

Access India

Equity Insights

September 2024

The what, why and how of
India's digital growth

Digital India: Leapfrogging Ahead!

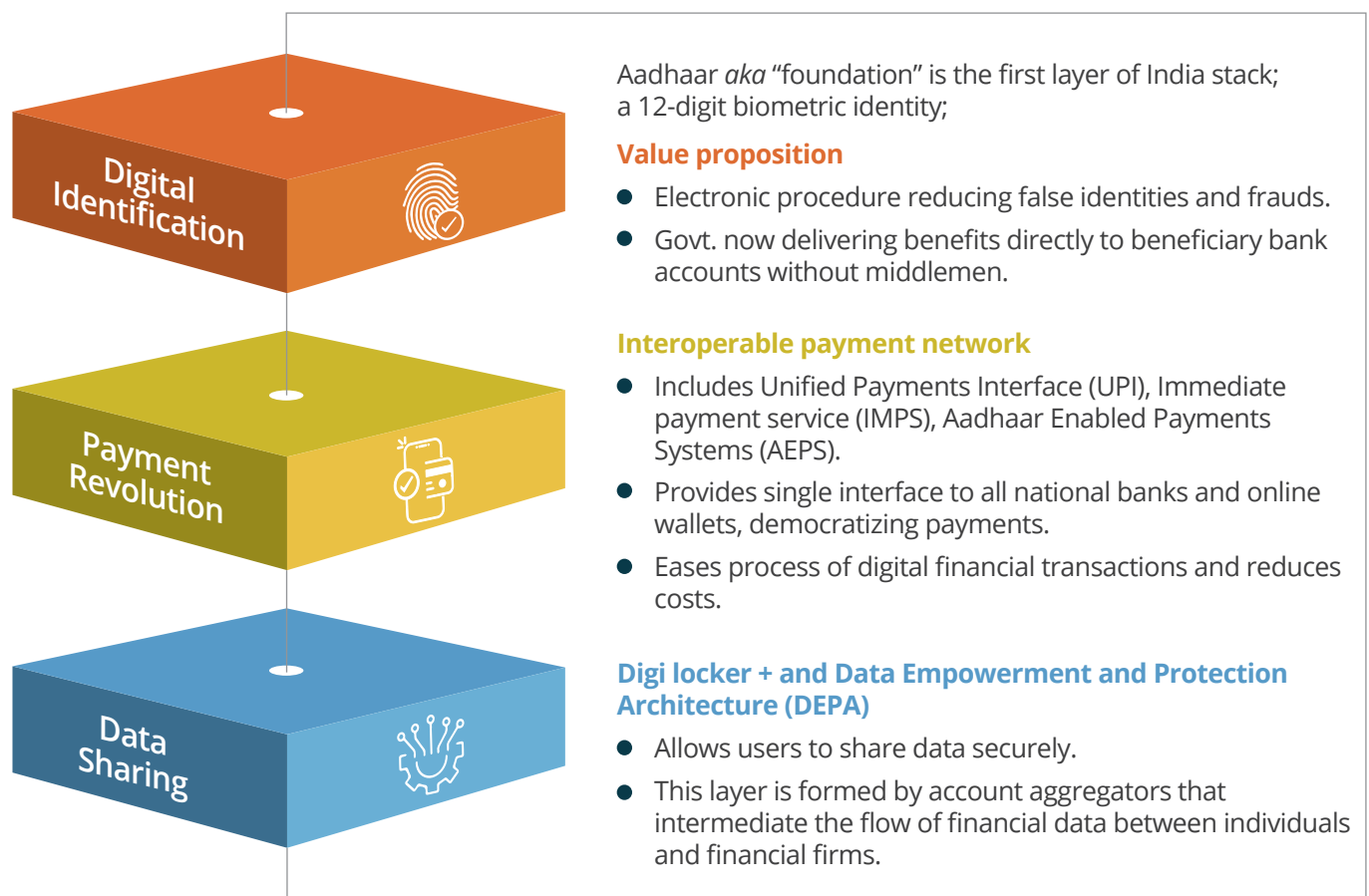
India's financial ecosystem has undergone a paradigm shift in the last few years, with the government's Digital India initiative launched in 2015 being a key catalyst. So much so, that India has become a global exemplar of real-time payments, benefiting from homegrown technological innovations.

