2024

How Urban India Pays

KEARNEY | amazon pay | GLOBAL FINTECH FEST

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Introduction

India is on a unique digital journey. In recent years, the country's digital story has been a vibrant collage of new experiences with new ways of traveling, buying, and paying. This digital growth is fueled by robust population growth, GDP growth, widespread availability of affordable internet, government support in developing digital infrastructure, and the growth of digital payment ecosystems. The country has also seen a surge in e-commerce, with the market valued at USD 75 billion to USD 80 billion[1,2] in 2022 and expected to grow at a 21%[1] CAGR until 2030.

In line with India's digital journey, retail digital payments[3] have grown dramatically over the past five years—from USD 300 billion[4] in FY18 to USD 3.6 trillion[5] in FY24. By FY30, they are likely to double to USD 7 trillion[5]. The Unified Payments Interface (UPI) has been a key driver of this growth, demonstrating a CAGR of 138%[4] in its volumes during FY18–24. Other instruments such as cards and digital wallets are also gaining in popularity, contributing ~10%[4] of digital transaction value today. This growth is in line with the Reserve Bank of India's (RBI) Payments Vision 2025, which highlights the core theme of E-Payments for Everyone, Everywhere, Everytime (4 Es).

With such dynamic developments, it is no wonder that India is a global frontrunner in the digital payment landscape, accounting for a stellar ~46%[6] of the global digital transaction volumes in 2022. Indian innovations are already going global with UPI now accepted in seven countries and a planned expansion to nearly 20[7] countries by 2029. The country's cash-based transactions have trickled down to less than 60% as more consumers and merchants adopt digital payments.

As digital payments evolve, consumer preferences are also evolving with a greater focus on faster, simpler, and more convenient methods, which will have a bearing on the next wave of growth, thus creating opportunities for easier, quicker, safer, and smarter digital payment solutions. Hence, it is crucial to understand the nuanced behaviors of merchants and consumers—the foundational elements of the digital payment ecosystem.

With this in mind, detailed primary research was conducted to delve into merchant and consumer attitudes, preferences, and unaddressed needs, uncovering valuable insights into the dynamics of ***How Urban India Pays***. This comprehensive research[8] was conducted with 6,000+ consumers through an online survey along with 1,000+ merchants through offline and online methods, across 120 cities, with representation from various regions, income groups, city categories, age brackets, and genders.

We are excited to present this report, ***in collaboration with Amazon Pay***, and to share our discoveries and insights about India's digital payment landscape.

This report introduces the Degree of Digital Payment Usage (DDPU), a metric designed to measure the extent of digital payment adoption among various demographic groups. The DDPU uses a multidimensional approach using three foundational pillars: **volume** (digital transaction frequency), **variety** (diversity of categories for digital payments), and **openness** (awareness and receptiveness toward emerging digital payment methods). The DDPU analysis indicates that income level is the most influential factor affecting digital payment usage. Income is followed by the type of city, age, and gender, in that order. It is also interesting to observe the correlation between a city's retail potential and its DDPU.

The report covers many such interesting insights.

We hope you enjoy reading it.

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[1] Kearney Analysis
[2] 1 USD = INR 83 approximately across the report
[3] Retail digital payments include both person-to-merchant (P2M) and peer-to-peer (P2P) transactions and include the following modes of payment: UPI, cards (credit, debit, prepaid), digital wallet, IMPS, AePS, APBS, Bhim Aadhaar pay and NETC
[4] RBI data
[5] RBI data, Kearney projections for retail digital payments include both person-to-merchant (P2M) and peer-to-peer (P2P) transactions
[6] PIB press release in October 2023, India's UPI: A global front-runner in digital payment systems
[7] RBI Annual Report FY24
[8] The study was conducted by a third-party researcher, on behalf of Kearney India. The research focused on 120 top e-commerce cities in India, and was conducted digitally for consumers. A mix of digital and physical means were used for the merchants' survey

Summary of Research Insights and Imperatives

Consumers across the demographic spectrum are increasingly embracing digital payments for both online and offline purchases:

- Strong adoption of digital payments in online purchases has potentially led to a permanent shift in consumer behaviors, fueling offline adoption as well. A notable 90% of the respondents said they prefer digital payments when making online purchases. This behavior further extends to offline purchases, with ~50% indicating a preference for digital payments in offline settings. More than 85% indicated a strong preference for digital payments for discretionary spending, such as for electronics, clothes, and footwear.
- Affluent[9] consumers lead the way with highest DDPU, tending to use various modes of digital payment for ~80% of their transactions. Meanwhile, consumers in the aspiring[9] segment use digital payments for ~67% of transactions.
- Millennials[10] and Gen X[10] are leading in the adoption of all types of digital payment instruments. Additionally, Boomers[10] have significant adoption of digital payments, with higher card and wallet usage than the younger cohorts.
- Men and women both use digital payments in about 72% of their transactions, indicating gender parity.
- More than 60% of respondents choose digital payments for both online and offline purchases because of the convenience. Speed is essential for 63% and 51% of respondents in online and offline purchases, respectively. Rewards are also a crucial incentive, with 49% of respondents favoring them for online purchases and 34% for offline transactions. Despite these advantages, concerns such as double debits, financial fraud, and internet connectivity could affect growth.

Indian cities and towns[11] are in various stages of the digital payment growth journey:

- Digital payments have penetrated small towns, with respondents in these areas highlighting that 65% of their transactions are digital, while respondents in larger cities cited this ratio to be 75%.
- There is a strong correlation between a city's average DDPU and its retail potential, as measured by the Kearney India Retail Index[12] , with the top six metros displaying both high DDPU and high retail potential. Interestingly, DDPU surpasses retail potential in some cities, such as Lucknow, Patna, Bhopal, Jaipur, Bhubaneswar, Indore, Ahmedabad, and Pune, which have a high DDPU nearly matching that of larger metropolitan cities despite having a lower retail potential than the top six metros.

Emerging digital payment modes are gradually gaining traction:

- Co-branded credit cards are gaining momentum. Emerging methods such as buy now, pay later (BNPL), wearable payments, and voice assistant-based payments are also starting to make inroads. BNPL is especially widely recognized with nearly 87% of respondents aware of it and 34% having already used it.

From street to store, Indian merchants are shifting toward digital payments:

- Digital modes of payment constitute around 69% of the total transaction volumes for the Indian merchants that we surveyed. Even street vendors such as paan shops, fruit and flower sellers, food stalls, and kirana stores are joining the digital payment brigade. On average, these vendors cited receiving ~46% of their payments digitally.
- Challenges for merchant adoption mirror consumer concerns, emphasizing issues of financial fraud, limited connectivity, and trust.

[9] Income segments: The aspiring segment includes consumers earning less than INR 500,000 per annum; the middle-class segment includes consumers with income between INR 500,000 and 1 million per annum; the upper middle-class segment includes consumers with income between INR 1 million and 2 million per annum; the affluent segment includes consumers earning more than INR 2 million per annum.
[10] Age brackets: Gen Z is comprised of individuals aged between18–24 years; Millennials are individuals aged between 25–43 years; Gen X are aged between 44–59 years; Boomers are aged 60 years and above.
[11] City categories: The top six metros include Mumbai and its suburbs, Delhi and NCR, Kolkata, Chennai, Bengaluru, Hyderabad. Large and mid-size cities include those with a population between 1.5 million and 5 million. Small cities include those with a population between 500,000 and 1.5 million. Small towns include cities and towns with a population of less than 500,000 (population as per 2011 census). Larger cities include top six metros and large and mid-size cities.
[12] *Kearney India Retail Index 2023*

Key imperatives based on the research findings

The next wave of growth in digital payments will be fueled by increasing penetration in segments with lower DDPU, such as consumers in lower income groups and smaller towns, along with enhancing the value of spending via digital modes of payment in the higher DDPU segments by addressing their concerns.

All key stakeholders across the digital payments' ecosystem, including payment providers, the government, and value-added services players, will need to play a part in expanding digital payment adoption.

These focus areas are in line with the RBI's pillars of integrity, inclusion, innovation, and institutionalization stated as part of its 4E vision. These areas can help India overcome challenges in the digital payment ecosystem by fostering a more inclusive, secure, and user-friendly environment, thereby enhancing the adoption of digital payments among consumers and merchants in India.

Chapter 1

Digital payments for urban Indian consumers: a way of life

1.1 The Indian digital payment landscape – an overview

India has rapidly ascended to the forefront of the global digital payment sector, boasting the highest volume of digital transactions worldwide. In 2022, the country recorded a staggering 89.5 million digital transactions, accounting for an impressive 46%[13] of global digital transactions and outpacing other leading nations such as Brazil, China, Thailand, and South Korea. This surge in digital payments marks a significant shift from 2017, when cash transactions dominated 90%[13] of all payments, to now, where they constitute less than 60%[13].

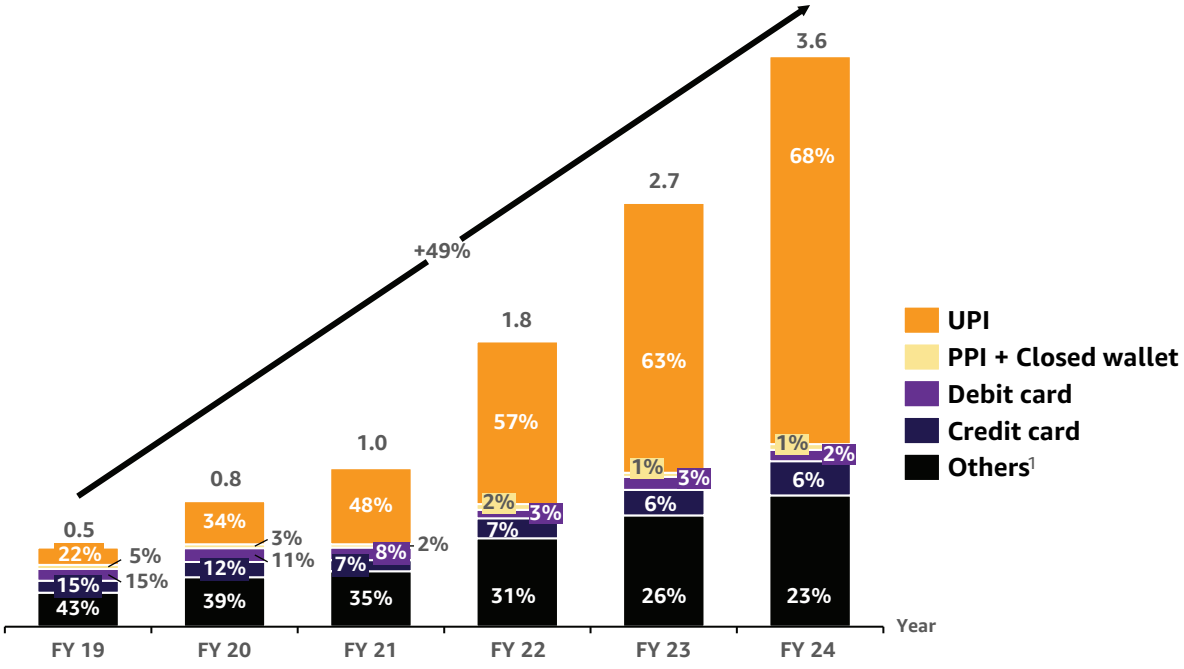
The value of digital transactions in India grew at a rapid pace of ~49%[14] CAGR between FY19 and FY24. Further, retail digital payments' transaction value reached USD 3.6 trillion[14] in FY24, and is projected to double to USD 7 trillion[14] by FY30.

This digital growth is fueled by both macroeconomic tailwinds, such as robust population and GDP growth collectively leading to a strong consumer base, and a rapidly evolving consumption landscape supported by the availability of widespread affordable internet, government support in developing digital infrastructure, and the growth of digital payment ecosystems.

Over the past ten years, internet access in India has seen significant growth, with the number of users soaring from nearly 210 million[15] in 2013 to around 918 million[16] in 2023. This expansion has been driven by the availability of affordable smartphones and increased internet access. The year 2016 marked a turning point with the introduction of 4G and complimentary data plans, coupled with the National Payments Corporation of India's (NPCI) introduction of UPI, which transformed the country's digital payments system. The government's demonetization initiative later that same year further boosted the use of digital payments nationwide, affecting urban and rural communities alike across all economic sections. The shift toward digital integration has been growing ever since. The RBI's Payments Vision 2025, highlighting the core theme of E-Payments for Everyone, Everywhere, Everytime, is a testimonial to this ongoing evolution.

Unlocking the next wave of growth will require delving into the preferences, unmet needs, and concerns of both consumers and merchants. Primary consumer research was conducted to comprehensively assess the current landscape and the potential of digital payments in India. This research explores certain aspects of the RBI's growth pillars—integrity, inclusion, innovation and institutionalization—through the lens of the consumer.

Figure 1: **Value of retail digital payments in India, FY19 - FY24 (USD Trillion)**



Source: RBI data
1. Others include AePS, APBS, BHIM Aadhaar Pay, IMPS and NETC
Exchange rate of 1USD = INR 83 is considered
Note: Total may not sum to 100 because of differences due to rounding off

[13] PIB press release in October 2023, India's UPI: A global front-runner in digital payment systems
[14] RBI data; Kearney analysis and projections
[15] Telecom Regulatory Authority of India's Indian Telecom Services Performance Indicators, 2013
[16] Telecom Regulatory Authority of India's Indian Telecom Services Performance Indicators, 2023

Based on this research, this report uncovers insights in the following three areas:

What are the preferred payment modes of Indian consumers across channels, categories, and the size of transactions?

- Online versus offline channels of purchase
- Spend categories: daily, discretionary, and one-off
- Transaction sizes

What are the motivations and barriers for consumers when it comes to adopting digital modes of payment?

How familiar are Indian consumers with the emerging modes of payment?

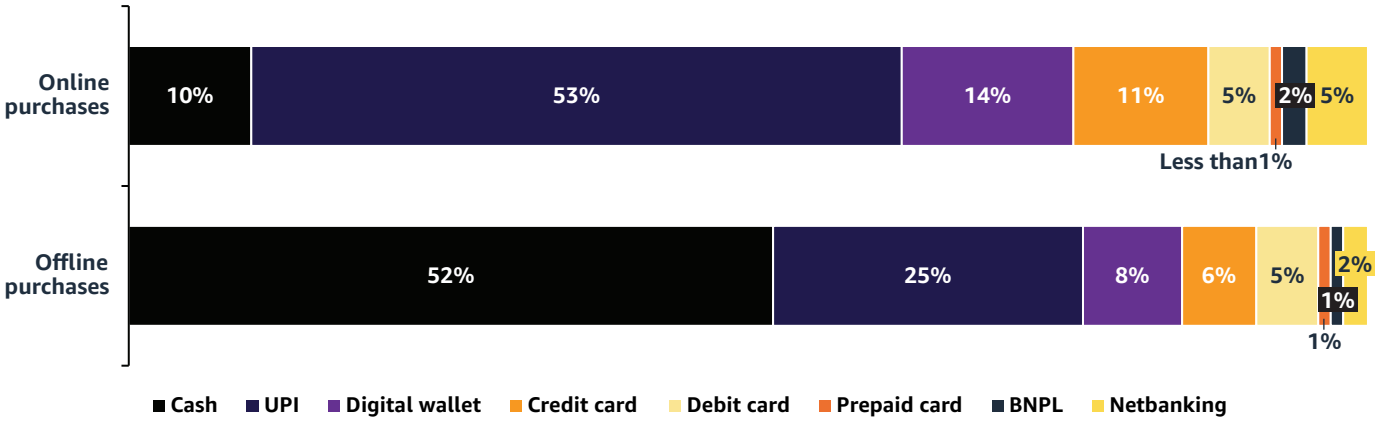
1.2 UPI leads the way, but credit is prominent for discretionary spending

The penetration of digital payments in online spending is fueling an uptick in the adoption of digital payments in offline spending

90% of survey respondents prefer digital payments when making online purchases. As consumers' reliance on digital payment methods for online transactions increases, their awareness and adoption of such methods extends to offline purchases, with ~50% of respondents indicating a preference for digital payments in offline settings.

