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Role of UPI in promoting financial inclusion in rural and semi-urban Indian Economies

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Abstract
Digital payment technologies have significantly transformed financial systems across emerging economies. In India, the rapid expansion of the Unified Payments Interface (UPI) has reshaped payment infrastructure and expanded access to financial services. Introduced by the National Payments Corporation of India under the supervision of the Reserve Bank of India, UPI has enabled seamless real-time transactions between bank accounts through mobile devices. In the recent years specially in India technology and digital innovation has changed the world and India and how people use money and digital methods in India. The main reason is not only the online transaction it is UPI (Unified Payments Interface). It lets person or user to transfer or to the transaction of the money instantly using the application or the device. Because of this, payments have become faster, easier, and more convenient. This study looks at how UPI helps people, especially in small towns and villages. In many of these places, people do not have easy access to banks. UPI helps solve this problem by giving a simple way to make digital payments using a smartphone and internet. This study examines the relationship between digital payment adoption, financial inclusion, and rural development in India during the period 2016–2026.

Keywords: Credit accessibility, digital literacy, financial inclusion, micro and small business, Unified Payments Interface (UPI)

Introduction

Financial inclusion has emerged as an important objective of economic development in India, as it aims to ensure that individuals and businesses have access to useful and affordable financial products and services such as banking, payments, credit, and insurance. Despite significant progress in the banking sector, a large segment of the population, especially in rural and semi-urban areas, remained outside the formal financial system for many years. To address this challenge, the Government of India and financial institutions have introduced several initiatives to expand financial access and promote digital financial services. One of the most significant developments in this area is the (UPI), launched by the in 2016. UPI is a real-time digital payment system that enables users to transfer funds instantly through mobile applications linked to bank accounts, thereby simplifying and accelerating digital transactions. In addition, government programs such as the have significantly increased the number of bank accounts in the country, creating a strong foundation for digital payment adoption. The rapid growth of UPI transactions in recent years indicates a shift towards a cashless and digitally empowered economy.

In rural India, UPI is quietly fuelling a transformation by circumventing the need for physical bank branches, allowing banking access via a mobile phone and internet connection. Most UPI transactions have minimal charges, making formal financial services an affordable option for low-income populations and small businesses. UPI also plays a crucial role in the transparent and timely allocation of government subsidies through Direct Benefit Transfers (DBTs), ensuring funds reach the intended recipients efficiently and empowering small vendors, farmers, and micro-entrepreneurs to accept digital payments securely.

The purpose of the study is to analyze how the Unified Payments Interface (UPI) is effectively expanding access to formal financial services in rural India, thereby overcoming significant physical and economic barriers. It aims to quantify the impact of UPI adoption on the economic empowerment of previously unbanked populations and small businesses. Ultimately, this research seeks to provide data-driven recommendations for policymakers to accelerate financial inclusion and narrow the persistent urban-rural economic divide.

UPI's Contribution to Financial Inclusion

The Unified Payments Interface (UPI) has witnessed rapid growth, becoming one of the world's leading real-time payment systems and transforming India into a digital payments hub. This expansion is largely driven by rising smartphone penetration and improved internet accessibility, enabling widespread user adoption. Government initiatives such as Digital India and Pradhan Mantri Jan Dhan Yojana have further accelerated adoption by promoting financial inclusion. Additionally, QR code-based payments have simplified transactions and increased merchant participation, making UPI a convenient, scalable, and widely accepted digital payment ecosystem.

- **Increased Access to Financial Services**

UPI has significantly improved access to financial services by enabling digital transactions without the need for physical bank visits, especially benefiting rural and remote populations. It has facilitated the inclusion of unbanked individuals into the formal financial system by linking bank accounts to everyday transactions under initiatives like Jan Dhan Yojana. This has reduced reliance on cash and informal channels, enhancing transparency and security.

Additionally, UPI helps users build transaction histories, improving access to credit and other financial services.

- **Reduction in Transaction Costs**

UPI has significantly reduced the cost of financial transactions by offering zero or minimal transaction fees, making digital payments highly affordable for users across income groups. This cost efficiency is particularly beneficial for small merchants and low-income individuals. By lowering financial barriers, UPI encourages greater participation in the digital economy.

- **Promotion of Digital Financial Literacy**

The widespread use of UPI has contributed to the enhancement of digital financial literacy among users. Regular engagement with mobile payment applications has improved individuals' understanding of digital financial systems, including fund transfers and transaction tracking. This increased familiarity builds user confidence and encourages the adoption of other digital financial services.