India's digital evolution and revolution

In 2016, the Indian government announced a massive demonetisation effort to combat corruption, curb tax evasion and introduce the concept of a formal economy. Demonetisation of two large-denomination banknotes in November 2016, which accounted for 86%¹ of all currency in circulation, also gave a boost to e-payments. Digitalisation of the economy, along with the increasing use of smartphones in the past few years has propelled cashless transactions and online purchases.

The government's impetus towards steering India away from being a cash-reliant economy to a digital one led to the development of the homegrown Digital Public Infrastructure or **India Stack**. India Stack is a one-of-its-kind multi-layered public digital infrastructure to aid frictionless adoption of technology in digital payments. This creates a secured database and facilitates the sharing of data across organisations for faster and efficient lending and e-commerce transactions.

The India Stack

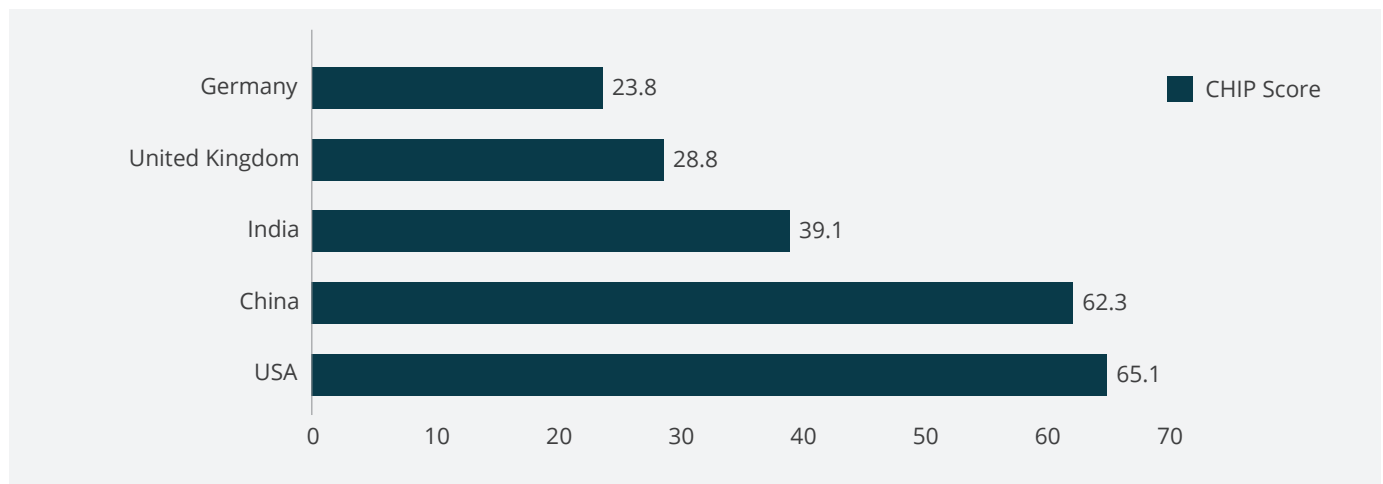


Source: Citi Ventures, International Monetary Fund (IMF)

India ranks third in digitalisation, trailing the US and China

According to the Indian Council for Research on International Economic Relations (ICRIER), which evaluates the digital prowess of nations across five critical dimensions (CHIPS - connect, harness, innovate, protect and sustain), India's score surpasses that of developed nations such as Japan, the United Kingdom and Germany in the aggregate level of digitalisation.

India's global digital rank



Source: Business Standard, 2024

So much so, that India is set to become a \$1 trillion digital economy by 2028, because of enablers such as the **internet, 4G and 5G services and digitalisation.**

Initiatives such as the Pradhan Mantri Jan Dhan Yojana (PMJDY) and the Direct Benefit Transfer (DBT) mission have created a base for universal access to accounts and helped further financial inclusion in the country. Digital payments emanating this way further enable other sectors of the digital economy.