Although UPI leads the way in digital payments, about 30% of overall respondents prefer to use digital wallets and cards (credit, debit, or prepaid cards) for their online purchases, and around 20% prefer using them for offline purchases.

Figure 2: **Preference of various modes of payment for purchases across online and offline channels (% of respondents)**



Source: Primary Research
Note: Total may not sum to 100 because of differences due to rounding off

Digital payments have penetrated deeply, even in daily spend categories

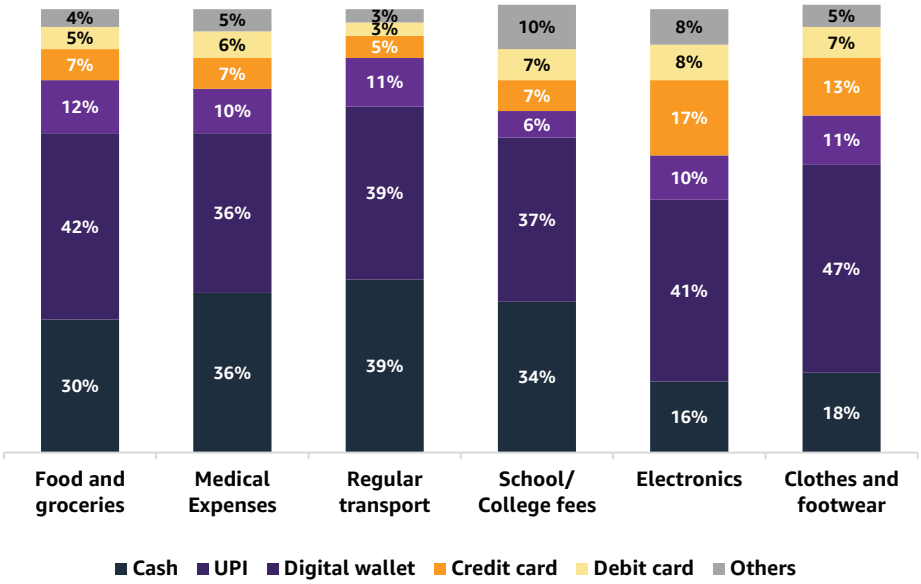
The research assessed consumers' preferences across six broad categories of household spending. UPI emerged as the top preferred mode of payment across categories. Cash is still widely preferred for daily spend categories such as food and grocery, medical expenses, education fees, and transportation. Discretionary spends such as electronics as well as clothes and footwear have the highest preference for digital payments (>85% of respondents).

Further, high-value categories, such as electronics, have a high preference for credit solutions such as BNPL and credit cards compared with other categories.

Cash is still the most preferred mode of payment for transactions with a value of less than INR 500.

The preference for a payment instrument is also driven by the size and type of transaction. For example, a digital wallet is preferred for small transactions (less than INR 1,000) and online purchases, while credit cards are preferred by a higher percentage of consumers for high-value (INR 5,000 or more) offline and online purchases, such as electronics.

Figure 3: **Preference of various modes of payment for different spend categories (% of respondents)**



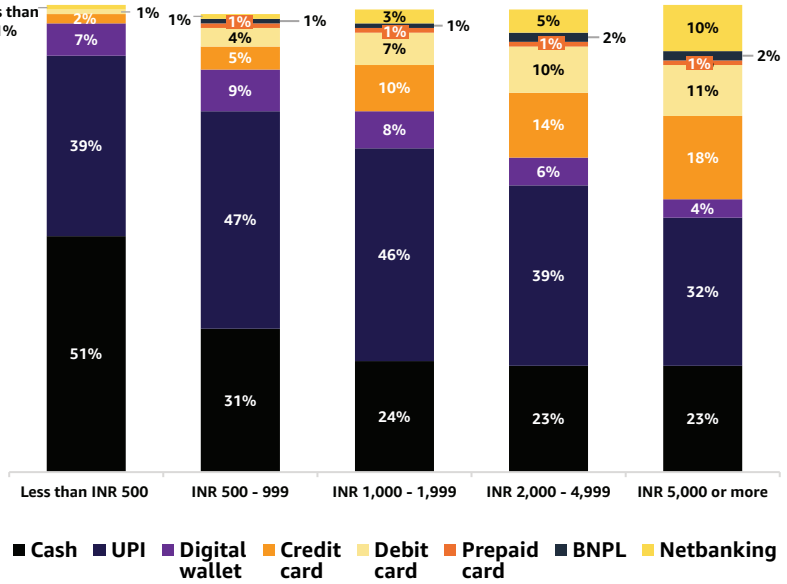
Source: Primary Research
Note: Total may not sum to 100 because of differences due to rounding off

A higher percentage of consumers prefer cash over UPI and other digital payment methods for smaller transactions of less than INR 500.
In 2022, the National Payments Corporation of India (NPCI) introduced UPI Lite to promote the use of digital payments for smaller amounts. UPI Lite operates as an on-device wallet, enabling users to make fast transactions without the need to enter a UPI PIN.

Co-branded credit cards are gaining momentum

Within the sphere of credit solutions, co-branded credit cards have experienced notable growth. Typically issued by financial institutions, commonly banks, these cards are established through partnerships with companies from sectors such as e-commerce, travel, fuel, and entertainment. These cards typically have attractive offers and cashback programs that appeal to consumers. 46% of survey respondents, who are urban and online savvy said they own at least one co-branded credit card.

Figure 4: **Preference of various modes of payment across different transaction sizes (% of respondents)**



Source: Primary Research
Note: Total may not sum to 100 because of differences due to rounding off

1.3 BNPL, wearable, and voice-based payment systems are gaining popularity

As the evolution of India's digital payments continues, consumers are catching up

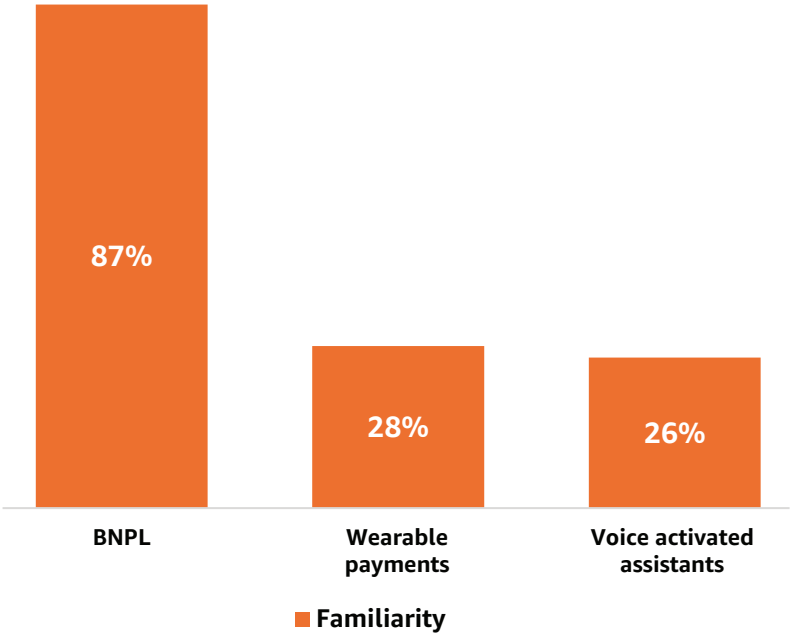
Emerging payment modes such as wearable payments, voice-activated assistants, and BNPL are gaining popularity among consumers, indicating India's upward trajectory in digital payments.

BNPL is a credit-based mode of payment, especially for transaction sizes of less than INR 5,000.

BNPL stands out among emerging modes of payment, with nearly 87% of respondents aware of it. However, it has moderate adoption, with nearly 34% of respondents using it. Additionally, 52% of respondents who use BNPL said they use it for transactions of less than INR 5,000, whereas 5% of respondents who use BNPL use it for transactions of INR 50,000 or more.

More than 25% of respondents are also aware of other emerging trends, including wearable payments and voice-activated assistants.

Figure 5: **Familiarity of emerging modes of payment (% of respondents)**



Source: Primary Research

1.4 Motivations and barriers for consumers to adopt digital modes of payment

Convenience, speed, and trust drive adoption, but clouds of apprehensions remain

More than 60% of respondents choose digital payments for both online and offline purchases because of the convenience. Following closely, speed is essential for 63% and 51% of respondents in online and offline purchases, respectively. Rewards are a crucial incentive for consumers to opt for digital payments: 49% of respondents favor them for online purchases and 34% for offline transactions.

Table 1: **Reasons for the adoption of digital payments for online and offline purchases (% of respondents)**

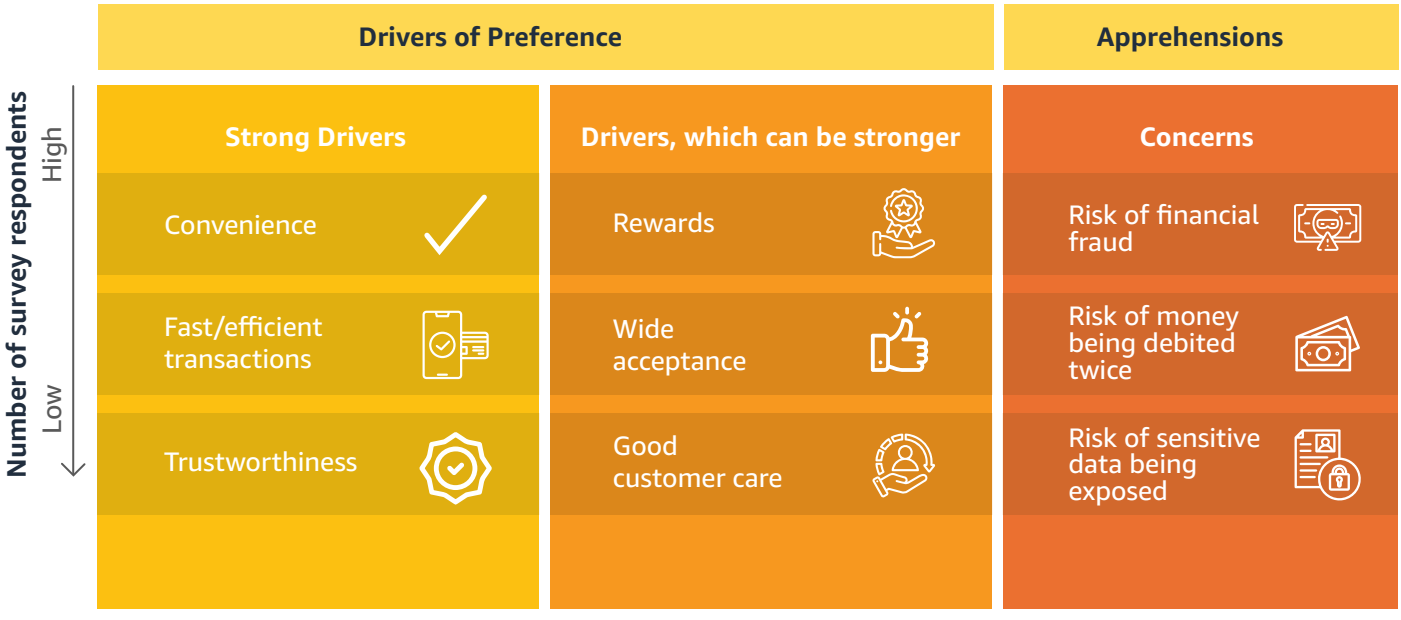
Reason	Online Purchase	Offline Purchase
Convenience	68%	60%
Speed	63%	51%
Trust	52%	48%
Rewards	49%	34%

Source: Primary Research

Despite the optimism around digital payments, there are some shadows of apprehension. Concerns about double debits and financial frauds are prevalent, with 49% and 51% of respondents worried about these issues, respectively. 51% of respondents highlighted internet issues and hence preferred cash over digital payment methods. These concerns are more pronounced in specific consumer segments, such as women in small towns and cities, as well as the aspiring income segment. These concerns also resonate with the RBI's focus on ensuring the stability and security of the country's payment systems, handling growing transaction volumes, and safeguarding consumers against cybersecurity risks.

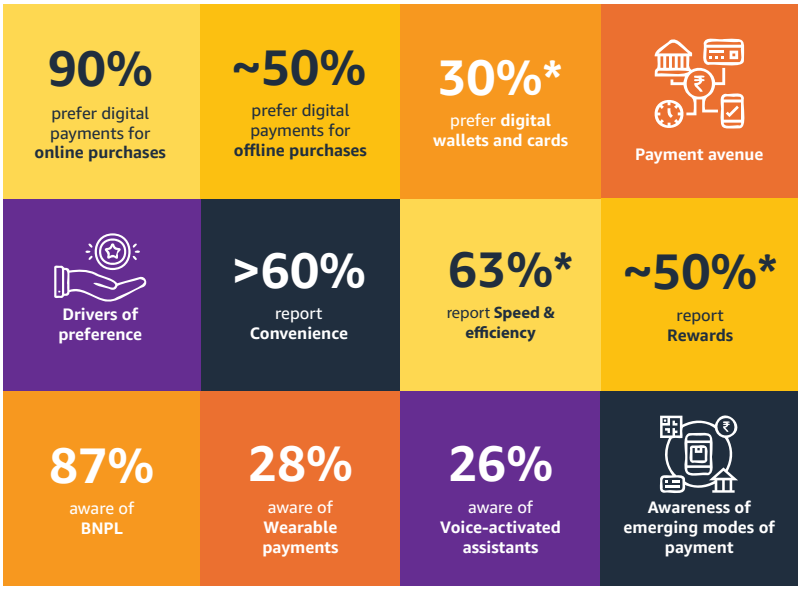
Stakeholders are taking active measures to address consumer preferences and apprehensions by paving the way for easier, quicker, more secure. and therefore "smarter" digital payments. Notably, the National Payments Corporation of India (NPCI) has introduced innovative payment options, such as UPI Lite X, which were designed to overcome challenges associated with intermittent internet connectivity and infrastructure congestion during peak times.

Figure 6: **Consumers' drivers of preference and apprehensions for digital modes of payment**



Source: Primary Research

Figure 7: **Summary snapshot of the study "How Urban India Pays" (% of respondents)**



*for online purchases
Source: Primary Research

1.5 Consumer demographics are driving the Degree of Digital Payment Usage metric

To understand the impact of various demographic factors on digital payment adoption, Kearney has introduced a metric called the Degree of Digital Payment Usage (DDPU), which measures three foundational elements of digital payment usage:

Volume: assessment of digital transaction frequency, reflecting the penetration of digital payments

Variety: diversity of categories in which digital payment methods are utilized, indicating the degree of digital payments in routine spends

Openness: evaluation of awareness and receptiveness toward emerging modes of digital payment, showcasing the forward-looking attitude of users

Together, these three pillars create a comprehensive view of digital payment usage, capturing not only the quantitative aspects of adoption but also the qualitative dimensions of user engagement and openness to innovation. The DDPU offers nuanced insights into the evolving dynamics of digital payment adoption across demographic segments, highlighting areas of growth and opportunities to integrate digital payment solutions into everyday financial transactions.

Income has the highest influence on DDPU; gender has the least

Income, city classification, age, and gender impact DDPU in descending order of significance. The effect of these parameters on DDPU is detailed as follows:

Influence of income[17]:
There was a direct correlation with higher incomes, leading to higher DDPU scores.

Trends by age group[17]:
Millennials and Gen X lead the way for the adoption of digital payments.

