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The Rise of FinTech: A Study on the Disruption of Traditional Banking Models by UPI and Digital Wallets in the Indian Financial Ecosystem

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Abstract

The fast growth of Financial Technology, or FinTech, has changed the way financial services work all over the world. In India, this change is very clearly seen, mainly because of UPI and the wide use of digital wallets. As we all know, today almost everyone uses mobile payments in daily life. This study looks at how these new systems have affected the old style of banking in our country. The paper uses simple study methods and some data to understand how payment systems have changed, how banks are adjusting their work, and what this means for society. The results show that UPI and wallets have reduced the extra fee income of banks, but at the same time they have helped banks work faster and move more towards digital systems. It is also seen that public banks and private banks are responding in different ways, which affects their performance. Most importantly, these digital tools have helped more people join the formal banking system, which is a big step for India. In the end, the study shows that FinTech growth in India is not only because of the market, but also because of government support, and it has changed banks from controllers to supporters in this new digital financial system.

Keywords; *FinTech, Unified Payments Interface (UPI), Digital Wallets, Financial Inclusion, Banking Disruption, India.*

Introduction

Before FinTech became common, the banking system in India was strong but also very stiff in nature. As we all know, public sector banks were dominating at that time. Banking mostly depended on physical branches, cash payments, and paper work like cheques. People mainly used banks only for saving money or taking loans. The system was stable, yes, but many problems were there. In our country, financial knowledge was very low. Studies showed that only a small number of adults really understood banking and money matters. Because of this, many people feared banking products and loan defaults were commonly seen in Indian people. Another big issue was access. Most bank branches were in cities and towns, while villages were left behind. For rural people and poor families, going to a bank meant travel cost, loss of daily wages, and extra burden. Sometimes this cost became too heavy to manage. Even when government schemes helped people open bank accounts, many of these accounts were not used regularly. It was commonly seen that accounts existed only on paper, especially for women. This showed a clear gap between having a bank account and actually using it for daily needs. All these issues together created pressure on the old banking model. The system was costly, slow, and not friendly for small users. So, change was not just needed, it was demanded. This study feels that the rise of FinTech in India, especially UPI and digital wallets, came as a strong answer to these problems. It did not just improve banking, but fully changed how common people in our country deal with money every day.

Literature Review

The payment system in India has changed slowly, step by step, and as we all know, the government played a big role in this. Earlier, everything was paper based. Cheques were used everywhere. In the 1980s, MICR technology was introduced, which made cheque clearing a little faster. After that, some digital systems came. ECS started for salary and bill payments. Then RTGS and NEFT were introduced. These systems helped banks to transfer money better, but they were mainly for banks and big users. Common people were not using them much for daily small payments. A very important change happened in 2008 with the creation of NPCI. It was started by RBI and banks together. NPCI was not made for profit, which is very important in our country. It treated payment system like a public service. Because of this, ideas like free digital payments became possible. Small shop owners and vendors could accept digital payments without extra cost. This was not commonly seen in other countries, where private companies control payments. The biggest step came in 2016 with the launch of UPI. It made money transfer simple and fast. People could send money using just a mobile and an ID. Timing was also important. Demonetization pushed many people to try digital payments. Later, during COVID time, contactless payment became more popular. Slowly, UPI became part of daily life in our country. Today, it is commonly seen in Indian people using UPI for even very small payments, showing how deeply the system has changed.

Methodology

This study follows a mixed method style, which means it uses both numbers and simple explanation to understand the FinTech changes in Indian banking. As we all know, UPI and digital wallets have grown very fast in our country, so this research tries to study that change in an easy and clear way. The approach is mostly descriptive. It looks at patterns, changes in bank strategies, and how society is getting affected because of digital payments. The study mainly depends on secondary data, which is already available information. This helps to see the bigger picture of the FinTech system in India. Data is collected from trusted sources only. Reports and data from RBI, NPCI, and Ministry of Finance are used, which are very important institutions in our country. Some global reports from World Bank, IMF, and BIS are also studied to compare India with other countries. Along with this, reports from consulting firms like PwC and KPMG are used, as they explain market growth and trends in a simple way. Academic articles are also referred to, which helps to connect theory with what is commonly seen in Indian people using digital payments today.