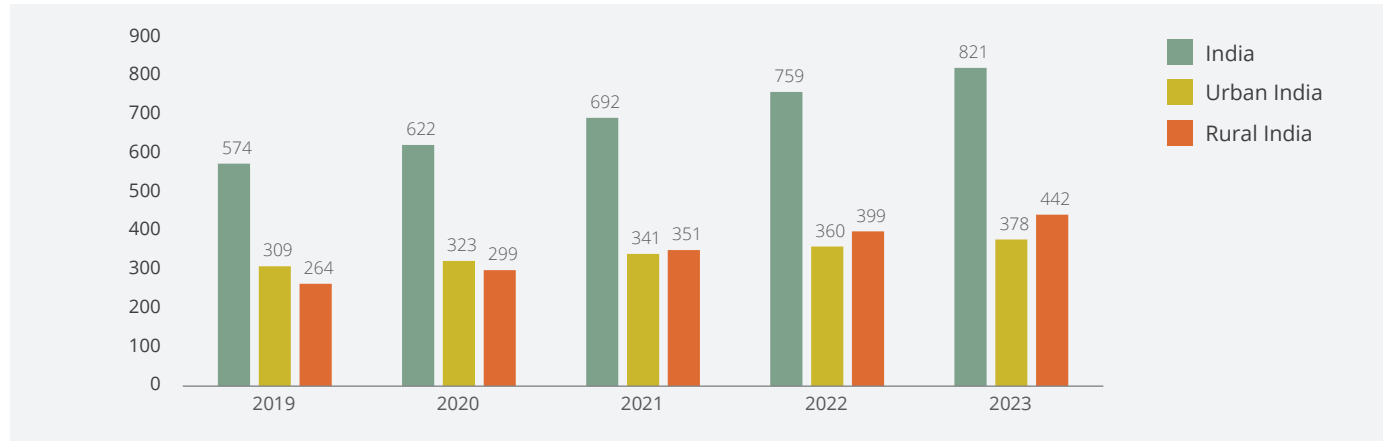
What is driving India's explosive fintech growth?

Wider mobile and internet access will enhance financial inclusion and boost new digital services.

A host of digital lifestyle and life-saving services, including e-commerce, banking and financial services, digital entertainment, online education, digital health and disaster response are increasingly capitalising on the reach and convenience of mobile networks and services.

The proportion of connected adults across the nation has ballooned over the last few years, narrowing the digital divide. In 2023, internet penetration grew 8%² on-year. India had more than 820³ million active internet users as of March 2024, of which, close to half were from the rural areas.

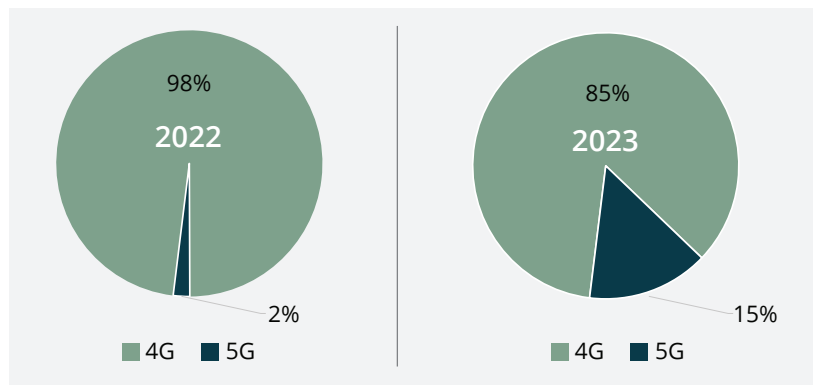
Internet users in India (in million)



Source: Internet in India 2023 Report

In 2023, the total monthly mobile data consumption in India reached 17.4⁴ billion gigabytes, up 26%⁵ over the past five years. This radical change in the Indian mobile data landscape has been driven by the growing adoption of 4G and 5G technology.

