple payment systems which lead to delays in transactions.
2. **Poor reliability**- this is also one of the major challenges. Reliability of digital technology and the cost are limiting the digitalisation by small entrepreneurs.
3. **Challenge of efficient banking process**- initiate banking process is another challenge for the small scale entrepreneurs in using digital payment systems. The time taken by banks for processing online transactions and delay in Eshwari regular updates about receipt of online payments is a challenge for small entrepreneurs.
4. **Challenge in coping with new technology** – technology small entrepreneurs also creates many Hindrances in the utilisation of digital payment system. Apart from this there is a big challenge for them in popping with rapidly transforming Technology due to inadequate knowledge about new technology.

Conclusion:

Nowadays digital payment systems are becoming more and more important for small scale entrepreneurs. The aim of this literature is to focus on the growth trends in digital payment transactions during the years 2029 to 2024 and its positive and negative impact on the small scale entrepreneurs. It is concluded that even with government and Financial Institutions, banks initiatives there are many problems faced by small scale entrepreneurs because of lack of digital literacy among them. Axis Bank, ICICI Bank, RBL Bank, State Bank of India etc. are playing an important role in the digital payment systems in India. Today, on the basis of reviews of government reports, published literature etc it is concluded that there is a wide scope for the small scale Enterprises to expand their business through the utilisation of digital payment systems. Every small scale entrepreneur should know that the application of digital payment systems in the daily business transaction is not mere Technical up gradation of business but it is a strategic tool for the growth and development of their business and also consumer engagement.

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Conflicts of interest

There are no conflicts of interest.

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