Impact of various categories of cities[17]: The top six metro cities were at the forefront, while small towns lag.

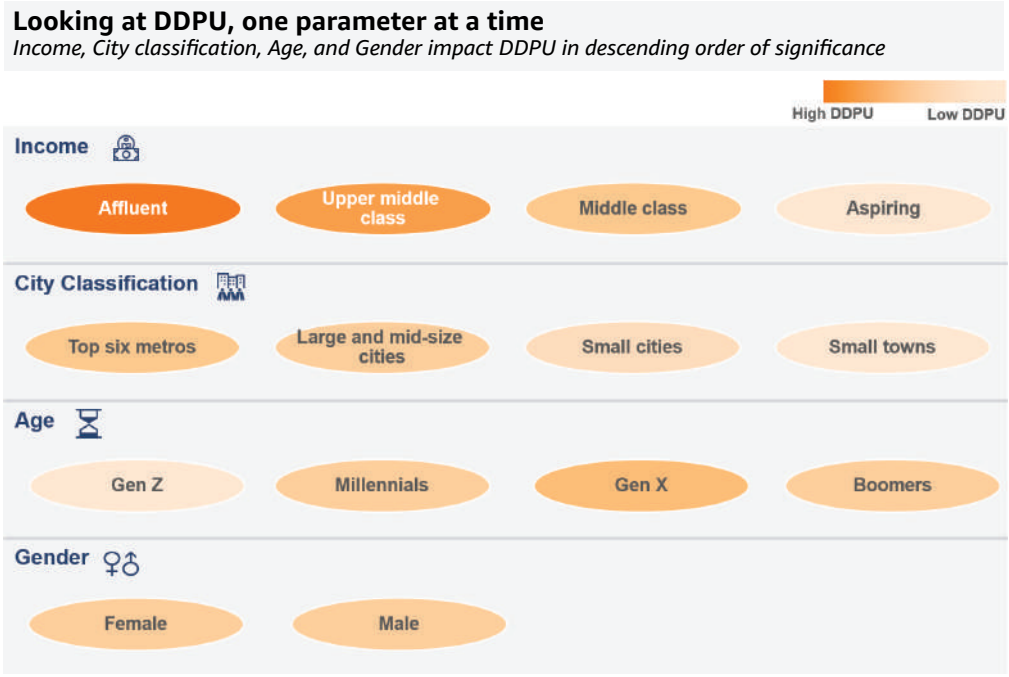
Differences in the level of adoption across genders:
Women and men in larger cities are embracing digital payments equally. However, some differences emerge within smaller cities and towns, where women tend to adopt digital payments slower than men do.

[17] Income segments: The aspiring segment includes consumers earning less than INR 500,000 per annum; the middle-class segment includes consumers with income between INR 500,000 and 1 million per annum; the upper middle-class segment includes consumers with income between INR 1 million and 2 million per annum; the affluent segment includes consumers earning more than INR 2 million per annum.
City categories: The top six metros include Mumbai and its suburbs, Delhi and NCR, Kolkata, Chennai, Bengaluru, Hyderabad. Large and mid-size cities include those with a population between 1.5 million and 5 million. Small cities include those with a population between 500,000 and 1.5 million. Small towns include cities and towns with a population of less than 500,000 (population as per 2011 census). Larger cities include top six metros and large and mid-size cities.
Age brackets: Age brackets: Gen Z is comprised of individuals aged between18–24 years; Millennials are individuals aged between 25–43 years; Gen X are aged between 44–59 years; Boomers are aged 60 years and above.

The reasons for using digital payments vary widely. A comprehensive analysis combining various demographics uncovers the presence of distinct consumer archetypes, each with varying degrees of digital payment usage. For instance, high-income individuals in the top metros have the highest DDPU scores, while low-income women in small towns have the lowest.

Exploring the specific preferences of one such archetype, Kavita's story highlights how a middle-class individual in a metro city seamlessly integrates digital payments into her life, enhancing daily efficiencies. *(This profile is for illustrative purposes only and does not depict any actual person.)*

Figure 8: **Variation of Degree of Digital Payment Usage (DDPU) with various demographic factors**



Source: Primary Research

Age: 30 years
Income: INR 10 LPA
City: Mumbai

Kavita, a diligent school teacher in Thane, a bustling suburb of Mumbai, has adeptly woven digital payment methods into the fabric of her everyday life.

A Snippet of Kavita's Life

Kavita's day commences with a quick auto ride to the metro station, where she mostly uses her UPI app to settle the fare whenever the auto driver has an accessible QR Code. She appreciates the ease and speed of the transaction. Upon reaching the station, she uses her prepaid pass for uninterrupted travel.

At work, during her short breaks, Kavita often steps out for a quick snack. She enjoys the local favorite, vadapav in the canteen and uses her digital wallet to pay for it. The simplicity and security of these transactions add a small but significant ease to her busy days. For lunch, Kavita frequently relies on online food delivery platforms.
Kavita recently learnt that her RuPay Credit card can now be linked to UPI, and she uses this channel to make the payment. She values the convenience of ordering from her office and the added security that digital payments offer.

Periodically, Kavita pays her rent, utility bill payments and credit card bill payments. She uses UPI to pay her landlord and pays her bills online using credit card for utility payments and net banking to settle her credit card dues. She prefers the convenience of stored credit card credentials for quick purchases.

Last month, Kavita bought a new oven online where she leveraged 'Buy Now Pay Later' mode of payment to make the purchase. Recently she learned about co-branded credit card launched by a platform and is fascinated by the cashbacks and rewards, so she is considering to get it.

High degree of digital payment usage which can be explained by:

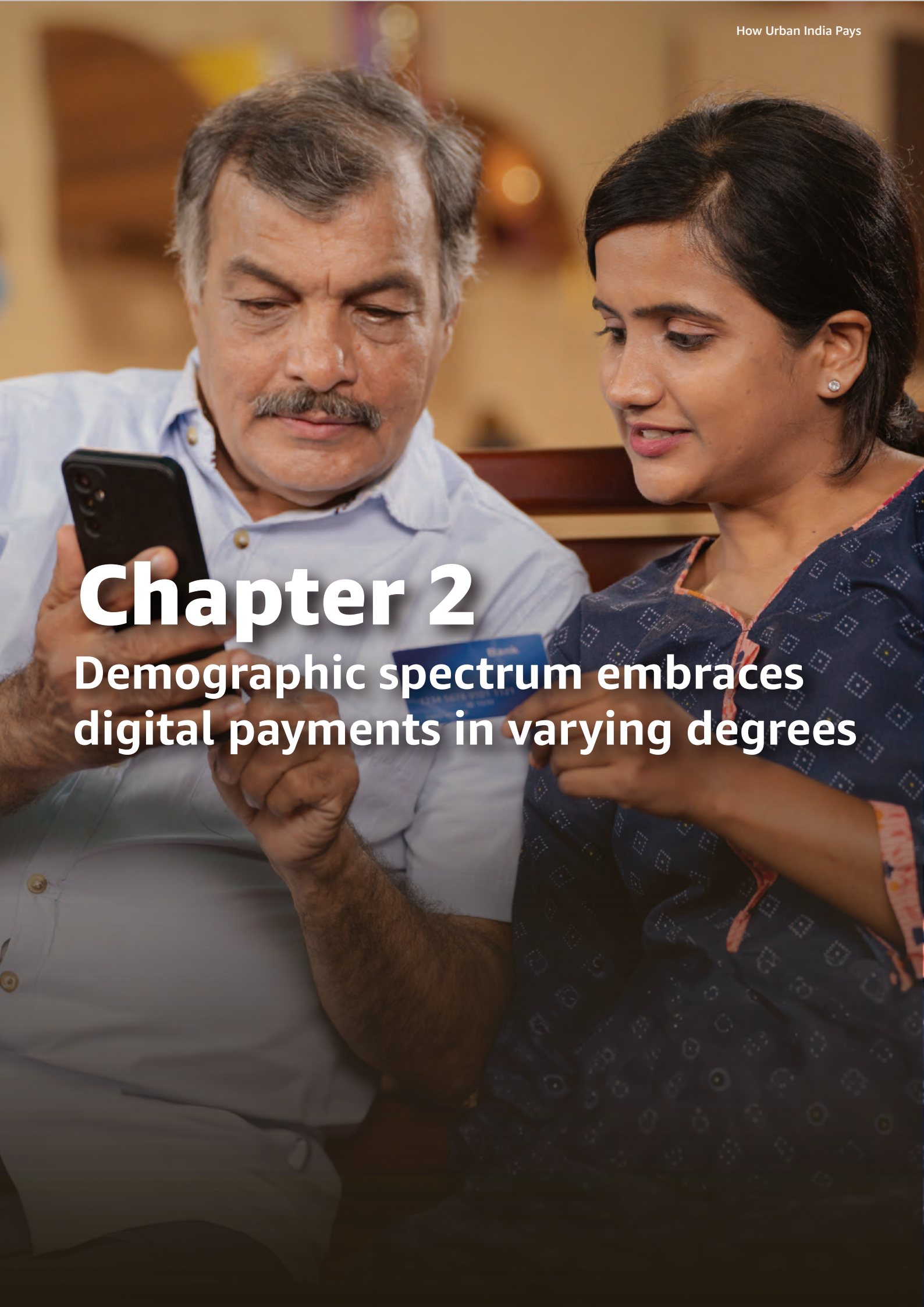
Volume: ●
She uses digital payment for 80-90% of online purchases and ~50% of offline purchases.

● High ◑ Medium ○ Low

Variety: ●
She uses digital payments for both online and offline purchases, and across daily spend, discretionary spend, and periodic spends.

Openness: ●
She's familiar with digital payment modes such as credit cards, BNPL, co-branded cards, and has been open to trying them.

The next chapter explores consumer behaviors across various segments, dissecting how age, location, and income contribute to the heterogeneity in the digital payment landscape.



Chapter 2

Demographic spectrum embraces digital payments in varying degrees

As India rides the digital payments wave, it is imperative to note that customer behaviors across demographic segments is nuanced. The research reveals a clear correlation between digital payment adoption and demographic factors such as income, age, and gender, respectively in the decreasing order of their influence. This chapter investigates the intricacies of payment behaviors across customer segments based on these demographic factors.

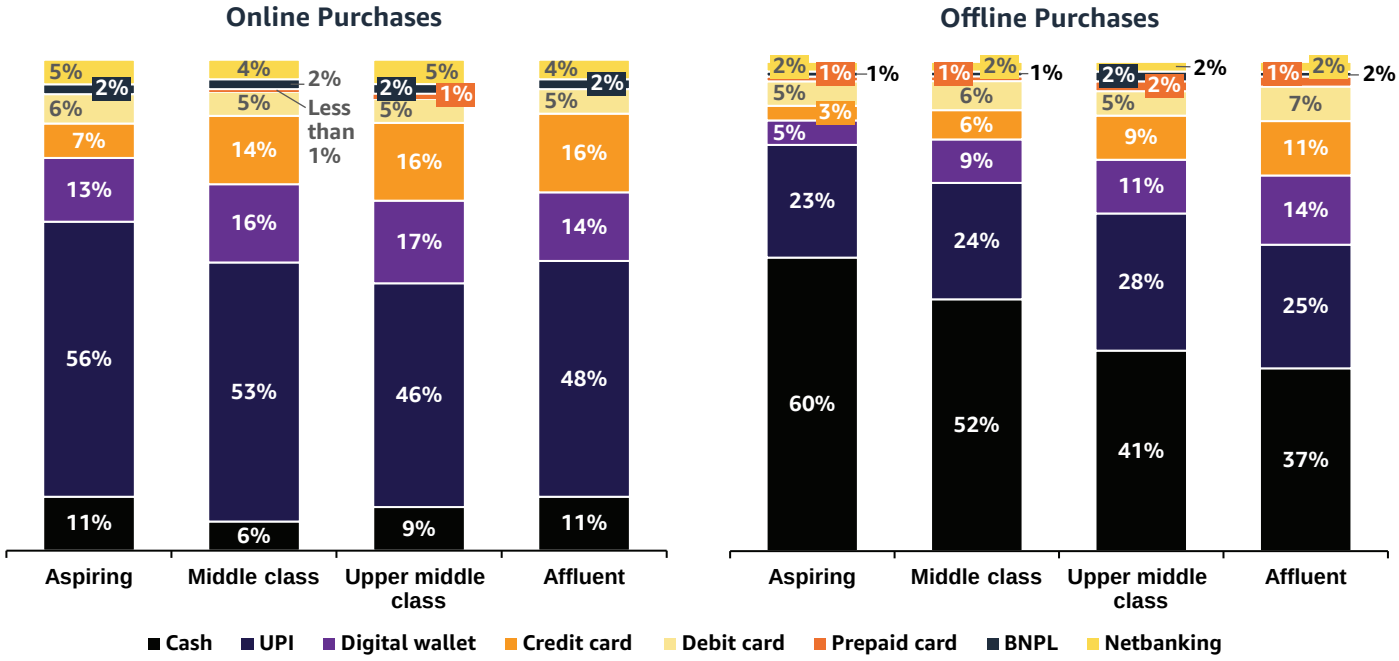
2.1 The affluent and upper middle class set the pace

In the Indian context, four income segments emerge: aspiring (up to INR 500,000 per annum), middle class (between INR 500,000 and 1 million per annum), upper middle class (INR 1 million to 2 million per annum), and affluent (more than INR 2 million per annum).

For online purchases, the preference for digital modes of payment is high and uniform across income segments. The preference for credit cards and wallets grows as income levels increase, whereas the preference for other digital modes of payment is comparable across segments.

For offline purchases, the preference for digital modes of payment increases consistently with higher income levels. Affluent and upper middle class income segments prefer digital payment methods, while more than half of the respondents from the aspiring and middle class income segments prefer cash. Within digital modes of payment beyond UPI, digital wallets and credit cards are more popular among consumers from upper middle class and affluent income segments than in other segments.

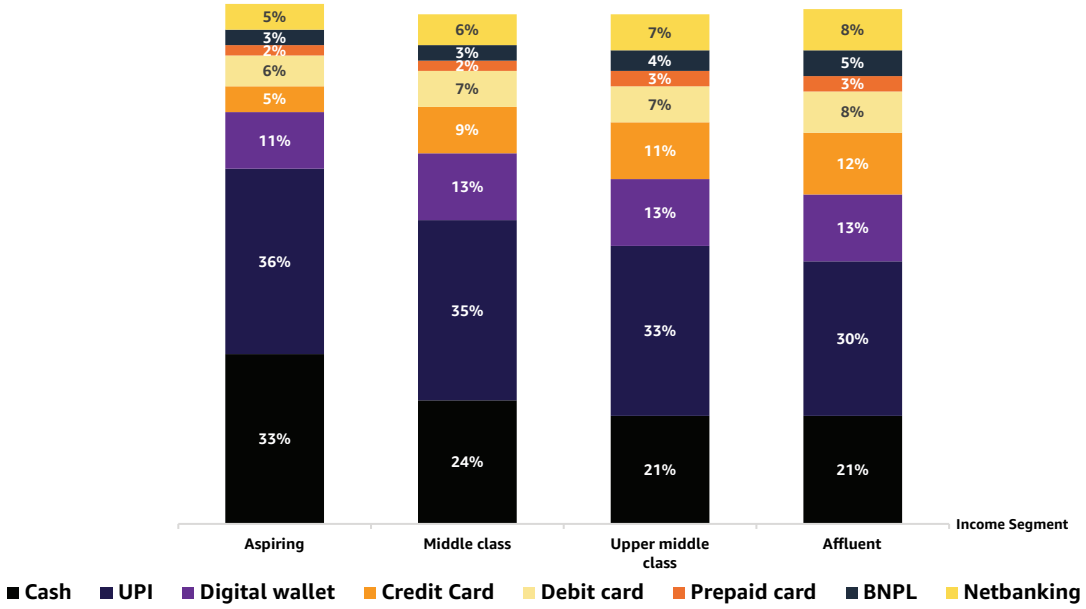
Figure 9: **Preference of various modes of payment for online and offline channels across income brackets (% of respondents)**



Source: Primary Research
Note: Total may not sum to 100 because of differences due to rounding off

When it comes to uptake, consumers from the aspiring and middle class income segments enthusiastically adopt digital payments, using UPI for about 35% of their transactions. However, with higher income levels, there is a noticeable shift in the adoption of non-cash and non-UPI-based digital modes of payment, with a substantial increase in the preference for credit cards and net banking.