Results

The rise of FinTech in India, mainly because of UPI, has been very fast and clearly visible to all of us. As we all know, today UPI is used everywhere, from small shops to big malls. The data also shows this strong change. In the year 2017–18, UPI handled only about 92 crore transactions. But by 2023–24, this number jumped to more than 13,000 crore transactions. This growth is really huge and rarely seen in our country. Not only the number of payments increased, even the value of money moved through UPI has grown a lot. It went from around ₹1 lakh crore in 2017–18 to nearly ₹200 lakh crore by 2023–24. By 2024, UPI was doing more than 80% of all digital payment transactions in India, which shows how important it has become. Another interesting point is how people now pay shops directly. Earlier UPI was mostly used to send money to friends or family. But now, payments to merchants are more common. By August 2024, around 62% of UPI payments were person-tomerchant type. This is commonly seen in Indian people today and clearly shows how deeply UPI has entered daily business life.

Discussion

The big rise in UPI and digital wallets has clearly changed how banks work in our country. As we all know, banking is no longer only about branches and counters. This change has affected bank income, daily work style, and even their future plans. The first and most visible impact is on bank earnings. Since UPI is mostly free for customers and shopkeepers, banks are not earning much from transfer fees, card charges, or small transaction costs like before. Many payments that earlier gave some fee income are now done on UPI, which is free. This has reduced one steady income source for banks, especially in retail banking. But at the same time, banks are also saving money in other ways. With more digital payments, the need to handle cash has reduced. This means less cost on cash transport, ATM filling, and branch crowd control. Many people now visit branches less, which is commonly seen in Indian people after UPI. Banks are also using staff for other important work instead of routine cash tasks. Digital payments are easier to track, so paperwork and small errors have also reduced. Some reports even say that UPI has saved a huge amount of money for the economy by cutting cash and card costs. Still, not all banks reacted in the same way. Private banks were faster. They joined hands with FinTech companies and improved their apps and systems. This helped them stay strong in the new setup. Public sector banks, on the other hand, faced more problems. Old systems, slow decisions, and heavy process made it difficult for them to move fast, even though platforms like YONO were launched. Because of this, many public banks saw more pressure on profit compared to private banks. Overall, this change shows that banks are no longer only controllers of money flow. Now they are more like supporters in a big digital system, working along with UPI and FinTech apps.

The impact of UPI and digital wallets is not only limited to banks, it has helped society also in many ways. As we all know, many people in our country earlier had bank accounts but did not really use them. UPI changed this. It is free, simple, and easy to use, so people now have a real reason to use digital money in daily life. Many studies show that when digital payments increase, financial inclusion also improves. More women are using financial services now, and access to loans has also improved for people who earlier had no credit history. This is commonly seen in Indian people, especially small shop owners and daily wage earners. Since every UPI payment leaves a digital record, it has also reduced hidden cash dealings. This has helped in better tax payment and more GST filings by small businesses. Even buying habits have changed. Many users feel that spending through UPI is easier than using cash, so they end up spending a little more without much thinking. With such fast growth, rules and safety systems also needed to change. The RBI has taken this seriously and started focusing more on FinTech in recent years. New steps like testing platforms for new ideas and clearer rules for FinTech companies are now in place. But at the same time, risks have also increased. Online fraud and cyber issues have grown a lot in the last few years. Many people have faced fake calls or payment scams related to UPI. Because of this, the government has brought stronger data protection laws, and payment systems are adding better security like stronger checks and even biometric options. So, while digital payments have made life easy, they also remind us to be careful and aware in this new digital money world.

Conclusion

The rise of UPI and digital wallets in India has clearly changed how money works in our country. As we all know, this change did not happen only because of the market, but also because of strong support from the government and public systems. The aim was simple. To help people who were outside banking and to reduce too much cash use. This study shows that FinTech has changed banks in many ways. Their income style, daily working, and future plans all got affected. Many banks lost money from old service charges, and competition increased. Still, this pressure also pushed banks to go digital faster, which was much needed. Over time, it is clear that banks cannot work in the old way anymore. In our country, banks now need to focus more on customers and less on control. Instead of acting like strict gatekeepers, they are slowly becoming helpers in a bigger financial system. Banks now provide safety, trust, and follow rules, while FinTech apps focus on easy use and fast service. This mixed model looks more practical for India. Looking ahead, many new changes are coming. Credit on UPI is one such idea, where people can get small loans directly while paying. This can help many small users and shop owners. At the same time, RBI is testing the digital rupee, which may change digital payments again. UPI is also going global, which can help Indians sending money across countries. Still, some problems remain. Digital knowledge is low in rural areas and among women, which is commonly seen in Indian people. Fixing this gap is very important and needs more study and attention in the future.

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