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Consumer Behaviour of UPI Applications / Companies

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ABSTRACT

Due to factors such as demonetization and COVID-19, UPI has quickly become India's first choice when it comes to digital payment and is now being incorporated in other countries such as Bhutan and, more recently, France. This research paper explores the various reasons behind the rapid growth of UPI since its introduction in 2016 and why it has become so easy to adopt and integrate into our daily transactions. The paper compares UPI to other forms of digital transactions, and cash transactions, and goes into depth on the advantages, as well as barriers, faced when using UPI.

Keywords: Payment, Digital, UPI, Economy, Demonetization, Merchant Discount Rate, Growth, Cashless

Introduction

The American Psychology Association defines Consumer Psychology as “the branch of psychology that studies the behaviour of individuals as consumers and the marketing and communication techniques used to influence consumer decisions.” Consumer Psychology plays an important role in marketing ideas, both for-profit and nonprofit. Technology has rapidly and drastically influenced the world of business and the economy. Governments are now heavily investing in fostering a digital economy. The Indian government has introduced the Unified Payment Interface (UPI) as a mobile-based payment system to digitise the economy. UPI has been expanded beyond India's borders, being implemented in Bhutan and several other countries in Asia and Africa. UPI outperforms all other digital payments such as Mobile Wallet, and NEFT, and has been driven by Paytm, PhonePe and Google Pay. This huge growth, both within India and globally, has been a result of several reasons. It is important to understand the psychology behind the great success of UPI as a money-transferring app.

UPI was originally launched to the public in 2016 by the National Corporation of India (NPCI). Indian banks were allowed to launch their own UPI apps starting from August 2015. Payments were instant and could be done even quicker through QR codes, a feature unique to UPI. The payment saw massive growth in November 2016 post the demonetization act.

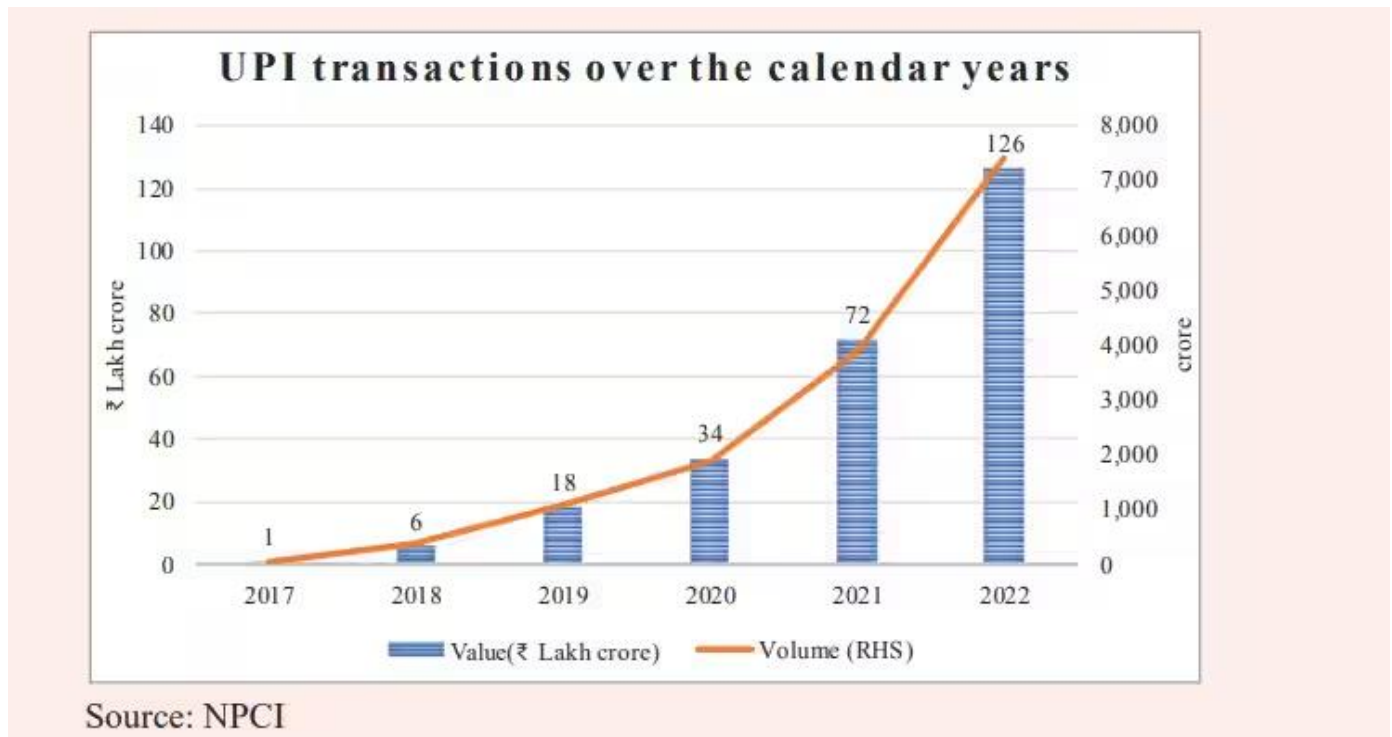
Demonetization of the 500- and 1000-rupee notes heavily increased the use of UPI.