Figure 10: **Utilization of various modes of payment across income brackets (% of transactions in the past 12 months)**



Source: Primary Research
Note: Total may not sum to 100 because of differences due to rounding off

Across income segments , there is a shift toward greater cards, digital wallets, and net banking usage with larger transactions

For lower transaction values of less than INR 500, cash and UPI/wallets are preferred across income segments, which can be attributed to their acceptance and convenience, especially for everyday transactions.

As transaction size increases, a higher percentage of consumers prefer credit cards. This trend is more prevalent in the middle class, upper middle class, and affluent income segments. Several factors can explain this shift. First, credit cards provide greater purchasing power, enabling consumers to conduct larger transactions without immediate financial constraints. Second, many credit cards come with perks such as cashbacks, rewards, and loyalty points, which incentivize consumers to use them for higher-value transactions.

Figure 11: **Share of respondents who prefer specific select modes of payment across income segments and size of transaction (% of respondents)**

Income Segment	Aspiring		Middle class		Upper middle class		Affluent	
Size of transaction -->	Less than INR 500	INR 5,000 or more	Less than INR 500	INR 5,000 or more	Less than INR 500	INR 5,000 or more	Less than INR 500	INR 5,000 or more
Cash	53%	30%	50%	16%	45%	14%	46%	20%
UPI/Digital wallet	44%	37%	47%	37%	51%	32%	49%	29%
Credit card	1%	11%	2%	22%	2%	26%	2%	24%

Source: Primary Research

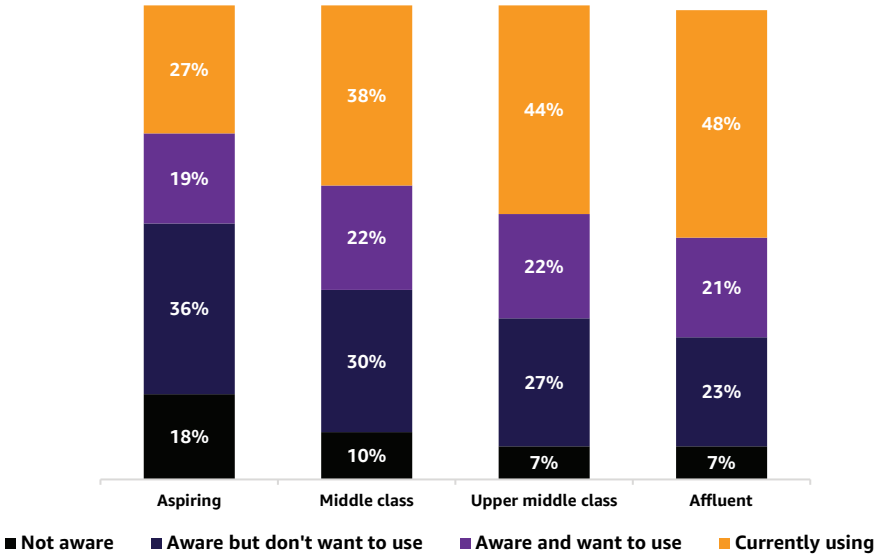
High potential for expanding usage of BNPL within the aspiring segment

The affluent segment leads the adoption of BNPL, with about half of respondents indicating that they use this mode of payment, closely followed by the upper middle class.

In contrast, the aspiring segment has the highest proportion of consumers who are unaware of BNPL (18% of respondents), and those within this segment who know about BNPL are less keen to use it (36% of respondents). Elevating awareness and understanding of BNPL among these consumers can encourage broader adoption and unlock potential.

Individuals in the affluent income segment are at ease using BNPL for high-value transactions, while those in the aspiring segment mostly use it for smaller purchases.

Figure 12: **Awareness of BNPL among respondents across income segments (% of respondents)**



Source: Primary Research
Note: Total may not sum to 100 because of differences due to rounding off

Table 2: **Share of respondents (amongst those who use BNPL) across various BNPL transaction values and income segments (% of respondents)**

Average transaction value for BNPL	Aspiring	Middle class	Upper middle class	Affluent
Less than INR 5,000	74%	52%	34%	24%
INR 5,000–9,999	17%	34%	39%	25%
INR 10,000 or more	9%	14%	27%	51%

Source: Primary Research
Note: Total may not sum to 100 because of differences due to rounding off

Overall, the findings underscore a clear link between income levels and digital payment preferences. The diversity observed reveals the need for segment-specific products, improved access, and targeted efforts to educate the various income segments about existing and emerging digital payment methods.

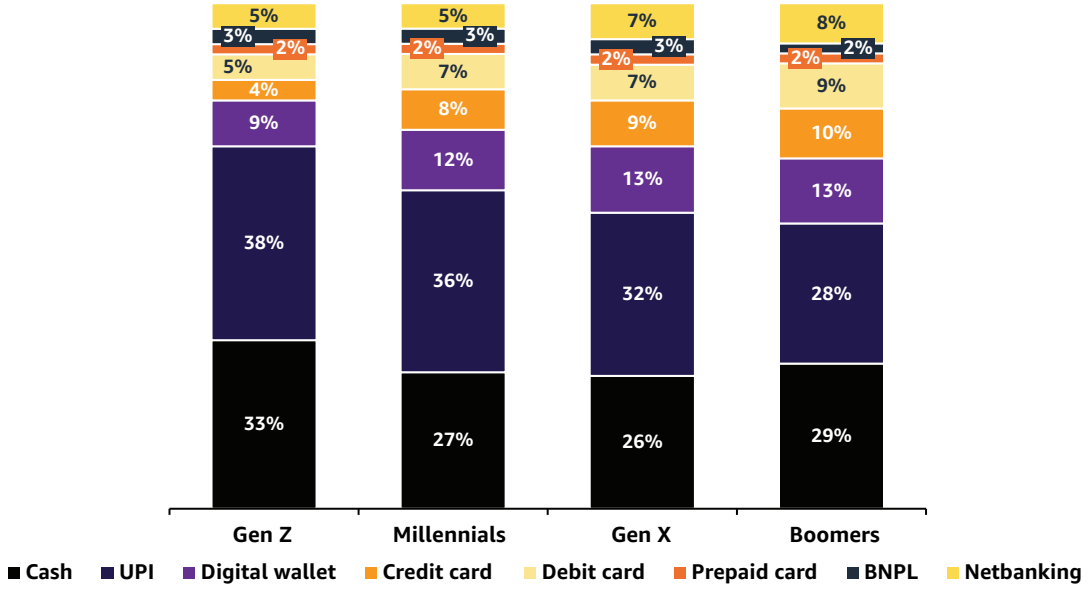
2.2 Millennials and Gen X lead the charge

Within India's diverse landscape, four age cohorts stand out: Generation Z (Gen Z) aged between 18-24 years, Millennials aged between 25-43 years, Generation X (Gen X) aged between 44–59 years, and Boomers aged 60 years and above. These segments are central to India's digital payment narrative, each contributing distinct perspectives and behaviors.

Boomers join the digital brigade, comfortably transitioning to cards, wallets, and net banking

The research suggests higher overall adoption of digital payment methods by Millennials and Gen X, but the other two cohorts are steadily catching up. Gen X and Boomer respondents report using credit cards, debit cards, digital wallets, and other methods beyond UPI for more than 40% of their transactions.

Figure 13: **Utilization of various modes of payment across age brackets (% of transactions in the past 12 months)**



Source: Primary Research
Note: Total may not sum to 100 because of differences due to rounding off

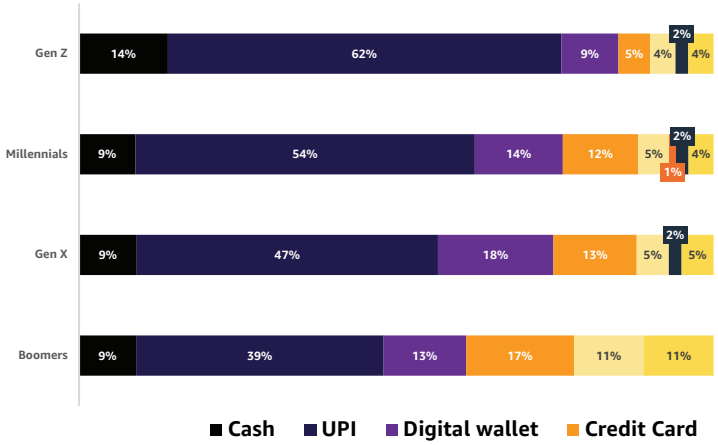
Boomers are known to be more comfortable with traditional methods and, hence, may have been relatively late to the digital brigade but are now a significant part of the digital payment scenario. With access to diverse modes of payment, their use of cards, digital wallets, and net banking is high.

Gen Z consists of a sizable proportion of the student population, many of whom are not salaried or are young professionals who have recently started earning and have limited access to payment methods such as credit cards. Consequently, they use UPI more than other segments, with nearly 38% of their transactions conducted via UPI.

Co-branded credit cards, a recent trend in the Indian credit card market, are more commonly used by Millennials and Gen X. 47–49% of Millennials and Gen X respondents reported owning at least one co-branded credit card, higher than the other segments.

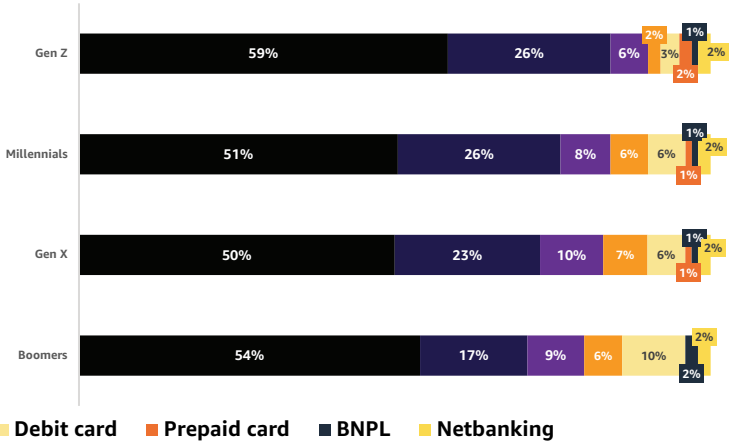
Although the preference for digital modes of payment is much higher for online purchases, the trend of increasing card usage with older age brackets continues in both online and offline purchases

Figure 14: **Preference of various modes of payment for online channel across age brackets (% of respondents)**



Source: Primary Research
Note: Total may not sum to 100 because of differences due to rounding off

Figure 15: **Preference of various modes of payment for offline channel across age brackets (% of respondents)**



Source: Primary Research
Note: Total may not sum to 100 because of differences due to rounding off

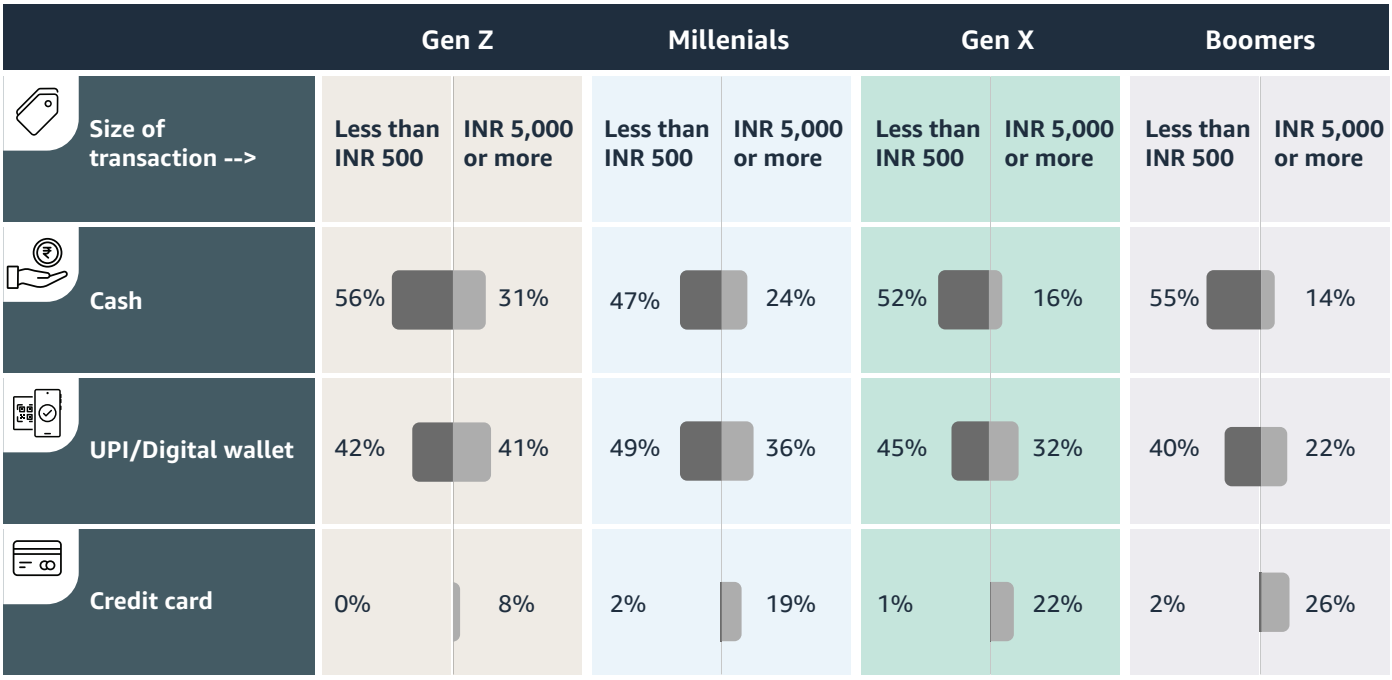
Cash UPI Digital wallet Credit Card Debit card Prepaid card BNPL Netbanking

For offline purchases, cash remains the primary preference, but Gen X and Boomers tend to prefer credit cards, debit cards, and digital wallets more than UPI.

Older age brackets exhibit a higher preference for credit cards with larger transaction sizes

Gen X and Boomers use a balanced mix of payment methods, with their usage of credit cards increasing with larger transactions. For transaction values INR 5,000 or more as many as 26% of respondents in the Boomer segment prefer credit cards.

Figure 16: **Share of respondents who prefer specific select modes of payment across age brackets and size of transaction (% of respondents)**



Source: Primary Research

The BNPL mode of payment is picking up in the Millennial and Gen X segments

Millennials and Gen X lead the adoption of BNPL, with ~40% of respondents who are familiar with this mode of payment using it. Additionally, most respondents across age cohorts stated they use BNPL for less than INR 5,000 in transaction value.

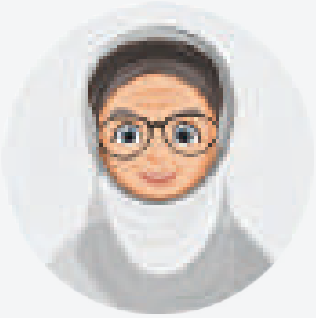
Table 3: **Share of respondents (amongst those who use BNPL) across various BNPL transaction values and age brackets (% of respondents)**

Average transaction value for BNPL	Gen Z	Millennials	Gen X	Boomers
Less than INR 5,000	56%	53%	50%	43%
INR 5,000–9,999	29%	28%	27%	25%
INR 10,000 or more	14%	20%	23%	32%

Source: Primary Research
Note: Total may not sum to 100 because of differences due to rounding off

There is a complex interplay of generational preferences and behaviors in the Indian digital payment landscape. Gen Z's dual reliance on UPI and cash underscores the transitional nature of India's economy, while the preferences of Millennials, Gen X, and Boomers indicate a growing trust and reliance on digital modes of payment.