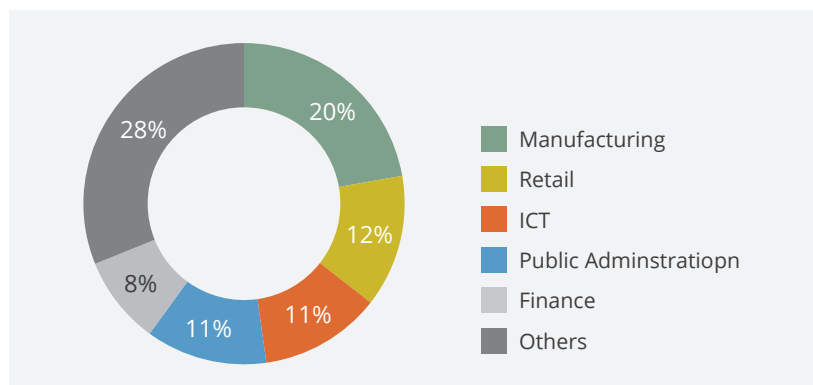
5G and 4G traffic contribution



Source: Forbes India report

5G services have a significant impact on the prospects of a digital nation and could possibly benefit the Indian economy by \$455 billion⁶ between 2023 and 2040, considering the number of potential 5G users in major sectors of the economy.

Manufacturing, retail, ICT and agriculture to benefit the most from 5G services in India in 2040



Source: GSMA Intelligence

To reiterate, affordable data, increasing number of smartphone users and growth in e-commerce are driving India's digital transformation.

India's digital transformation to be a game changer for economic development

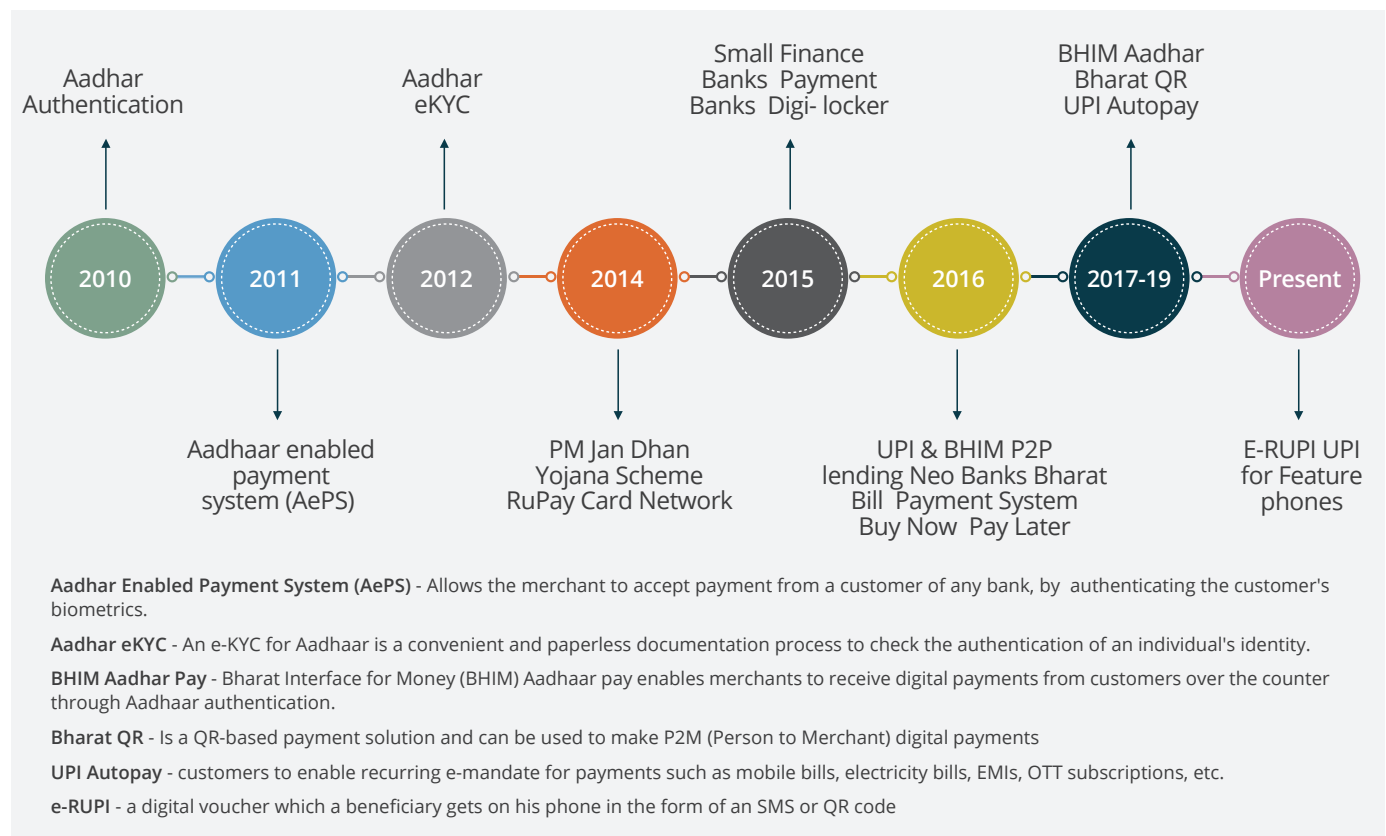
The digital economy, which accounted for 4.5%⁷ of India's GDP in 2014, is expected to contribute 20%⁸ by 2026. Concerted efforts by the government, regulators and financial service providers have helped build many a big fat pipe.

