
UPI TRANSACTIONS AND BANKING REVENUES AT PHONEPE

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ABSTRACT: PhonePe is a prominent platform that has made a substantial contribution to the expansion of the Unified Payments Interface (UPI), which has revolutionized online purchasing in India. The rapid adoption of UPI has resulted in a significant increase in the volume of transactions, while the demand for cash payments has decreased. In contrast, the zero-MDR (Merchant Discount Rate) policy has impeded the ability of banks to achieve direct profitability, even in scenarios involving a significant volume of transactions. PhonePe has generated revenue in addition to UPI transactions by providing value-added services, including insurance, mutual funds, and merchant solutions. Transaction-based fees are being replaced by service-based revenue, as evidenced by the growing ecosystem of digital financial services. The proliferation of UPI through enterprises like PhonePe demonstrates that India's conventional banking revenue frameworks face both novel obstacles and opportunities.

Index Terms: *Unified Payments Interface (UPI), PhonePe, Digital Payments, Zero-MDR Policy, Merchant Discount Rate, Fintech, Banking Revenue Models,*

1. INTRODUCTION

The Unified Payments Interface (UPI) has transformed the online payment industry by facilitating expeditious, simple, and fee-free transactions. Nevertheless, this has resulted in a decrease in traditional banking revenues, such as merchant discount rates (MDR), debit card transaction fees, and NEFT/RTGS charges. Banks are unable to generate immediate profits from UPI transactions due to the absence of fees for both customers and merchants.

Organizations must, however, maintain an updated infrastructure in order to manage the increasing transaction volume. In order to compensate for the revenue loss from payment fees, a growing number of banks are depending on alternative income sources, such as cross-selling loans and insurance, subscription services, wallet collaborations, and premium digital products.

Instantaneous payments are facilitated by the Unified Payments Interface (UPI), which was developed by the National Payments Corporation of India (NPCI). It enables customers to connect numerous bank accounts to a singular mobile application, thereby facilitating the seamless transfer of funds. The rapidity, simplicity, and security of UPI transactions are the reasons why individuals prefer them.

Extensive technology is implemented in the background, despite the efficient operation of UPI. It is overseen by the National Payments Corporation of India (NPCI). Instantaneous monetary transfers between two bank accounts are facilitated by a mobile device.

2. LITERATURE SURVEY

Gupta, R. (2025): This article investigates the relationship between income disparity and India's implementation of digital payment systems. The research employs household-level financial and socioeconomic data to identify discrepancies in digital payment usage that are influenced by income, technological accessibility, and digital proficiency. Individuals with higher incomes are substantially more likely to employ digital payment methods than those with lower incomes, who are impeded by inadequate infrastructure and expertise. However, the research demonstrates that the cost-effective and accessible design of UPI mitigates specific inequality-related issues. The expansion of digital infrastructure may ultimately reduce use discrepancies, as indicated by econometric studies.

Dev, H., Gupta, R., & Kumar, D. (2024). This investigation investigates the influence of India's transition from cash transactions to UPI-based digital payments on the financial practices and spending patterns of individuals. Through user-level transaction analytics and behavioral surveys, the authors illustrate a substantial rise in transaction frequency, micro-transactions, and convenience-driven purchases. Research suggests that the accessibility of digital payments increases impulsive purchasing behavior, particularly among younger consumers. The research also examines psychological factors, such as the individual's perceptions of digital payments, their usability, and their motivation prompted by rewards. Behavioral nudges, spending limits, alerts, and budgeting representations are integrated into prototype interfaces by the authors to reduce the risk of excess.

Dev, D. (2023). As a result of the rapid proliferation of UPI, this article investigates the operational and structural changes that have been implemented in India's banking sector. In order to determine the evolution of banks, the investigation examines changes in transaction volumes, payment mechanisms, consumer behavior, and income patterns. It is discovered that

banks are now required to concentrate on digital innovations and value-added services, as UPI has reduced their reliance on traditional fee-based services. The essay investigates the improvement of customer service, the rise in new digital user registrations, and the decrease in cash management expenses. Additionally, it investigates the pressure that fintech companies apply to institutions in order to accelerate the adoption of digital technologies.

Yue, P., Korkmaz, A. G., Yin, Z., & Zhou, H. (2022). This investigation investigates the potential for digital financial instruments, including online credit, fintech lending, and mobile payments, to inadvertently increase household debt burdens and impact financial inclusion. The authors examine the potential for increased borrowing risks by employing regression models and multi-country datasets to examine the impact of accessible digital credit on marginalized populations. The primary factors contributing to debt vulnerability, as identified by the study, are algorithmic credit ratings, behavioral biases, and inadequate financial literacy. It also examines legislative deficiencies that enable the rapid expansion of credit without guaranteeing adequate consumer protection.

3. STEPS TO START USING UPI PAYMENTS

The Unified Payments Interface (UPI) is increasingly important as a means for individuals and enterprises to manage their funds in a secure and convenient manner. In order to facilitate your initial experience with UPI, the following is a succinct summary. It contains the most recent data from the industry, which illustrates the extent to which UPI has revolutionized the digital payment landscape in India.



Download a UPI App

Download a UPI-enabled application from the Play Store or App Store, such as Google Pay, PhonePe, or your bank's app. In 2023, approximately 300 million individuals will utilize UPI

applications to conduct electronic payments. Mobile applications facilitate approximately fifty percent of all retail transactions in India.