“On the 8th of November, 2016 the Prime Minister of India His Excellency Mr. Narendra Modi announced the decision of Demonetization of 500 and 1000 rupee notes in the Economy, making them illegal tender. The Government directed its citizens to deposit the existing 500- and 1000-rupee notes in exchange for legal denominations. The government also introduced 2000 rupee notes to increase the pace of re-monetization of cash currency. The reasoning behind the Government's decision was given as to curb the Black Money (or unaccounted money) in the economy, thereby capturing mass public support.”

Demonetization led to a cash crunch and paved the way for UPI to become India's most used method of digital payment. According to MyGovIndia, UPI grew by 1,342% from November 8th to December 25th. There were promotional offers for consumers transacting through mobile-based payment apps, such as cashback.

Additionally, the government introduced the Bharat Interface for Money (BHIM) App, developed by NPCI. The app provided a convenient interface that made instant payments. Additionally, UPI had significant growth through 2020 due to the COVID-19 pandemic.

“The outbreak of the COVID-19 pandemic wrecked the world economy and financial markets. It drastically affected the financial health of India as fast as it unfolded. On March 25, India imposed one of the world's earliest, stringent lockdowns while its caseload was still low. This was a good initiative by the central government as imposing a lockdown helped keep people indoors, which facilitated breaking the chain. India faced many difficulties in extending its banking facilities due to the nationwide lockdown.” Banks had a significant decrease in their cash flows, and many consumers became cashless, however, most citizens were still expected to pay their regular and routine transactions. Physical cash became a way for the virus to spread and increased the likelihood of individuals dealing in cash coming into contact with the virus. Hence, there was an immense need for mobile-based transactions. According to data from the National Payments Corporation of India (NPCI), the percentage change in UPI usage between Fiscal Year 2019-2020 and Fiscal Year 2020-21 of 93% (increase).



(Patwardhan)

From 25th August 2016 onwards, RBI enabled banks to distribute UPI through their apps on the Google Play store. This included apps such as Paytm, PhonePe, BHIM, and Google Pay.

PayTM is one of the leading UPI choices for users across India, due to its many utilities such as metro cards and direct-to-home. It was founded in 2010 by Communicates Ltd, as a prepaid mobile recharge website. PayTM allows merchants to accept payments through the app, which goes directly into their bank accounts with no costs involved.

“It became India’s first payment app to cross 100 million downloads in 2017. Through their tagline “#PayTMkaro”, the company has shown that by 2018, it started allowing merchants to accept Paytm, UPI and Card payments directly into their bank accounts at 0% charge.” (Komirisetty and Simha 866)

In December 2016, post the demonetization of Rs. 500 and Rs. 1000 notes, NPCI introduced their state-owned payment app, Bharat Interface for Money (BHIM). The app allows for instant transfer of money, PhonePe was founded in 2015, this is one of the most popular and preferred apps that allows consumers to transact through the UPI platform.

Other UPI apps:

iMobile - Founded by ICICI Bank

Axis Pay - Founded by Axis Bank

There are multiple alternatives to UPI, including RTGS and NEFT Real Time Gross Settlement is a system that transfers money from one bank account to another on a real-time basis. The service on available from 9 am to 4:30 pm on weekdays. RTGS is operated by RBI.” National Electronic Funds Transfer (NEFT) facilitates funds transfer across all computerised branches of banks Debit Card. NEFT works on a half-hourly basis and is not instantaneous.

The most instantaneous cash-lite forms of transactions are credit & debit cards. When you open a credit card account, your credit card company gives you a set credit limit. This is essentially an amount of money that the credit card company allows you to use to make purchases or pay bills. It is essentially a short-term loan.