- **Credit Accessibility**

Recent developments indicate that UPI is expanding beyond payments into credit facilitation, further advancing financial inclusion. By leveraging users' transaction histories, financial institutions can assess creditworthiness and offer small-ticket loans to individuals lacking formal credit records. This enables easier access to formal credit and reduces reliance on informal lending sources.

Benefits of UPI in Financial Inclusion

- **Banking the Unbanked:** UPI has played a significant role in extending banking services to the unbanked population. With UPI, individuals without traditional bank accounts can now access basic financial services, such as making payments, receiving wages, and availing government subsidies directly into their UPI-linked accounts.

- **Digital Identity Creation:** UPI requires users to link their bank accounts to a unique UPI ID, creating a digital identity that can be used for financial transactions. This digital identity opens doors to a wide range of financial services and benefits, such as access to credit, insurance, and savings opportunities.

- **Enabling Micro and Small Businesses:** UPI has facilitated digital payments for micro and small businesses, allowing them to participate in the formal economy. By accepting UPI payments, these businesses can offer convenient payment options to their customers, improve their cash flow management, and gain access to financial services that were previously inaccessible.

- **Encouraging Savings and Financial Literacy**: UPI provides individuals with easy access to banking services, including savings accounts. This fosters a culture of savings and financial literacy among the unbanked population, promoting long-term financial stability and reducing reliance on informal financial channels.

UPI Trends in India

Over a decade of operations, UPI has demonstrated extraordinary scale and momentum. Annual transaction volume expanded from just 2 crore transactions in FY 2016-17 to over 24,162 crore transactions in FY 2025-26, representing an almost 12,000-fold surge in transaction volume. Parallelly, transaction value rose sharply from ₹0.07 lakh crore in FY 2016-17 to approximately ₹314 lakh crore in FY 2025-26, translating into a more than 4,000-fold increase in transaction value.

Upi At A Glance: Key Statistics (NPCI)	
Annual Transaction Volume (FY2025-26)	24,161.69 Crore
Annual Transaction Value (FY2025-26)	₹314 Lakh Crore
YoY Volume Growth (2025-2026) [2]	30.0%
YoY Value Growth (2025-2026) [2]	20.59%
Daily Average Transactions (2025)	66 Crore
Record Monthly Volume (March 2026)	2264 Crore (peak)
Record Monthly Value (March 2026)	₹29.53 Lakh Crore
Banks Live on UPI (As on March 2026)	703 Banks
Banks at Launch (April 2016)	21 Banks
First Month Transactions (April 2016)	373
Share of UPI in India's Digital Payments	85% (FY2025-26)
Share of Global Real-Time Volume	49% of World (2025)

Annual Transaction Volume Growth (2016-2025)

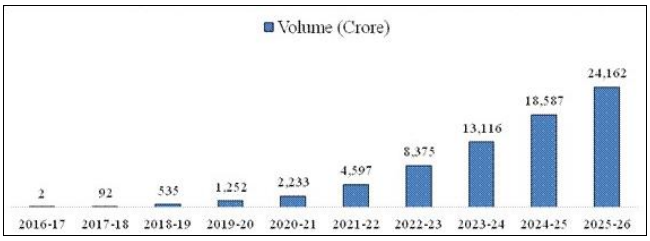


Fig 1: UPI Annual Transaction Volume in Crore

Annual Transaction Value Growth (2016-2025)

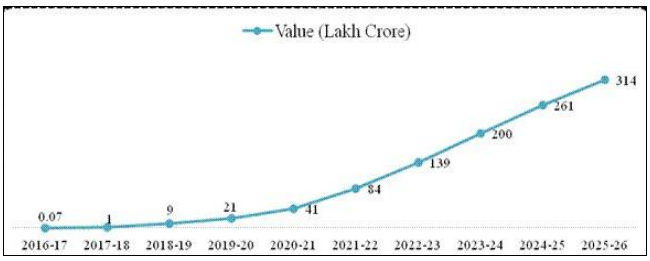


Fig 2: UPI Annual Transaction Value in ₹ Lakh Crore

The Year 2025 marked a significant milestone in the growth trajectory of the Unified Payments Interface (UPI). Monthly transaction volumes crossed 2,000 crore transactions for the first time in August 2025, reaching 2,001 crore transactions, signalling a new scale of adoption. This momentum continued through the remainder of the year, with December 2025 recording 2,163 crore transactions, the highest monthly transaction volume in UPI's decade-long journey.

Over the course of the calendar year 2025, UPI processed approximately 22,000 crore transactions in total, translating into a daily average of about 60 crore transactions. This sustained high-frequency usage reflects the deep penetration of digital payments across the country and the growing trust of citizens, merchants, and businesses in India's digital payments ecosystem.