Examples of the openness of Boomers are illustrated below in the stories from Fatima Bibi[18] and Chaudhary ji[18].



Fatima's digital payments journey

Fatima Bibi is a 60-year-old widow living in Rohtak. She works 5 hours a day at a small local tailoring shop. She has been living alone for about 5 years now, since the time her son moved to Malaysia.

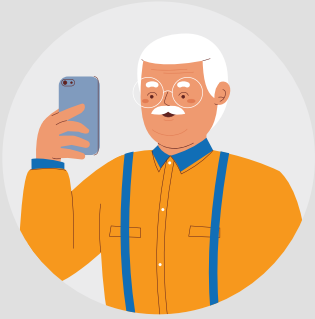
Fatima regularly video calls her son in Malaysia and manages her finances herself. Her other 60-year-old friends praise her for her tech savviness. Fatima had been actively using a debit card due to fear of break-ins and cash robbery; however, she had always been amazed at how youngsters in her area would scan and pay within seconds. She asked kids living in her neighborhood to help set up UPI, link it with her bank account and has now started using UPI for even petty daily transactions.

She's delighted with the speed and convenience of UPI payments and has become a local advocate for this technology. Fatima has even convinced a couple of her friends to switch to digital payments, citing the benefits of not having to carry cash, worry about exact change. Or keep cash at home. Her story is a wonderful example of how one can embrace new technology at any age, enhancing daily life and inspiring others in the community to do the same.

Chaudhary ji is a 65-year-old retired former public sector officer. He has lived across many cities, wherever his job took him, and has now settled in Kolkata. He loves to socialize and has made a group of friends in his colony. He used to enjoy going to the bank to withdraw cash and get his passbooks printed, though he doesn't get to do that these days. With time, he has adapted well to the apps that he has to deal with often - residential community apps, e-commerce and his favorite OTT platforms.

Chaudhary ji would earlier go to buy groceries himself from local vendors. He realized that most shops, even the small local vendors, had digital payment options and often encouraged it to avoid having to give change. Initially, he resisted, but once he set up the payment app, there has been no turning back. Today, with the comfort of OTTS and digital applications, he often orders groceries online, especially when something is needed at home on an immediate basis.

Earlier, he used to ask his children, who live in a different city, to pay the bills, but now that he is comfortable with the mobile apps, he does many of those himself. He has been enjoying the convenience that comes with it and is now open and enthusiastic to try more.



Chaudhary ji embraces digital payments

2.3 Men and women are both embracing digital payments

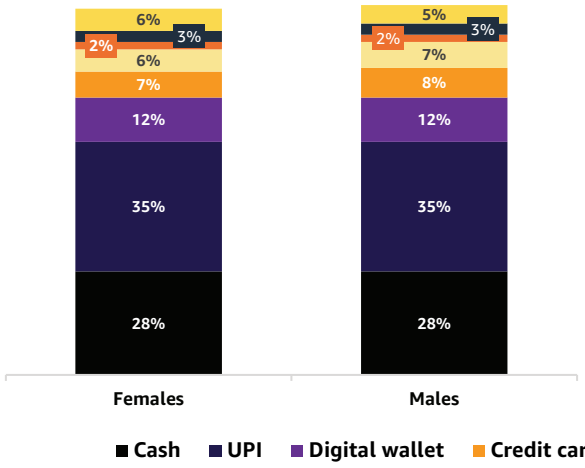
The research reveals that men and women are progressively and almost equally embracing digital payment technologies. The rising adoption of digital payments among women is a testament to improved literacy rates, higher workforce participation, and proactive initiatives from the government and the private sector, and it could be a notable building block toward financial inclusion.

Similar adoption of payment methods is seen across genders

For online purchases, a slightly lower percentage of women respondents prefer using credit cards than men. For offline purchases, the preference for various modes of payment is similar across genders and in line with figure 2 in Section 1.2.

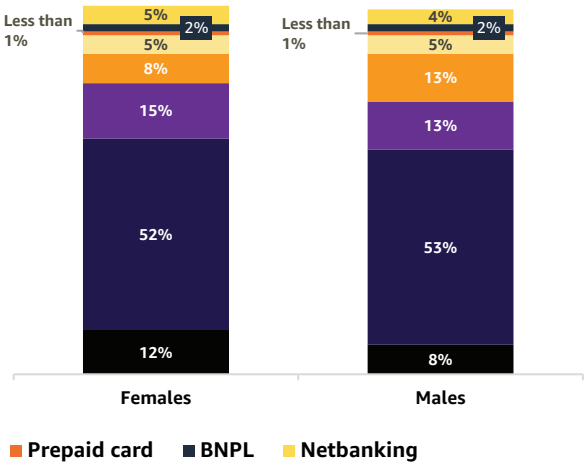
[18] This profile is for illustrative purposes only and does not depict any actual person

Figure 17: **Utilization of various modes of payment across genders (% of transactions in the past 12 months)**



Source: Primary Research
Note: Total may not sum to 100 because of differences due to rounding off

Figure 18: **Preference of various modes of payment for online channels across genders (% of respondents)**

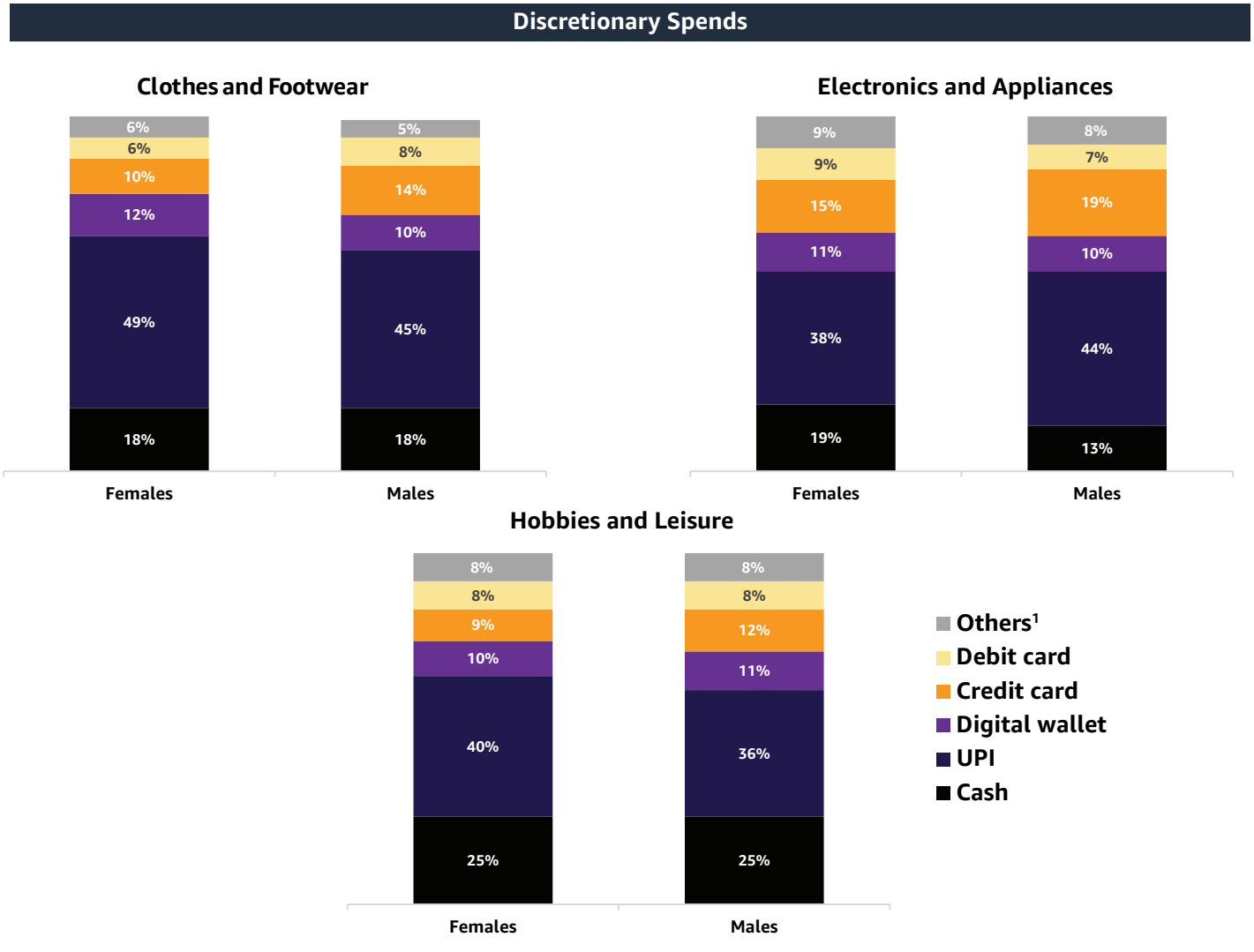


Source: Primary Research
Note: Total may not sum to 100 because of differences due to rounding off

Preference for credit cards is higher in men, especially for discretionary spending

When it comes to discretionary spend categories, a higher percentage of men prefer credit cards than women in select high-spend categories, such as electronics.

Figure 19: **Preference of various modes of payment for different spend categories across genders (% of respondents)**



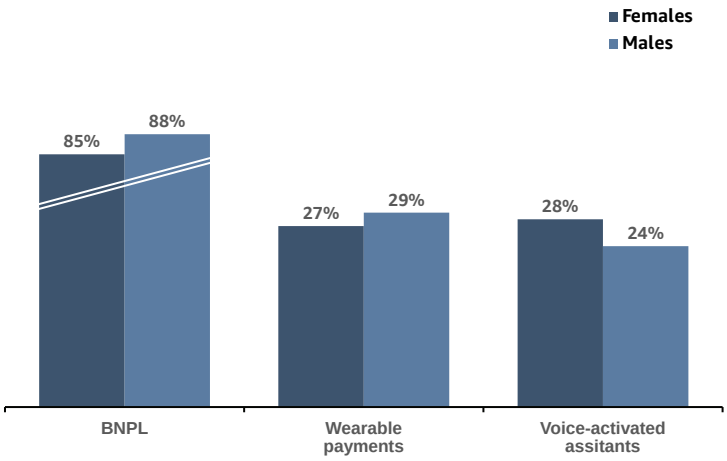
Source: Primary Research
1 Others include BNPL, Net banking and Prepaid card
Note: Total may not sum to 100 because of differences due to rounding off

Gender parity largely exists in the adoption of emerging digital payment methods, but there is potential to increase BNPL adoption among women

Women and men both demonstrate comparable familiarity with emerging modes of digital payments.

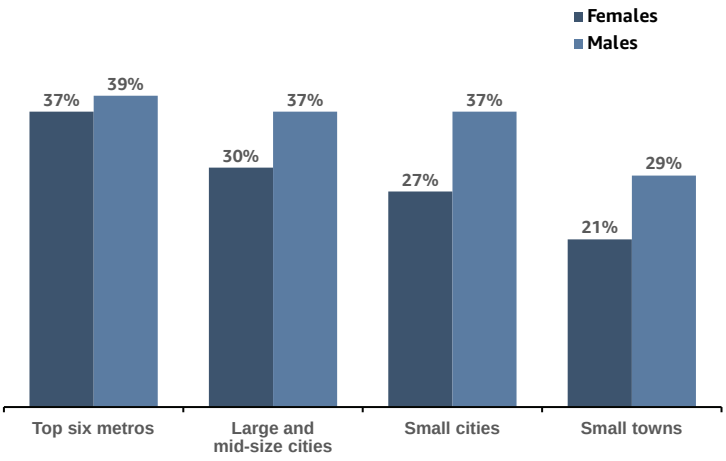
BNPL players have an opportunity to expand their reach and grow their customer base among women, especially in smaller cities and towns. Fewer women respondents in these geographies report usage of BNPL, potentially because of lower penetration of credit-based methods among women living in these areas.

Figure 20: **Familiarity with emerging modes of payment for respondents across genders (% of respondents)**



Source: Primary Research

Figure 21: **Utilization of BNPL among respondents across city types by gender (% of respondents)**



Source: Primary Research

Even in smaller towns, women are rapidly adopting digital modes of payment, just like Shobha[19] , whose story is illustrated below.

Shobha's foray into digital payments

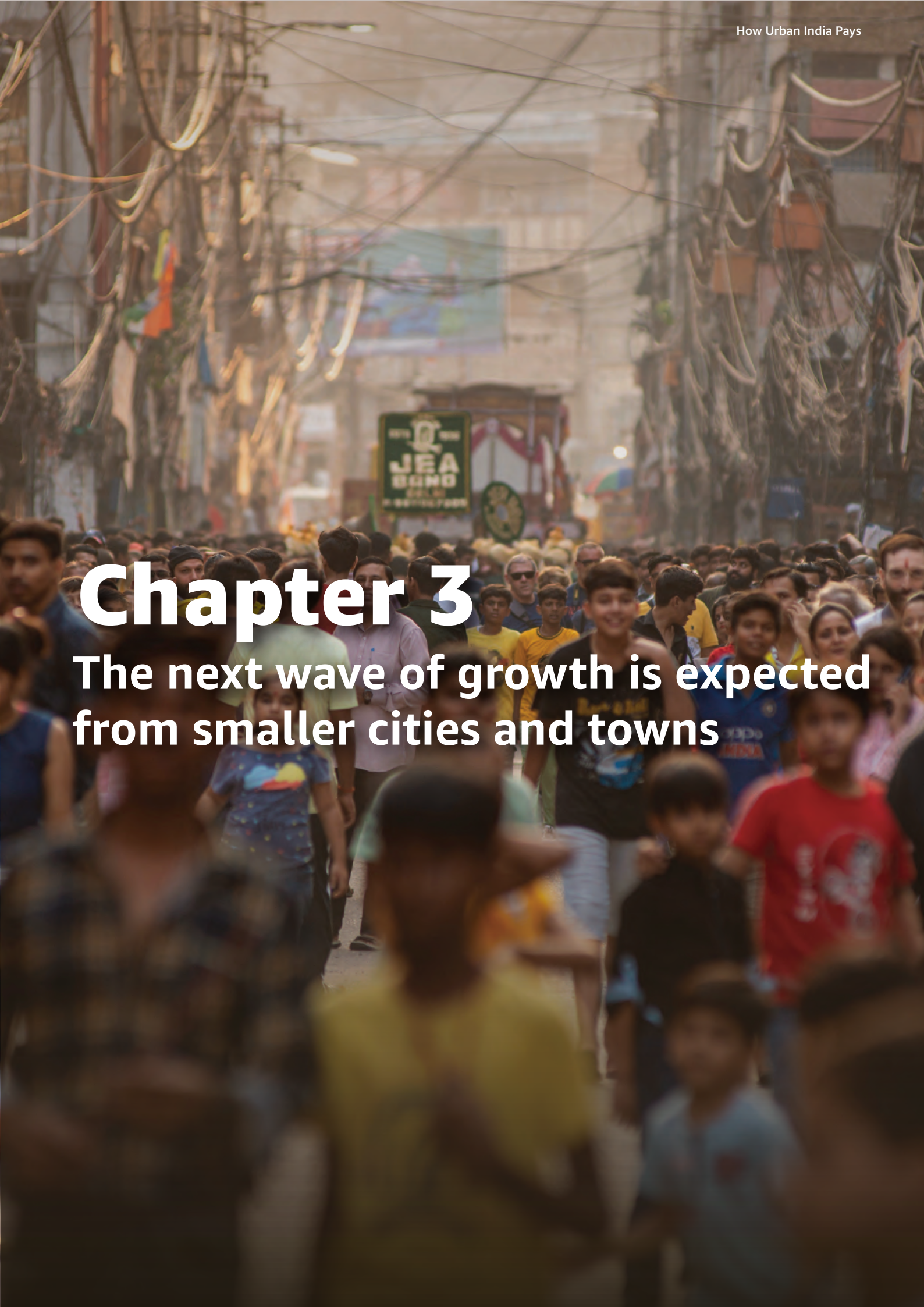
She's homemaker and part-time beautician in Patiala, who earns INR 3 lakh per annum, has smoothly transitioned into the world of digital finance. She initially started using UPI and digital wallets for her home-based beauty service business, finding them convenient and secure. This shift not only simplified her professional transactions but also positively impacted her personal finances.