An Appraisal of UPI:

Anytime, Anywhere Banking - The strongest aspect of UPI is that it guarantees users access to banking services at any point in time. However, this isn't entirely the case. There may be difficulty in accessing payment services in areas with poor network and cell service.

UPI has been adopted in rural regions as well, due to the convenience of managing all finances through one portal

Privacy of Bank Account - In transaction systems such as NEFT, the user is required to share bank details such as account numbers to complete transactions. UPI negates as it creates a UPI ID used for all transactions, there is no requirement to share any other information.

Convenience - UPI provides access to banking services such as checking balances, sending/receiving money, and transaction history through the app. This is extremely convenient. UPI also allows users to withdraw money from their bank account, which helps users avoid the hassle of visiting ATMs for withdrawals, especially to pay odd amounts of cash.

Free-UPI transactions are completely free of cost. UPI is considered a "digital public good" made for the convenience of the public, and all costs are hence covered by the government. There is no Merchant Discount Rate (MDR) on UPI transactions, leading shopkeepers to prefer UPI receipts over receipts through credit cards. In the long term, critics of UPI argue that the free model is unsustainable, and the service may be attached to a fee, just as with credit cards. It remains to be seen what will happen, the sheer volume of small transactions through UPI may still benefit merchants despite the potential fee.

Despite being a very convenient tool for online payments, there are still many barriers and challenges that must be overcome.

Security Breaches - There remains a risk of fraud and security breaches despite UPI's strong security system.

Limit - Currently, UPI has a limit of Rs. 1 lakh per day. This can be restrictive for users such as business firms, which have a heavy volume of transactions. No such limit exists on NEFT.

Financial Inclusion - There must be financial inclusion. Every person must have access to banking facilities and hold a bank account. In rural areas, there may be a lack of access to bank branches.

Difficulty for Elderly - Elderly people may struggle with tech and may find it difficult to make the switch from physical currency to online transactions.

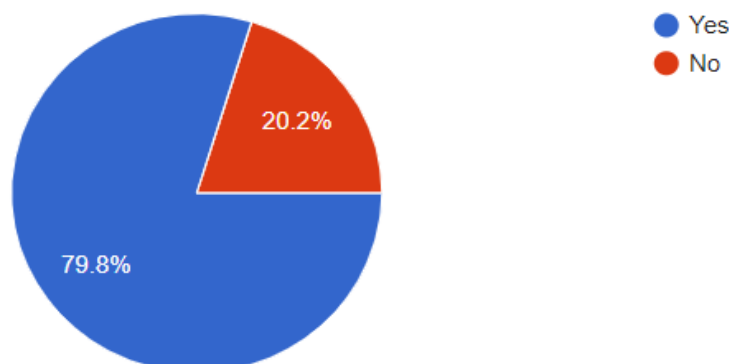
Conclusion

UPI, which is considered a "digital public good" by the Ministry of Finance, has had rapid growth due to various reasons. It differs from other forms of cash-lite transactions such as NEFT and RTGS. It is extremely convenient, as it provides all banking services in one place, getting rid of many inconveniences such as visiting banks. Its services are provided completely free of cost, which has allowed for its use even in rural areas. However, it comes with a limit on daily transactions making it difficult for large business firms to use in their daily operations. The only requirement for UPI is that it must be connected to a bank account. Additionally, the user's bank information is safe and it is not required to be shared to complete transactions. Through schemes such as Pradhan Mantri Jan Dhan Yojana, which led to nearly 13 crore bank accounts being opened, the government has pushed citizens to own a bank account. Due to these reasons, we have seen a massive shift in how our daily transactions take place and through what means. Consumers benefit from no longer hassle of carrying large sums of cash everywhere, and no longer visit ATMs every few days to withdraw money.

Questionnaire

Do you own a bank account?

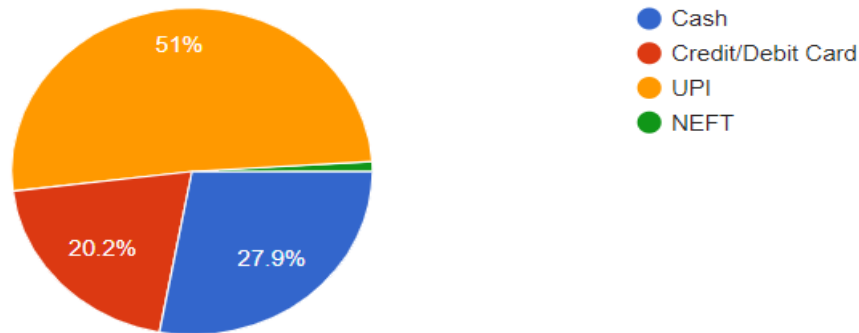
104 responses



Out of the 104 respondents

What is your preferred method of payment?