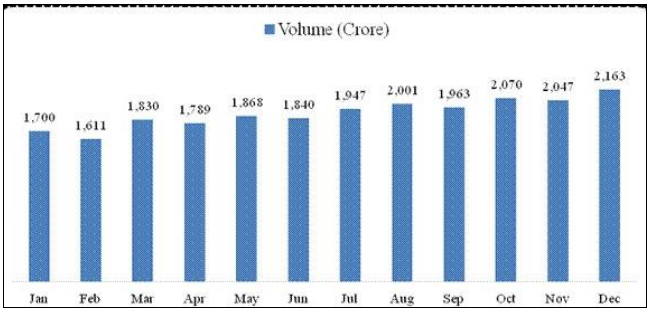


Fig 3: UPI Monthly Transaction Volume (2025)

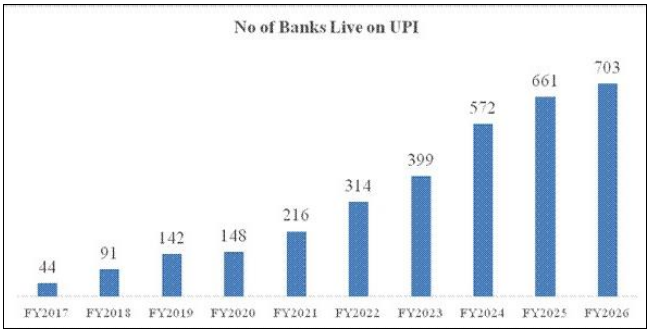


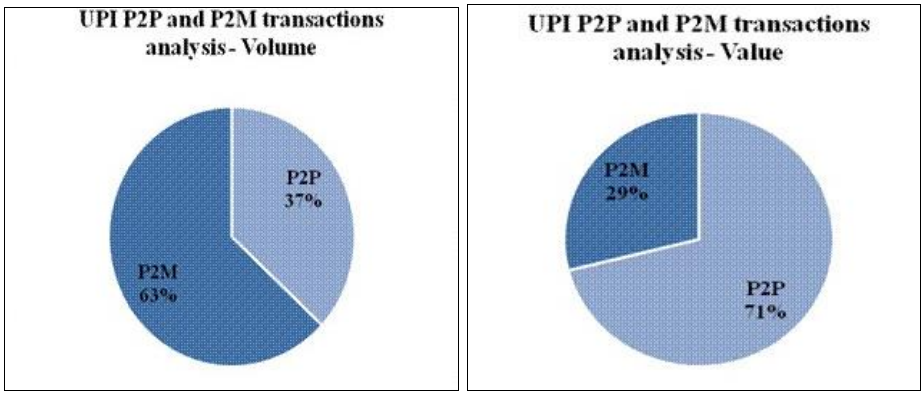
Fig 4: Number of Banks Live on UPI (FY2017–2026)

Banks Live on UPI, Unprecedented Participation

The Unified Payments Interface (UPI) has witnessed a steady and broad-based expansion in institutional participation since its launch. The number of banks live on UPI increased from 44 banks in FY 2016-17, the first year of operations, to 703 banks by FY 2025-26. This onboarding covers public sector banks, private banks, small finance banks, payment banks, and cooperative banks, enabling UPI's deep geographic reach. Each bank functions as a Remitter PSP (processing outgoing transactions) and/or a Beneficiary PSP (receiving funds), with NPCI monitoring performance metrics for all participants.

Transaction Segmentation, P2P & P2M Analysis

An analysis of UPI transactions highlights a clear divergence between volume and value across payment types. Person-to-merchant (P2M) transactions account for 63% of total transaction volume, reflecting UPI's extensive use for high-frequency, low-value retail payments. In contrast, person-to-person (P2P) transactions dominate transaction value, contributing 71%, indicating their use for higher-ticket transfers between individuals. This contrast underscores UPI's dual role as a mass retail payments platform and a trusted channel for larger-value fund transfers.



Source: NPCI UPI Product Statistics

Fig 5: UPI P2P vs P2M Split — Volume & Value (H1 2025, 106.36 Billion Transactions)

Transaction Distribution by Ticket Size, Micro-Payments Dominate

In FY2026, UPI transactions totalling 24,162 crores reflected the platform's deep integration into everyday digital payment usage across the country. with particularly robust momentum in the merchant segment. P2M transactions were largely driven by small-ticket payments, with 86% below ₹500, highlighting UPI's deep integration into routine retail and day-to-day commerce, even as higher-value transactions continued to expand. P2P transactions also showed widespread usage for low-value transfers (59% below ₹500), while a significant 41% of transactions above ₹500 reflects UPI's growing versatility in facilitating both regular personal payments and higher-value fund transfers.