The numbers corroborate. Between 2017 and 2023, retail digital payments surged 50.8%⁹. Not surprisingly, daily digital transactions have averaged a sizable ~368.82¹⁰ million in 2023.

India's digital roadmap to have significant impact on key domestic sectors

In terms of industry sectors, **finance, education, healthcare, food, travel and e-commerce** are already undergoing large-scale digital transformation.

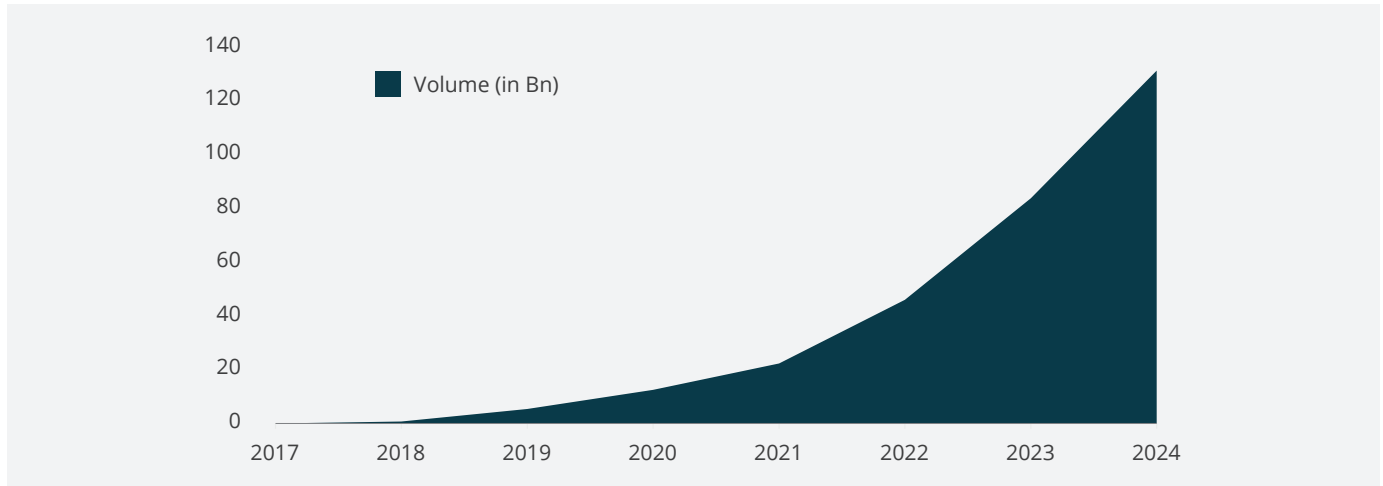
India's spate of digital innovations



Source: Edelweiss Alternatives

India's success in digital payment systems comes on the back of conducive regulatory policies, which led to the development of India Stack. This comprises three pillars: **digital identification, payments and data management**. Among these, the payments layer, represented by UPI, is expected to contribute 90%¹¹ of total retail digital payments in India by 2027.

Retail payments through digital wallet on the rise (in volume, billion)



Source: National Payment Corporation of India

What Next After UPI?