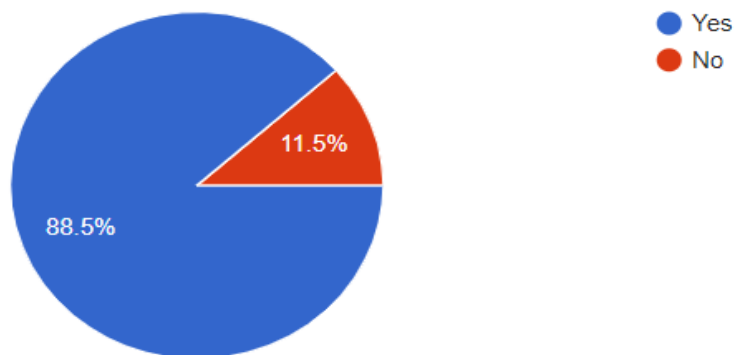
104 responses



51% of respondents prefer to use UPI, followed by cash at 27.9%. The inference made is that users generally prefer UPI (and cashless modes in general) over cash transactions.

Do you think cashless transactions are more convenient than cash transactions?

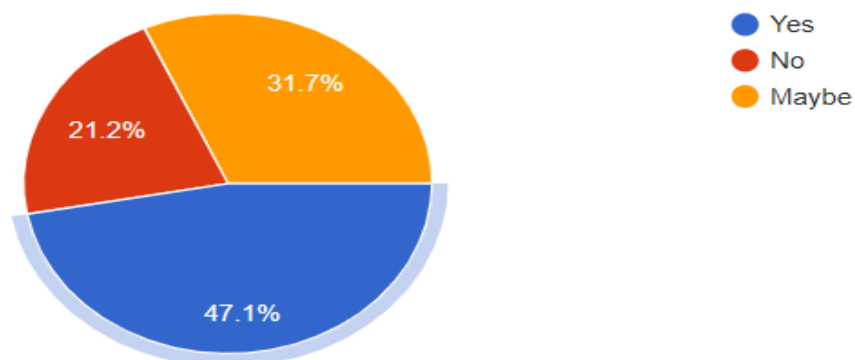
104 responses



As inferred, an overwhelming majority of respondents prefer cashless transactions over cash transactions.

Are you willing to make the transition into a fully cashless economy?

104 responses

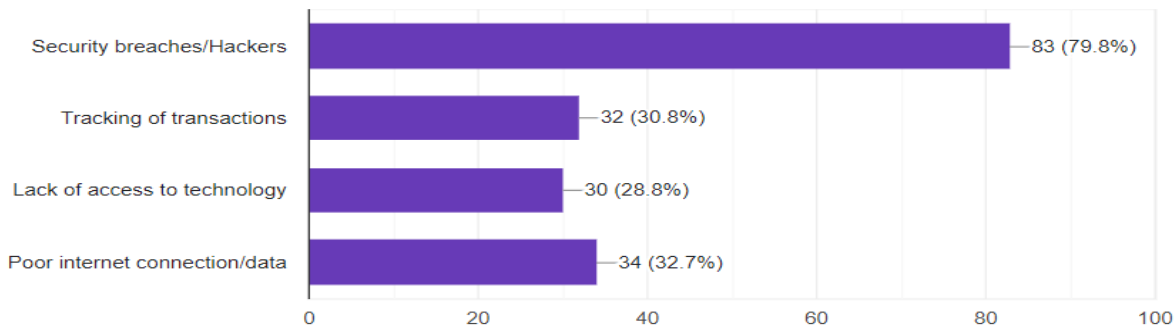


Most users are not willing to make a full transition into a cashless economy.

What are your main worries regarding a cashless economy? (Pick 1 or more options)



104 responses



Conclusion (Questionnaire)

With 104 responses, the data collected presents us with the conclusion that over 88% of respondents find cashless modes of payment more convenient than payment through cash. 51% of respondents chose UPI as their preferred method of payment, compared to 27.9% opting for cash. 47.1% of respondents are willing to make a transition into a cashless economy whereas 21% are not willing to. The main concerns of a cashless economy are security breaches and hackers.

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