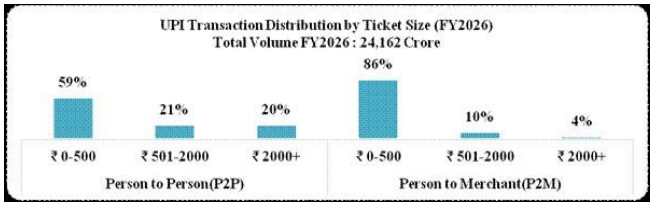


Fig 6: UPI transaction distribution by ticket size

Suggestions

- **Improve Digital Literacy:** A big problem in villages and small towns is about not knowing or not aware about how to use smartphones or digital apps. Even if they have a reach for the digital payment method, the people ore user may be aware about using or can have a knowledge of payment apps correctly. To solve this, simple awareness and training programs should be held locally. Schools, colleges, banks, and government groups can teach people how to download apps, send money, and use QR codes. These lessons should be in local languages so everyone can understand. Easy video tutorials, posters, and live demonstrations will be helpful for the users to learn step by step. When people understand and feel confident, they will use UPI more in daily life.

- **Better Internet Connectivity:** UPI only works with the internet, so a strong and stable network is very important. In many villages, the internet is weak, so payments can be slow or fail. This makes people frustrated and they use cash instead. To fix this,

telecom companies and the government should make internet better in these areas. Internet should also be cheap so more people can use it. With better internet, payments will be faster, problems will reduce, and people will trust digital payments more.

- **Increase Awareness about Safety:** Many people do not use UPI because they not completely trust the process and likely the user is also known of fraud and online scams. Some users are not aware about the basic safety rules, so they can be tricked by fake calls, links, or OTP scams. To fix this, Government should demonstrate about how to stay safe while using the digital transaction or using UPI. They should know not to share their PIN, OTP, or personal details with anyone. Simple examples and easy tips can help them understand scams and avoid them. Banks and payment apps should also send regular safety messages in simple language. When people feel safe and informed, they will trust UPI more and use it regularly.

- **Providing Multi-Language Support**: India has many languages, and not everyone can use apps in English. This makes it hard for some people to understand instructions and use UPI. To fix this, UPI apps should be in local languages. Simple instructions, voice help, and easy design will be helpful to understand the usage of UPI. When people can use the app in the native language or the regional language the users will be more confident while using the UPI.

- **Support for Small Shopkeepers:** The Shopkeepers are the main users who use the transaction or digital platform on regular basis and the interaction and payment from the customer is on the regular basis. But they are not aware about the safety and security checks while using the UPI. To help them, simple training programs can teach how to accept payments using QR codes. Banks and Financial based company set it up and explain the benefits, like faster payments and less cash handling. When more shopkeepers use UPI, customers will also use it more, and it will become a normal part of daily life.

- **Improve Customer Support Services:** Many people face problems like failed payments, delays, or money taken without confirmation. When there is no help, they get frustrated and stop trusting digital payments. To fix this, UPI apps and banks should give quick and easy support. They can have helplines, chat, and simple ways to report problems. If users get fast help, they will be happy and will use digital payments more confidently.

- **Offer Incentives and Benefits:** People try new technology more when they get some benefit. Cashback, discounts, and rewards can make people use UPI instead of cash. Banks and payment apps can give cashback on the first payment, rewards for using UPI often, or discounts on bills. These offers attract new users and make existing users use more.

Conclusion

The analysis clearly demonstrates that UPI has experienced exponential growth in both transaction volume and value from 2017 to 2025 [10], reflecting its rapid adoption and deep integration into India's digital economy. The sharp rise in transactions, particularly after 2020, indicates increased accessibility, technological advancement, and a strong shift toward cashless payments. The substantial growth in transaction value further highlights UPI's expanding role in facilitating high-value economic activities.

UPI's dominant market share of 85% underscores its position as the leading digital payment system, surpassing other payment methods by a wide margin. The consistent increase in monthly transactions suggests habitual usage and growing consumer trust. Additionally, the large user base, high daily transaction volume, and extensive merchant adoption through QR codes emphasize its contribution to financial inclusion and accessibility, especially among underserved populations. Empirical evidence confirms a strong positive relationship between UPI adoption and financial inclusion indicators. UPI has evolved from a nascent payment platform into a robust, scalable, and globally significant real-time payment system. Its continued growth trajectory indicates strong future potential, reinforcing its critical role in driving digital transformation and inclusive financial development in India. While UPI has successfully expanded financial access, challenges related to digital literacy, infrastructure, and trust must be addressed to ensure equitable benefits. With continued policy support and technological innovation, UPI has the potential to achieve universal financial inclusion and serve as a global model for digital payment systems.

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