While UPI is being used ubiquitously across India for making payments, the Reserve Bank of India (RBI) is many steps ahead. After UPI, it is now ULI's turn. The RBI is rolling out the Unified Lending Interface (ULI) nationwide, aiming to make getting credit as smooth as possible, especially for small and rural borrowers. ULI will allow digital information, like land records, to flow seamlessly between data providers and lenders, cutting down the time it takes to approve credit. With standardized APIs, the platform makes it easy to integrate different systems, giving borrowers quicker access to credit with less paperwork. Governor Shaktikanta Das mentioned that ULI, along with UPI and the JAM (Jandhan or bank account, Aadhaar or unique biometric ID, and Mobile) trinity, will be a game-changer for India's digital infrastructure. This move is part of the RBI's ongoing efforts to make the financial system stronger and more customer-friendly.

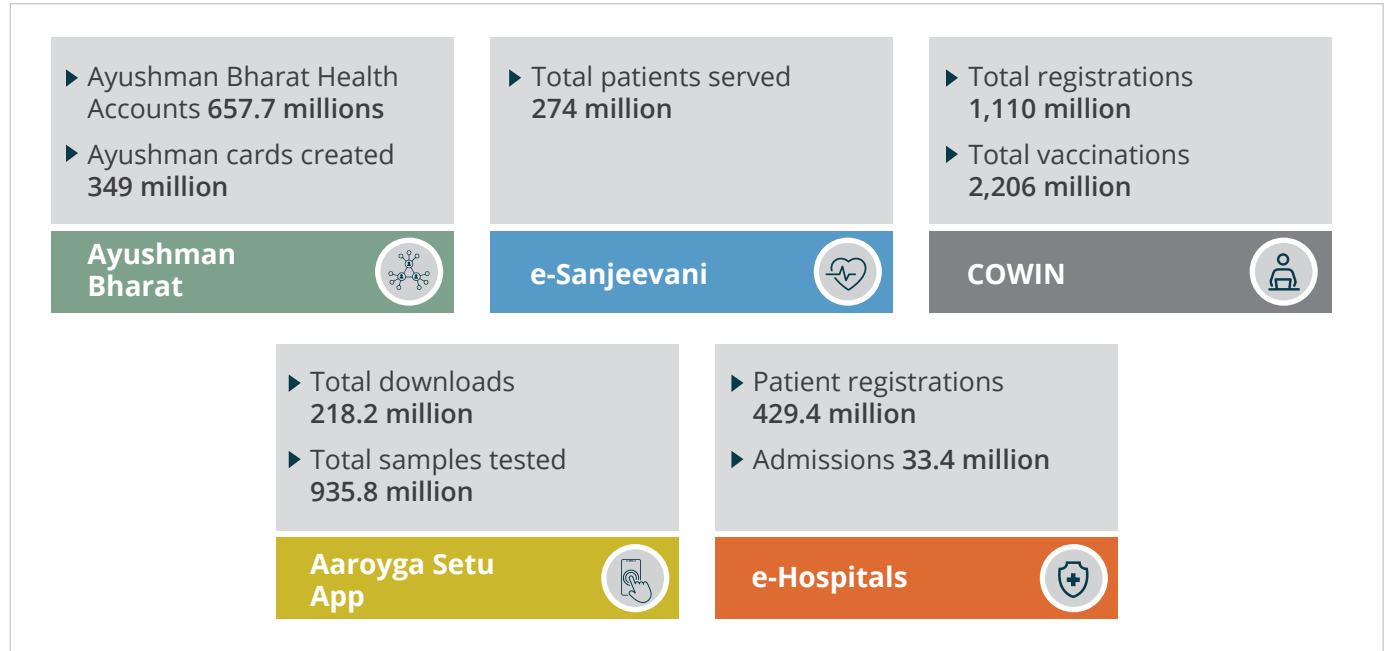
Digital health for all

In the **healthcare** sector, there are many initiatives such as

- **Ayushman Bharat Digital Mission** ABDM - aims to develop the backbone necessary to support the integrated digital health infrastructure of the country, COVID-19 Vaccine Intelligence Network (CoWIN App).
- **Aarogya Setu** is a mobile application developed by the Government of India which connects the various essential health services with the people of India.
- **e-Sanjeevani** National Telemedicine Service of India is a step towards digital health equity to achieve Universal Health Coverage.
- **e-Hospital** have made healthcare facilities more accessible by bridging the existing gap among different stakeholders of the healthcare ecosystem through digital highways.