When her elder son moved to another state for college, Shobha adapted her approach to pocket money. Instead of giving cash, she began transferring funds through digital wallets, appreciating the safety and ease of tracking expenses. This method proved to be a practical solution for managing her son's expenses from a distance.

Her openness to digital trends extended to gift-giving as well. Learning from her son that vouchers were a popular gift choice among younger people, she decided to gift one to her niece for her wedding. This move was well-received and admired by her relatives, inspiring them to consider digital gifting in the future.

Shobha's story is a great example of how embracing new technologies can bring convenience and safety into our lives, regardless of age or profession. Her willingness to learn and adapt demonstrates that the digital revolution is accessible to everyone, adding ease and efficiency to both professional and personal transactions.

[19] This profile is for illustrative purposes only and does not depict any actual person.



Chapter 3

The next wave of growth is expected from smaller cities and towns

To understand the payment behaviors across city types, the study examined four categories of cities and towns across India:

Top six metros

Mumbai and its suburbs, Delhi and NCR, Kolkata, Chennai, Bengaluru, and Hyderabad

Large and mid-size cities

Cities with a population[20] between 1.5 million and 5 million

Small cities

Cities with a population between 500,000 and 1.5 million

Small towns

Towns with a population of less than 500,000

This chapter explores the evolving landscape of payment methods with respect to the types of urban setups. The top six metros are leading in digital payments' adoption, with small towns progressively advancing in their adoption journey.

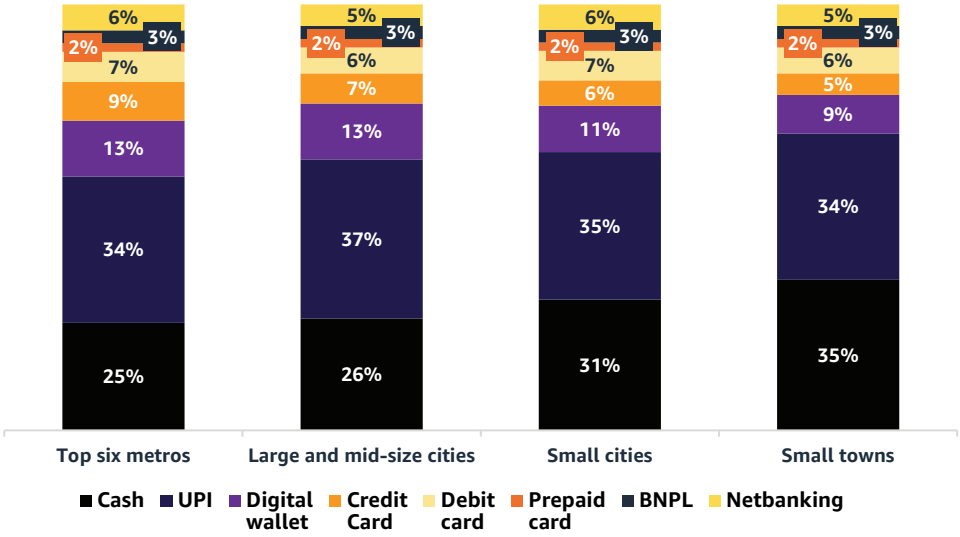
3.1 Small towns are emerging centers of growth for digital payments

Digital payment methods have penetrated well into the smaller cities and towns, alongside the larger cities.

Although UPI has made significant inroads into small cities and towns, there is a noticeable gap in credit card usage, with respondents from small cities and towns reporting that 5–6% of their transactions are conducted with credit cards. This is also reflected in the credit card penetration across city categories, with larger cities having a significantly larger share of the active card base compared with smaller cities and towns.

Small towns also show potential for greater uptake of digital wallets, with respondents from these areas using them in 9% of transactions, slightly behind other city categories.

Figure 22: **Utilization of various modes of payment across city categories (% of transactions by consumers in the past 12 months)**



Source: Primary Research
Note: Total may not sum to 100 because of differences due to rounding off

Rewards are important for consumers in small cities and towns

For online purchases across city categories, the top two reasons that consumers prefer digital payments are convenience and speed. Beyond this, those in small cities and small towns value rewards as the third major factor in adopting digital payments, while those in larger cities and the top six metros value trust.

[20] Based on the 2011 census

3.2 Digital payments penetration ahead of retail potential

In the dynamic interplay between retail commerce and digital payments, there is a clear symbiotic relationship wherein digital payments penetration surpasses the effect of retail potential in many cases. A concerted effort has been undertaken to understand the correlation between digital payment adoption in a city and its retail potential. DDPU, introduced in Section 1.5, has been used to gauge the adoption of digital payments across cities.

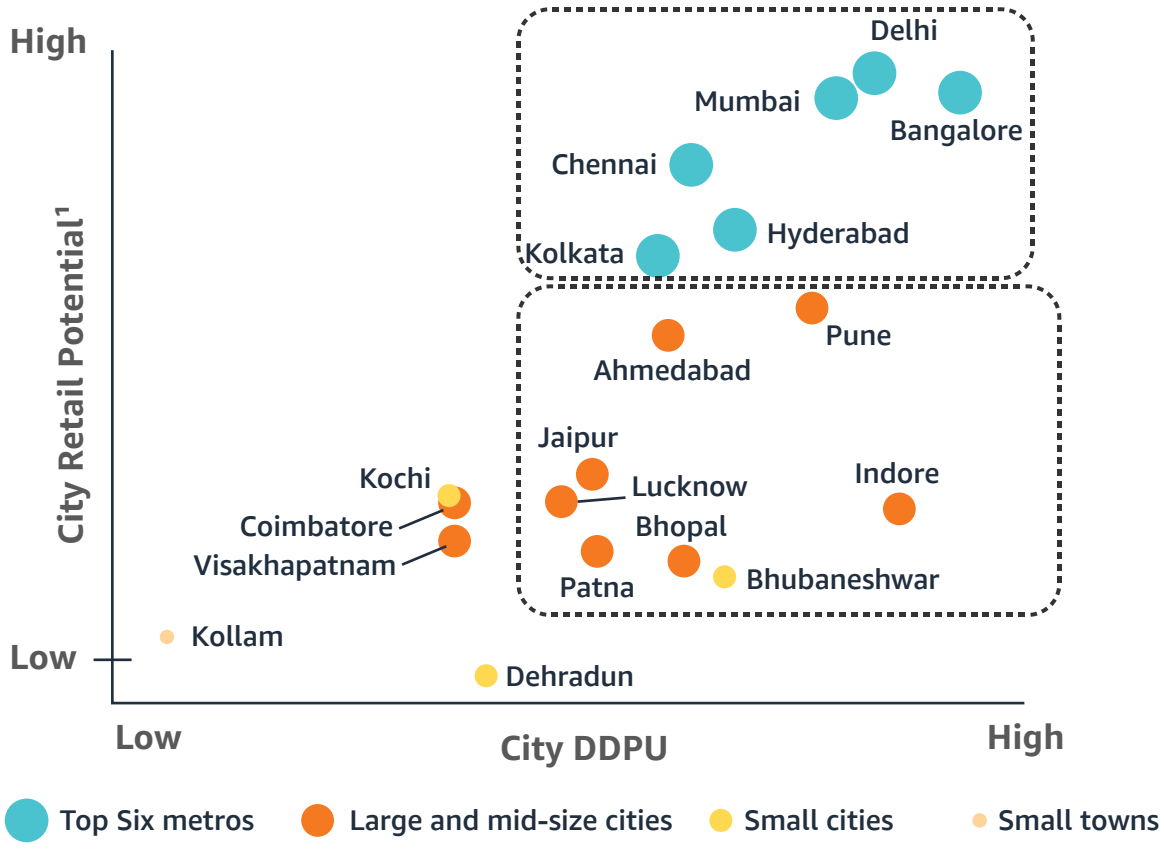
The Kearney India Retail Index[21] assesses retail potential by ranking cities for their overall retail market attractiveness, determined through a multitude of macroeconomic and granular parameters including the following:

- **Market size** based on indicators such as population and GDP per capita
- **Consumption indicators** such as consumption per capita and proximity to an airport
- **Presence of retail channels** such as well-established brand outlets across product categories, access, and willingness to buy online
- **Cost of operations**, such as rental and labor costs
- **Ease of doing business** reflected by easy permits, access to credit, and insolvency resolution

The top six metros—Delhi, Mumbai, Bengaluru, Kolkata, Chennai, and Hyderabad—have both high DDPU scores and strong retail potential, underscoring a vibrant synergy between digital payments and retail growth in these urban hubs.

Furthermore, Ahmedabad, Pune, Indore, Jaipur, Lucknow, Patna, Bhopal, and Bhubaneswar, present an intriguing pattern. Despite their relatively lower retail potential compared with the top metros, these cities demonstrate a digital payment adoption comparable to that of the larger metros, indicating widespread, robust penetration of digital payments across varying urban scales, significantly influencing the landscape of retail commerce in India.

Figure 23: **Retail Potential vs Degree of Digital Payment Usage (DDPU) for select cities**



Source: Primary Research, Kearney analysis
1 Kearney India Retail Index 2023
Figure is only for select cities and not up to scale

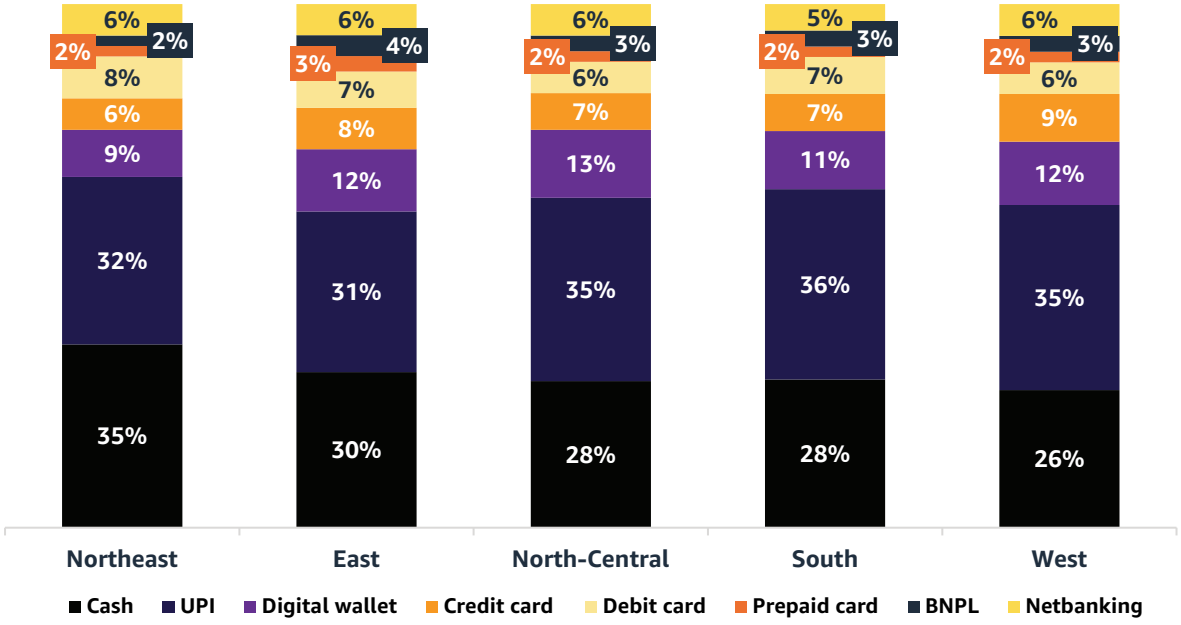
[21] Kearney India Retail Index 2023, a first-of-its-kind index to assess the retail potential of cities across India

3.3 Pockets of regional opportunity such as the Northeast region

Respondents in the Northeast region rely slightly more on cash, using it for 35% of their transactions, in contrast to respondents from other regions, who use cash for 26 to 30% of their transactions.

For credit-based payment methods such as credit cards and BNPL, there is room for growth across all regions. This is particularly true for the Northeast, where these methods account for only 8% of transactions by consumers.

Figure 24: **Utilization of various modes of payment across regions (% of transactions by consumers in the past 12 months)**

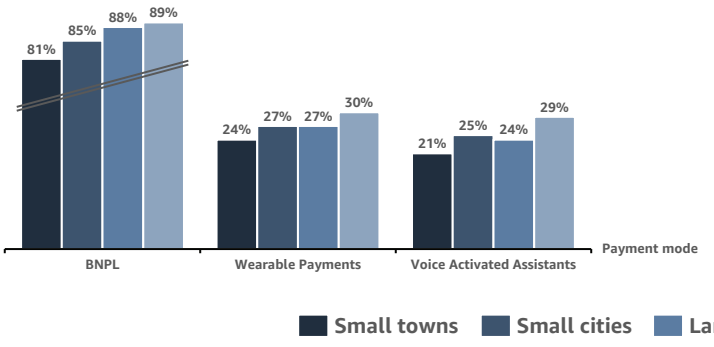


Source: Primary Research
Note: Total may not sum to 100 because of differences due to rounding off

3.4 Promising potential in small towns

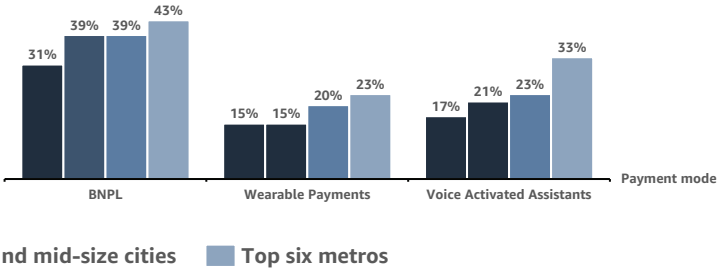
Awareness of emerging modes of payment is comparable among consumers across city categories

Figure 25: **Familiarity with emerging modes of payment across city categories (% of respondents)**



Source: Primary Research

Figure 26: **Usage of emerging modes of payment among respondents who are familiar with them (% of respondents)**



Source: Primary Research

Across city categories, BNPL is a widely recognized mode of payment, while wearable payments and voice-activated assistants have lower levels of familiarity. The familiarity of these new payment modes is largely similar across city categories, with small towns slightly trailing small cities, large and mid-size cities, and the top six metros.

Among those familiar with these digital payment modes, respondents from the top six metros are at the forefront of adopting them. Adoption in small towns and small cities lags, signaling potential for growth.

