

Digital Payments Growth and Banking Transformation (Case Study: Paytm, PhonePe, and State Bank of India)

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Abstract

Digital payments have reshaped the financial ecosystem worldwide, with India emerging as a global leader in cashless transactions. The surge of digital payment platforms—especially through Unified Payments Interface (UPI)—has catalyzed a transformation in traditional banking practices, customer behavior, and financial inclusion. This paper examines the dramatic rise of digital payments in India and how it has driven banking transformation, focusing on three major players: Paytm, PhonePe, and State Bank of India (SBI). Key findings suggest that digital payment growth has significantly enhanced transaction efficiency, expanded financial access, and compelled traditional banks to innovate their service offerings.

Keywords

Digital Payments; Unified Payments Interface (UPI); Financial Technology (FinTech); Banking Transformation; Mobile Wallets; QR Code Payments; Digital Banking; Financial Inclusion.

1. Introduction

Digital payments refer to electronic modes of financial transaction substituting cash or cheque usage. In India, the adoption of digital payment platforms gained momentum post-2016, particularly with the launch of UPI, which enables instant money transfers through mobile devices. Rapid smartphone penetration, supportive government policy, and fintech innovation fueled exponential growth in digital transactions, compelling traditional banks to redefine their strategies.

2. Literature Review

2.1 Growth of Digital Payments in India

India's digital payments ecosystem has witnessed unprecedented expansion. According to the Reserve Bank of India (RBI), UPI's share of total digital payment volumes surged from around 34% in 2019 to approximately 83% by 2024, with transactions reaching **over 208.5 billion** in 2024.

Digital payments comprised **nearly 99.8% of total transaction volume by the first half of 2025**, illustrating virtually complete digitization of retail transactions.

2.2 Drivers of Growth

Key drivers include:

- **Technological innovation:** QR codes, mobile wallets, and UPI apps simplified transactions.
- **Government initiatives:** Digital India and NPCI campaigns increased awareness and infrastructure.
- **Merchant adoption:** Small to large businesses increasingly accept digital payments.

3. Objectives of the Study

1. To analyse the **growth trajectory of digital payments** in India.
2. To examine the **role of Paytm, PhonePe, and SBI** in this ecosystem.
3. To explore how digital payments have transformed traditional banking operations and customer engagement.

4. Methodology

This paper adopts a **qualitative secondary research** strategy, using reports from the RBI, industry analyses, company reports, and reliable news sources. Trends in digital payments and banking transformation are interpreted in the context of case studies of Paytm, PhonePe, and SBI.

5. Case Study Insights

5.1 Paytm

Paytm was an early entrant in India's digital payment ecosystem, emerging as a mobile wallet pioneer. Over time, it expanded into UPI payments, merchant services, and financial services. Despite facing regulatory challenges—such as limitations on Paytm Payments Bank's deposit acceptance—it continues to hold a meaningful position in India's payments landscape. Recent performance shows Paytm reporting a **net profit and strong growth in payments revenue**, with millions of users transacting regularly on its platform.

5.2 PhonePe

PhonePe now commands a **large market share in UPI transactions**, estimated to be around **47% of the total UPI market**, reinforcing its dominance in digital payments. The firm continues to innovate, introducing features such as **biometric authentication and AI-powered payment commands**, enhancing convenience and security. PhonePe's impending IPO valuation (around **\$13–15 billion**) reflects investor confidence in its strong positioning.

5.3 State Bank of India

SBI, India's largest public sector bank, has adopted digital transformation to remain competitive. It integrated UPI services, offered mobile banking apps, and partnered with digital payment platforms to retain customer relevance. These moves have helped SBI capture digital payment flows, reduce operational costs, and improve customer service.

6. Digital Payments and Banking Transformation

6.1 Enhanced Transaction Efficiency

Digital platforms provide **real-time payment settlement**, reducing dependency on cash and cheques. This efficiency has improved liquidity and reduced settlement times for banks and customers alike.

6.2 Financial Inclusion

Digital payments have expanded access to formal financial services for millions of previously unbanked or underbanked individuals. Small merchants especially benefit from QR code based acceptance and minimal setup costs.

6.3 Competitive and Collaborative Dynamics

Traditional banks face competition from fintech platforms but also collaborate with them. SBI's adoption of UPI and tie-ups with fintech providers illustrate a hybrid model blending banking infrastructure with digital innovation.

6.4 Risk and Security Considerations

While digital payments bring efficiency, growth also increases cybersecurity risks. India reported a significant surge in cyber fraud cases alongside its digital payments boom.

7. Findings and Discussion

- **UPI dominance:** UPI has fundamentally driven digital payment adoption, representing over 80% of total transaction volume by 2024.
- **Fintech influence:** PhonePe and Paytm have been instrumental in expanding usage and convenience of digital payments.
- **Banking adaptation:** SBI and other traditional banks have integrated digital payment channels to enhance competitiveness and cater to digitally savvy customers.

8. Conclusion

Digital payments growth in India represents one of the most significant financial transformations in recent decades. Platforms like Paytm and PhonePe have democratized

access to digital transactions and pressured traditional banks like SBI to innovate. This shift has not only made payments more convenient and efficient but has also expanded financial inclusion and transformed banking operations. Future challenges include maintaining customer trust, data security, and integrating emerging technologies while ensuring regulatory compliance..

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