ABDM aims at providing a health cover of \$6,000¹² per family per year for secondary and tertiary care hospitalisation to over 120¹³ million poor and vulnerable families. Individuals are using the ABHA app to securely manage their health records in a digital format. Awareness campaigns are also being run on FM radio and electronic media to spread the benefits of the cards, for active adoption of ABDM by smaller health facilities from the private sector.

Revolutionising the healthcare industry



Source: Press Information, as of July 30, 2024

Another sector that has received a thrust from the Digital India initiative is **education**. The outbreak of Covid-19 saw school classroom lectures shift to digital screens in 2020. Recognising the importance of technology in education, \$955.6 million¹⁴ was allocated for digital education in this year's budget, focusing on digital infrastructure, e-content development and teachers' training.

With the onset of the pandemic, business models of the **hotel and tourism industry** also swayed away from in-house dining and traditional payment methods owing to lockdowns, social restrictions and supply chain disruptions.

Can international visitors to India also use India's UPI system?

Considering the growing popularity and sheer ease of making digital payments, India's retail payments body National Payments Corporation of India (NPCI) launched UPI One World wallet for international travellers visiting India. It eliminates the need for travellers to pay a forex mark-up on every transaction through cards and allows travellers to make payments without requiring an Indian mobile number or bank account. This move to expand the digital payment systems to international travellers could boost spending by international visitors in the country.

Open networks to democratise e-commerce and propel digital lending

Over the past decade, there has been a consistent increase in focus on the development of digital public infrastructure, with digital identification for everyone in the form of Aadhaar, being the base. Building on the foundation provided by India Stack, open networks such as Open Network for Digital Commerce (ONDC; in beta testing phase) and Open Credit Enablement Network (OCEN) will act as a bridge between financial institutions and loan service providers (LSPs), which have digital platforms with an existing customer base who can be prospective borrowers.

Such integration will provide immense opportunities for tie-ups between financial institutions and LSPs. This will be beneficial for both as creating tailor-made separate infrastructure would entail heavy investments.

Indeed, ONDC and OCEN are already gaining traction. The Namma Yatri (translates to “our travel”) mobile app for drivers based on the ONDC platform is one such example, and a direct competitor to the Ubers of the world. This is a direct-to-driver platform with all customer payments going directly to the driver, eliminating commission fee and operating on subscription fee. This app has boosted drivers’ earnings and reduced cancellation rates, gradually capturing market share from Uber and Ola with its no-commission model. The company claims to have completed 47,164,363¹⁵ rides since its launch in 2022. The platform, which caters to the food and beverage and mobility industry, has been witnessing 9 million transactions¹⁶ per month.

Artificial Intelligence (AI) revolution in India's digital lending landscape

In September 2023, the Government of India, in collaboration with the EkStep Foundation, launched an AI chatbot with PM-Kisan (kisan is the Hindi word for farmer), India’s direct benefit transfer program for farmers, to extend financial help to farmers who own their land. This farmer-friendly bot helps check eligibility and payment status and solve grievances, all with voice commands.

Non-financial banking companies (NBFCs) in India are leveraging AI technologies to revolutionise their operations and customer interactions in the financial services sector. By integrating AI across these areas, NBFCs enhance operational efficiency, accuracy and competitive advantage in a dynamic financial landscape.

AI enables NBFCs to personalise loan products based on data analysis, speed up loan approvals with automated credit scoring and document verification, and enhance customer satisfaction through AI-powered chatbots for 24/7 support.

Going by these early successes, India is well-placed to benefit from the AI revolution.

Leapfrogging ahead with digital India

Growth in the economy is increasingly becoming more inclusive through innovations and the government’s thrust on digitalisation. The e-commerce sector is expected to be a key driver for growth going ahead. Demand has been growing from the Tier-2 and Tier-3 cities where aspirational consumers previously lacked access to diverse brands. E-commerce is not only bridging this gap, but also leading to a surge in digital payment transactions in rural areas. In fact, digital payments in India are about to reach an inflection point and are expected to grow in value to ~\$10 trillion¹⁷ by 2026.

The foundation of this digital revolution has been strengthened by the indigenous India Stack, enhancing the ability of the country to use digital technologies at a nation-wide scale. This along with a large talent pool will propel India towards becoming a \$1 trillion digital economy by 2028. The opportunity is massive, and India is just getting started.

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