Promising opportunities for BNPL expansion in small towns

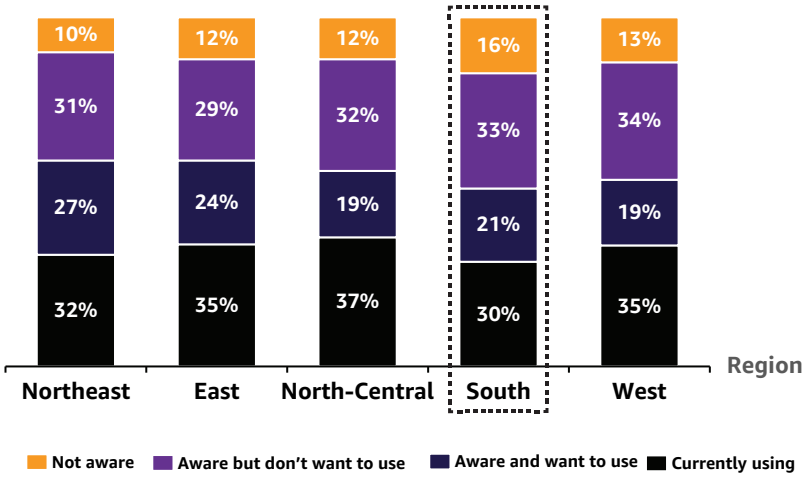
The top six metros lead in the adoption of BNPL, with ~40% reporting to having used the solution, closely followed by large and mid-size cities and small cities. BNPL has substantial growth potential in small towns, where many consumers (20% of respondents) are not yet aware of this solution.

Table 4: **Share of respondents (amongst those who use BNPL) across various BNPL transaction values and city categories (% of respondents)**

Average transaction value for BNPL	Small towns	Small cities	Large and mid-size cities	Top six metros
Less than INR 5,000	61%	57%	58%	45%
INR 5,000–9,999	25%	29%	26%	29%
INR 10,000 or more	14%	15%	17%	26%

Source: Primary Research
Note: Total may not sum to 100 because of differences due to rounding off

Figure 27: **Awareness of BNPL across regions**



Source: Primary Research
Note: Total may not sum to 100 because of differences due to rounding off

At the regional level, the South has the smallest share of respondents using BNPL. They also have the least awareness about BNPL, with 16% of respondents from the South stating that they have not heard about BNPL.

While larger cities, especially the top six metros, show a marked preference for digital transactions, smaller cities and towns are also rapidly embracing digital payment methods; an example of this is illustrated in Madhur's[22] story below.

Madhur's Story: Embracing digital payments in a small town

Madhur, a 29-year-old mechanical engineering diploma graduate, resides in the bustling industrial city of Bokaro. He works in one of the city's prominent steel factories, a job that supports his small family, which includes his wife and a young child.

Madhur is well-known in his community for being an early adopter of the latest trends and often takes initiatives to educate his friends, relatives and parents about how to use and adopt these new advancements. He was among the first to start using UPI, mainly for transactions on e-commerce platforms. With the growing adoption of UPI in his town, Madhur now regularly uses it for diverse payments. This includes buying groceries from local vendors, mobile talk time recharges, and paying bills during his family's occasional outings to restaurants.

Recently Madhur completed the KYC process to open a digital wallet with a well-known brand. He appreciates the added convenience of pre-loading money into his digital wallet which enables him to make quick and easy payments, including small ticket payments at his nearby kirana store.

As customers across demographics are hopping aboard the digital payments bandwagon, merchants are also embracing the cashless revolution, eager to streamline transactions and cater to evolving consumer preferences

[22] This profile is for illustrative purposes only and does not depict any actual person.

Chapter 4

Merchants are evolving in sync with consumers

Merchants play a pivotal role in the consumption ecosystem. This chapter explores their preferences and apprehensions and highlights the symbiotic relationship between merchant adoption patterns and consumer payment preferences.

4.1 Offline merchants receive more cash than online merchants

India's merchant landscape reflects the prevalence of digital payments: after UPI (30–32%), digital wallets (8–13%) are the dominant mode of digital payment.

Three segments of merchants can be defined based on their mode of operations:

Offline merchants: businesses operating in physical locations for transactions

Online merchants: businesses conducting transactions primarily through digital platforms

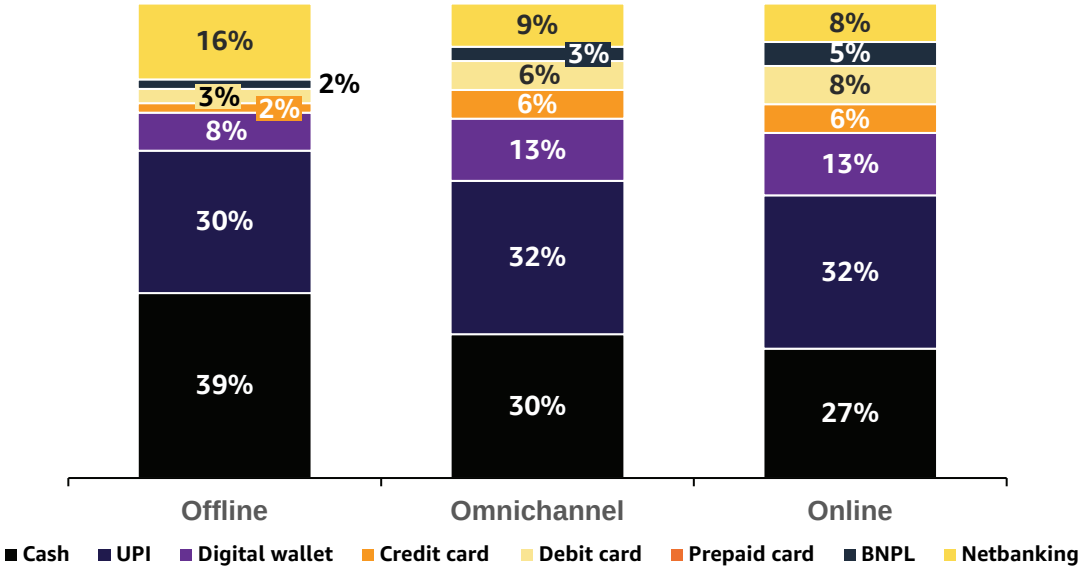
Omnichannel merchants: businesses integrating both offline and online channels for a unified customer experience

Online and omnichannel merchants stated that they received 12–14% of their payments by cards, compared with ~5% for offline merchants.

Card and net banking usage surge for high-value transactions among offline merchants

For offline purchases, the size of the transaction affects the choice of digital payment method. Offline merchants have a greater preference for digital payments for larger transaction values, especially cards, net banking, and BNPL, whereas cash is more prevalent for small-value transactions. Online merchants stated they received a relatively uniform payment mix, regardless of the transaction value. This aligns with consumer payment preferences, with ~90% of respondents stating that that they prefer digital modes of payment for online purchases (see Section 1.2).

Figure 28: **Transaction mix by merchant type (based on mode of operation) (% of transactions in the past 12 months)**

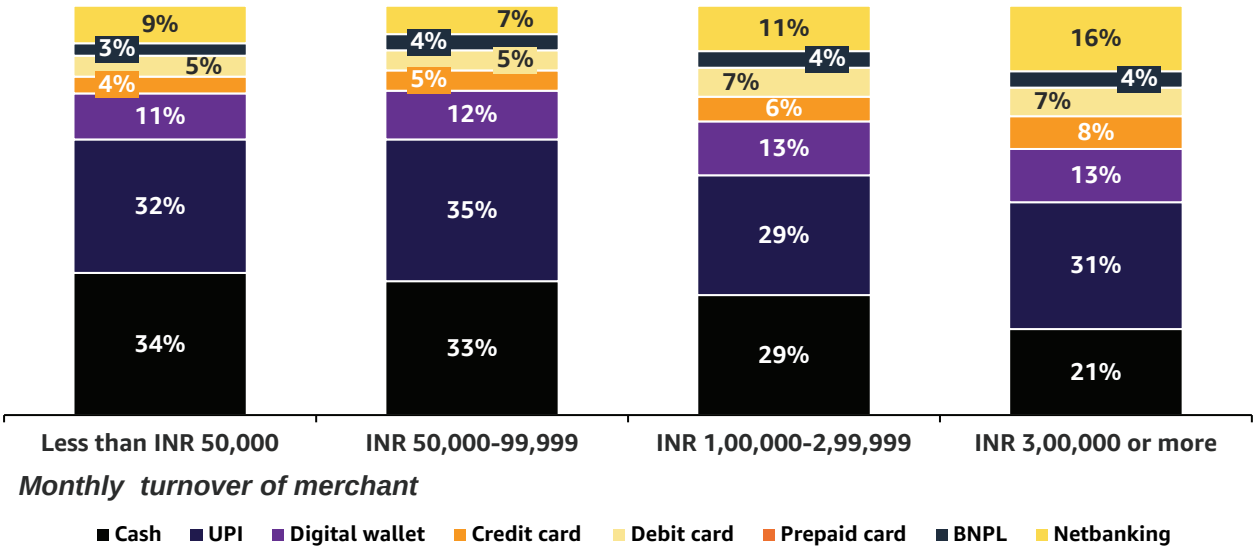


Source: Primary Research
Note: Total may not sum to 100 because of differences due to rounding off

4.2 Smaller merchants have also joined the brigade

Primary research reveals that the inherent size of the business in terms of turnover significantly influences the merchant's behavior toward digital payments. Adoption of UPI as a payment method is remarkably consistent across business sizes. However, smaller businesses tend to receive more cash transactions; the proportion of cash transactions gradually decreases for larger merchants. There is a distinct shift in the share of net banking, which becomes more significant as a mode of payment for consumers among larger merchants.

Figure 29: **Transaction mix by merchant (based on mode of operation) (% of transactions in the past 12 months)**



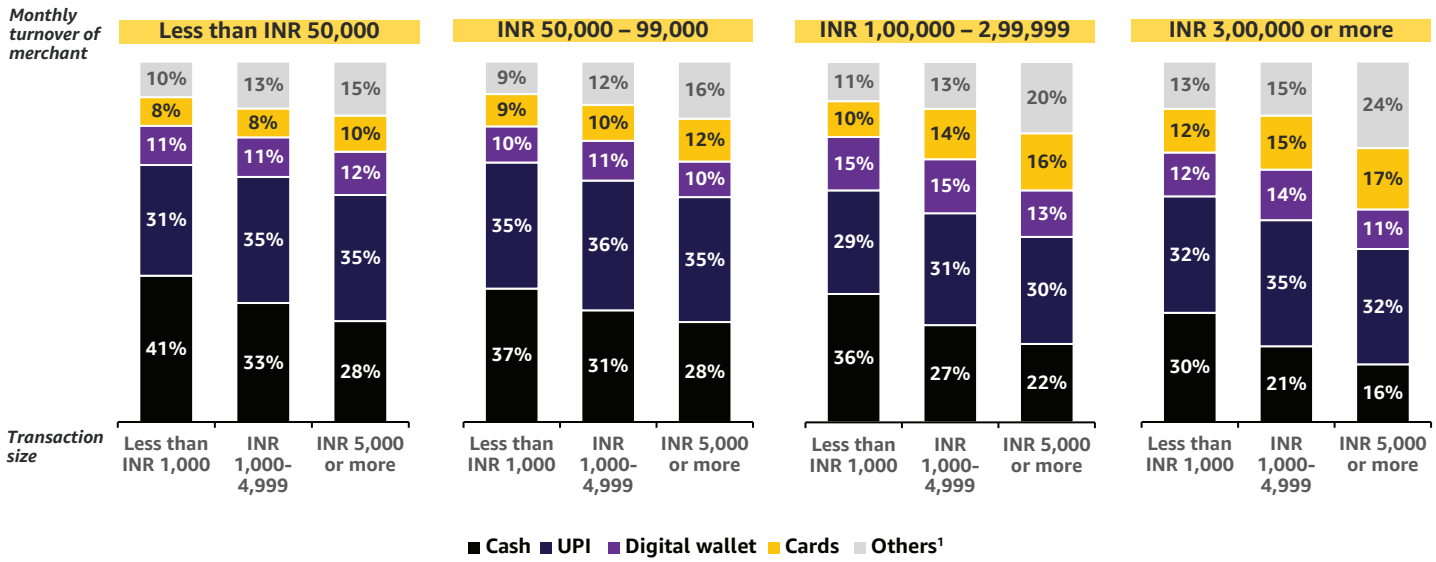
Source: Primary Research
Note: Total may not sum to 100 because of differences due to rounding off

Larger merchants see a greater share of transactions with cards and net banking, especially for higher-value transactions

Merchants see an increased usage of cards and net banking for higher-value transactions, in line with consumer preferences. This trend is more evident for merchants with high turnover (INR 1,00,000 or more per month), whereas smaller merchants show a slight increase in the adoption of these digital payment methods with an increase in transaction size.

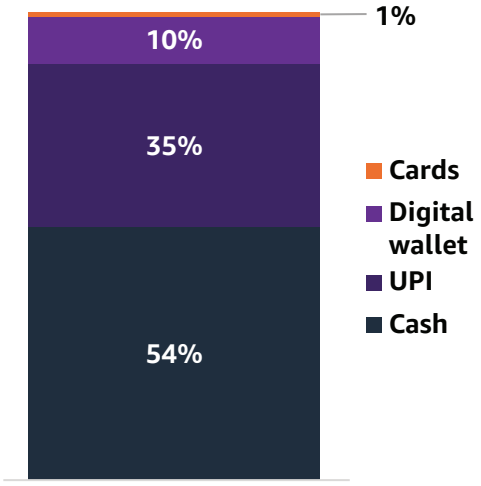
This behavior by small merchants is backed by their concerns about the risk of financial fraud and persisting internet connectivity issues when using digital payments. Additionally, about 40% of merchants said they are hesitant to adopt online payments because of a preference for cash transactions and a need for greater confidence in new technology.

Figure 30: **Share of various modes of payment in total transactions across types of merchants (based on monthly turnover) and transaction sizes (% of transactions in the past 12 months)**



Source: Primary Research
1. Others include BNPL and Net-banking
Note: Total may not sum to 100 because of differences due to rounding off

Figure 31: **Transaction mix for street commerce (% of transactions in the past 12 months)**



Source: Primary Research
Note: Total may not sum to 100 because of differences due to rounding off

Street vendors embrace digital payments with nearly half of transactions going cashless

The primary research encompassed a variety of street commerce vendors, including paan shops, fruit and flower sellers, food stalls, and kirana stores, with reported average monthly revenues ranging from INR 10,000 to 40,000.

As cited by merchant respondents, digital payments make up nearly half of all transactions in street commerce, a significant shift from traditionally relying solely on cash. Similar to other larger merchants, UPI is also the leading digital payment method for street vendors, demonstrating its broad adoption across sectors and income levels. Digital wallet transactions contribute to ~10% of payments received by merchants. However, other methods such as credit cards, debit cards, BNPL, and net banking are scarcely used. Potential inhibitors for credit cards and BNPL payment methods could range from the cost borne by merchants to the penetration of payment acceptance infrastructure.

To increase digital payments in street commerce, it will be crucial to address merchants' concerns about cash shortages for daily expenses (cited by 65% of merchants) and distrust in technology (cited by 66% of merchants). This approach will help shift their preference from the convenient and reliable mode of cash payments.

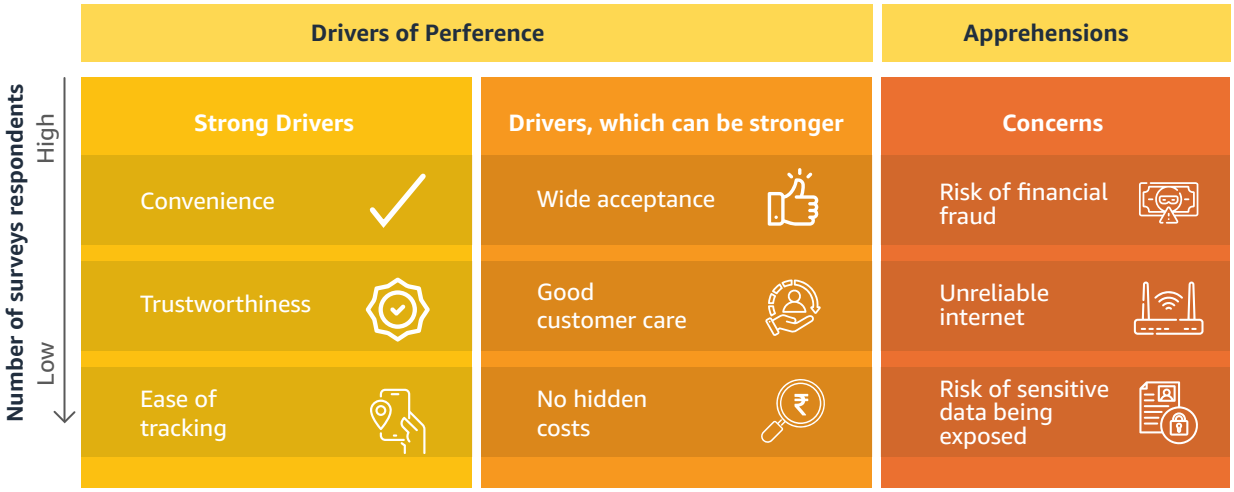
4.3 Merchants value convenience, trust, and safety

Across merchant types, the top reasons for preferring digital payments are convenience (>55% of respondents), trust and safety (>43% of respondents), and the ability to track transactions (>43% of respondents). Also, 63% of merchants say they accept digital payments for transactions under INR 1,000 to prevent consumers from going to competitors that accept digital payments.

60% of merchants said they prefer cash for immediate receipt of payment, and 47% prefer cash to avoid internet connectivity issues. These reasons align with merchants' apprehensions about digital payments, where ~60% cited the risk of financial fraud and ~50% cited unreliable internet across regions. Additionally, 62% of merchant respondents in the East–Northeast cited unreliable internet as a concern, which is significantly higher than the rest of India.

On probing, ~42% of merchants said they could benefit from greater comfort with technology and enhanced knowledge of how they can avoid losing money because of mistakes. 39% expressed interest in simplified payment applications for smoother navigation.

Figure 32: **Drivers of preference and apprehensions for digital modes of payment for merchants**



Source: Primary Research

The reasons merchants favor digital payments, as well as their hesitations to broaden adoption, are similar to those stated by consumers, as described in Section 1.4. Fostering a more inclusive, robust, and smarter digital payment landscape will require a tailored approach that addresses the specific needs and concerns of various merchant segments, particularly smaller businesses, and those in street commerce.

Chapter 5

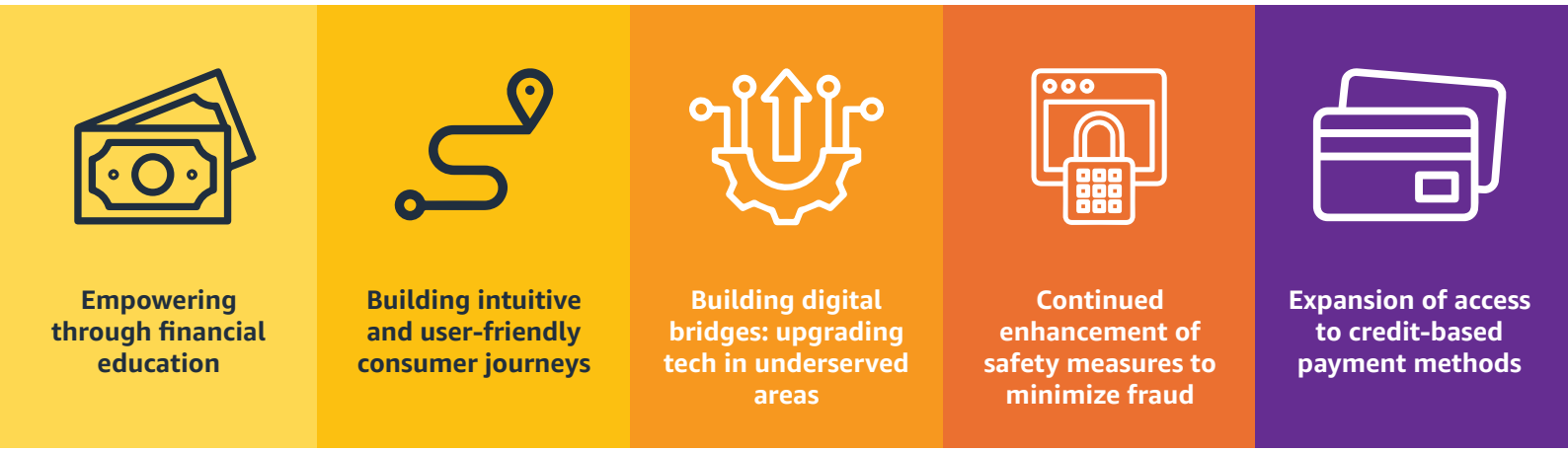
The way forward: ride on innovation and education

Primary research indicates that cash is still the preferred payment method across various segments, especially among the aspiring segment of consumers who earn less than INR 500,000 per annum, small town residents, and Gen Z consumers. UPI has gained popularity and adoption across all consumer segments for various categories of spending, driven by robust smartphone and internet penetration. However, the use of credit and debit cards, net banking, and BNPL is low overall, mainly because of limited awareness and accessibility for those with lower incomes or people who live in smaller towns.

India's digital payment sector is growing fast and could double to USD 7 trillion by 2030. Unlocking this growth will require a coordinated effort from various stakeholders, including government bodies, regulatory bodies, banks, NBFCs, and fintech players—each playing a crucial role in shaping the future of digital payments.

Stakeholders should consider investing in five focus areas to encourage the use of digital payments:

Figure 33: **Five focus areas to drive digital payment adoption in India**



5.1 Empowering through financial education

One of the foundational steps to increase digital payment adoption is to elevate financial literacy, particularly among underserved segments of the population. The need for such an initiative is also evident through the primary research: ~50% of consumers expressed concerns about double debits and financial frauds.

The initiative should focus on the following four areas:

Targeted awareness programs in small cities and towns, especially for women:

Women in less urbanized regions often face barriers to accessing digital financial services because of a lack of awareness and education. Tailored programs that address their specific needs and concerns can empower these women to embrace digital payments, contributing to financial inclusion and gender equality in the financial domain.

Consumer education to improve safety:

Although safety and security measures continue to be in place and enhanced, consistent consumer education about new methods of fraud, such as social engineering, and ways to avoid them is paramount. Campaigns, mass media, OTT, and word of mouth should continue to address these issues to both avoid frauds and gain consumers' confidence.

Higher merchant acceptance through targeted awareness and acquisition programs:

While larger organized merchants have traditionally dominated the digital payment sphere, there's still a gap in street commerce. Today, only 46% of street commerce transactions are digital, as stated by small vendors such as those selling fruits, flowers, food, and everyday items, compared with larger online and offline merchants, who stated that more than 60% of their transactions were digital. There is an opportunity to run targeted onboarding campaigns for offline merchants and smaller street vendors.

Promotion and education around emerging modes of payment:

With the introduction of emerging modes of payment such as UPI Lite and UPI Lite X, there is a need to educate consumers about their benefits and usage. Given that these systems are designed for ease of use and require minimal Internet usage, they are ideal for areas with limited internet connectivity, which has come up as a concern for consumers. Additionally, UPI linked to a RuPay credit card is another innovation that solves consumer needs by offering both convenience and rewards. Awareness campaigns can demystify technology, making digital payments a viable option for a larger segment of the population.

5.2 Building intuitive and user-friendly consumer journeys

The user experience, from onboarding to regular usage and servicing, plays a crucial role in the adoption of digital payment systems. Primary research indicates that ~40% of merchant respondents find digital payment applications too complicated to navigate.

Efforts in this area should include the following:

Streamlined documentation and KYC processes:

By integrating with existing databases and digital infrastructure such as India Stack, CERSAI, UIDAI, NSDL, the credit bureau, EPFO, GST Portal, and account aggregators to ease the process of onboarding, the journey can be made more efficient and less cumbersome for users (both consumers and merchants). This reduces barriers to entry, making it easier for new users to adopt digital payments.

Optimized user interface for ease of use:

An intuitive interface that minimizes the number of steps and clicks required to complete transactions can significantly enhance the user experience. Designing interfaces that are responsive to common usage patterns and user needs can make digital payments more appealing and accessible to a broader audience.

Responsive customer complaint resolution:

Establishing a robust mechanism for quickly and effectively resolving customer complaints and issues is crucial. This not only improves the user experience but also builds trust in digital payment systems, encouraging their continued use.

5.3 Building digital bridges: upgrading tech in underserved areas

The underlying infrastructure plays a pivotal role in the reliability, security, and scalability of digital payment systems. Research reveals that the inclination toward cash for 51% of respondents is grounded in the fact that it remains unaffected by the quality of Internet connectivity.

In this regard, it is important to consider the following two factors:

Fewer system and network issues:

System and network issues can hinder the performance and reliability of payment systems. Around 62% of merchant respondents with operations in Eastern and North–Central India face challenges in digital transactions because of problematic Internet connections and frequent server issues. Upgrading the network infrastructure with a focus on underserved areas can help make systems such as UPI more robust for realizing the full potential of digital payments.

Innovations such as UPI Lite X:

Technologies that enable transactions without a continuous Internet connection, such as UPI Lite X or USSD, can be game changers in making digital payments accessible to a larger population. Exploring and investing in such technologies can address connectivity challenges, especially in rural and semi-urban areas.

5.4 Continued enhancement of security measures to minimize fraud

With the expanding adoption of digital payments, the risk of fraud also escalates. ~60% of merchant respondents and ~51% of consumer respondents reported being concerned about financial fraud, which has a direct impact on their acceptability and usage of emerging technologies. Companies need to continue implementing advanced security measures, regular audits, and fraud detection algorithms toward minimizing these risks, making digital payments safer for users.

By focusing on these initiatives, stakeholders can address key challenges in the digital payment ecosystem, making it more inclusive, secure, and user-friendly. This, in turn, can significantly increase the adoption and usage of digital payments across India, contributing to the country's digital economy and financial inclusion goals.

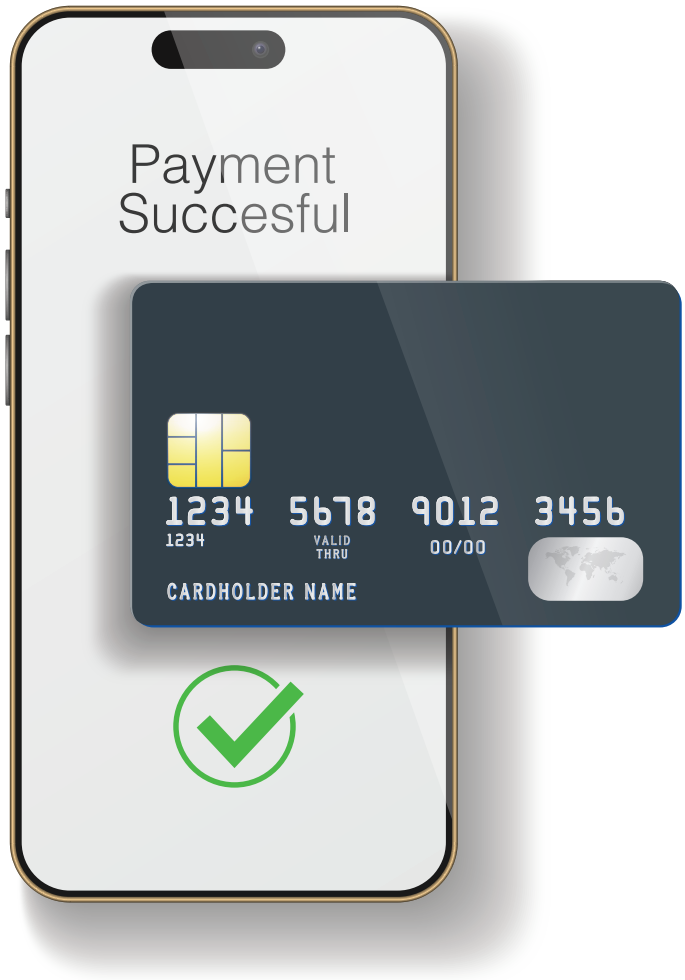
5.5 Expansion of access to credit-based payment methods

Despite the rapid growth, credit-based payment modes are poised for a major breakthrough in India, driven by a pressing need for higher accessibility and adoption. The opportunity is evident in the fact that only ~102 million[23] credit cards are in circulation in the country as of March 2024. The penetration is disproportionately lower in aspiring income segments and small towns. Expanding access to credit is a crucial step toward financial inclusion and economic growth. Innovative and affordable solutions can help bridge the gap, especially for those underserved by traditional banking systems. The democratization of data can be harnessed for more efficient and inclusive underwriting.

This can be accomplished with the following methods (directional and non-exhaustive):

Alternate data for credit scoring:

Traditional credit scoring models often exclude a significant portion of the population that lacks a formal credit history. By using alternative data sources such as utility payments, rental history, and digital payment behavior, financial institutions can develop more inclusive credit scoring models. This approach can widen the pool of potential borrowers, especially among new credit users and small businesses.



Innovative credit products (in accordance with the regulations) for varied needs:

Customized credit products tailored to specific consumer segments and use cases can address diverse financial needs. For instance, micro-credit solutions for daily wage earners and flexible equated monthly installment (EMI) options for middle-income groups—each of these products can be designed to match the cash flow patterns and financial capacities of their respective user segments.

Promotion of financial health through credit education:

Educating potential borrowers about credit management, the importance of credit scores, and responsible borrowing is vital. This can be achieved through digital platforms, workshops, and collaborations with community organizations. An informed user base is less likely to default and more likely to use credit products effectively.

These ideas are also in line with the key pillars of integrity, inclusion, innovation, and institutionalization stated by the RBI to achieve its 4E vision of E-Payments for Everyone, Everywhere, Everytime. By focusing on the five focus areas highlighted in this chapter, payment ecosystem stakeholders can unlock the full potential of digital payments in India, making them more inclusive, secure, and user-friendly. This concerted effort will not only contribute to the growth of India's digital economy but also support financial inclusion and economic empowerment across diverse population segments.

[23] RBI data

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The authors would like to extend gratitude to Rutvi, Sagar Bedi, Vamshi Preetham Boga, Pranay Checker, and Nilanjana Rajkhowa from Kearney for their contributions to this report.

Glossary

4G: fourth generation of broadband cellular network technology

AePS: Aadhaar-enabled Payment System

BNPL: buy now, pay later

CAGR: compound annual growth rate

CBCC: co-branded credit card

E-commerce: electronic commerce

EMI: equated monthly installment

EPFO: Employees' Provident Fund Organisation

GDP: gross domestic product

GST: goods and services tax

INR: Indian Rupee

KYC: know your customer

NBFC: non-banking financial corporation

NSDL: National Securities Depository Limited

P2M: peer-to-merchant

P2P: peer-to-peer

UPI: Unified Payments Interface

UIDAI: Unique Identification Authority of India

USD: United States Dollar

USSD: Unstructured Supplementary Service Data

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Amazon Pay is a trusted, convenient, and rewarding way to pay for anything, anywhere on and off Amazon.in. Amazon continues to extend the convenience of Amazon Pay by making it possible for millions of cash customers to start making digital transactions and supporting the government's vision of encouraging electronic payment, leading to a less-cash society in India.

Amazon Pay provides a wide choice of payment methods like Amazon Pay UPI, Amazon Pay Balance, Amazon Pay Later, and Amazon Pay ICICI Bank Credit Card to make everyday payments safe, fast, and frictionless for customers and merchants. With an aim to simplify lives and fulfill the aspirations of every Indian, it offers customers the benefit of "one-click" payments leading to a faster and smoother checkout process. With its cash-load facility in Amazon Pay Wallet, Amazon Pay also solves the pain point of tendering the exact amount of cash at the time of delivery.

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