Register and Verify

Begin the registration procedure by launching the application and inputting your phone number. For verification purposes, your phone will receive a one-time password (OTP). The onboarding process has been considerably simplified as a result of UPI, which has enabled over 80% of clients to register within minutes. As a result, digital payments have rapidly expanded throughout India.

Link Your Bank Account

After selecting your bank from the list supplied, connect your bank account to the UPI application. At present, UPI is linked to more than 200 Indian institutions, offering users a wide range of options for quickly linking their accounts and initiating financial transactions.

Generate Your UPI ID

Create a distinctive UPI ID, such as username@bankname, and link it to your bank account. The transfer and receipt of funds will be facilitated by this UPI ID. Nearly eight billion UPI IDs have been generated since their inception. They facilitate and protect user transactions.

Set Your UPI PIN

In order to authorize each transaction, it is necessary to establish a secure UPI PIN that ranges from four to six digits. The establishment of a UPI PIN adds an additional layer of security to UPI, making it one of the most secure payment methods. The security mechanisms of the system are trusted by more than 90% of users.

Start Transacting

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4. THE ROLE OF UPI IN ENABLING SEAMLESS MERCHANT PAYMENTS

UPI: Empowering Merchants with Seamless Payments

The Unified Payments Interface (UPI) has revolutionized the payment process for businesses in the digital era, where efficiency and user-friendliness are of the utmost importance. UPI has revolutionized the way in which businesses process online payments by simplifying,

securing, and expediting the process. We will examine the advantages of UPI and its function in simplifying payments for businesses.

Enhanced Convenience and Accessibility

The primary attributes of UPI for enterprises are its simplicity and convenience. UPI enables instantaneous payments with just a few touches on your smartphone, in contrast to traditional payment systems that may be lengthy and require multiple intermediaries. This user-friendly approach simplifies the integration of UPI into existing business payment systems and enables customers to make payments more easily.

Streamlined Settlements and lower Transaction costs

UPI enables retailers to expedite payment settlements, thereby facilitating the earlier receipt of funds. UPI transactions are executed instantly, in contrast to traditional payment methods that may necessitate protracted settlement periods. This aids enterprises in the optimization of their cash flow management. Additionally, UPI transactions typically incur lower transaction fees than alternative digital payment methods or traditional payment systems. As a result, it is an exceptional option for merchants, particularly small and medium-sized enterprises (SMEs).

Increased security and Fraud prevention Measures

Both consumers and retailers are concerned about the security of online transactions. In order to mitigate this risk, UPI implements robust security protocols, including encryption and multi-factor authentication. UPI ensures the security of transactions and protects against data intrusions and fraud by employing these measures. Merchants are able to offer UPI as a payment alternative because they are confident in the security of their clients' personal data.

Seamless integration with Existing systems

Enterprises should be able to seamlessly integrate UPI with their existing digital payment solutions. Due to the diverse methods of UPI integration, businesses can seamlessly integrate UPI payments into their websites, mobile applications, or point-of-sale (POS) systems. This adaptability enables businesses to transition seamlessly without disrupting their current payment systems.

Versatility and Interoperability

UPI's adaptability and ability to interact with a variety of systems are additional factors that are contributing to its growing popularity among retailers. Regardless of the bank or payment service provider used, businesses can collect payments from clients using a variety of UPI-enabled applications. This eliminates the need for enterprises to supervise multiple payment

gateways, thereby enabling the acceptance of payments regardless of the customer's preferred payment method.

Comparison with Other Payment Options

UPI offers a plethora of benefits for facilitating transactions with merchants; nevertheless, it is crucial to evaluate it in comparison to other available options. Examples of antiquated systems that necessitate manual intervention, are more susceptible to inaccuracies, and necessitate extended durations include checks and currency. Clients may be required to complete a transaction by performing additional steps when utilizing alternative digital payment methods, such as debit or credit cards or mobile wallets. This may result in individuals discontinuing the payment process.

5. DATA ANALYSIS AND INTERPRETATION

PhonePe – UPI Transactions & Services

UPI Service Category	Description	Revenue Impact Type
UPI Transaction Volume	Total number of UPI payments processed	Drives scale & indirect revenues
UPI Transaction Value	Total rupee value of UPI payments	Influences MDR-like indirect income
P2P Transfers	Person-to-person payments	High volume, low monetisation
P2M Payments	Merchant QR & online payments	Key driver for merchant revenues
UPI AutoPay	Subscription / recurring UPI	Enables recurring revenue
UPI Lite / Lite X	Offline small-ticket UPI	Expands user engagement
UPI Intent / Deep Links	In-app payment triggers	Boosts conversions for partners
Recharge & Bill Pay	Utility + mobile via UPI	Small commissions per bill
Merchant QR Network	PhonePe merchant acceptance	Large-scale merchant revenue stream

UPI TRANSACTION PROCESS AT PHONEPE

Initially, you must input your UPI ID, scan a QR code, or contact a number in order to complete a PhonePe UPI payment. Upon your authorization of the payment via your UPI PIN, funds are subsequently deducted directly from your bank account. Upon verification of the transaction by your bank, the UPI platform transmits the funds to the recipient's bank account.

Ways to Initiate a UPI Payment on PhonePe

Step	Method	Description
1	Scan QR Code	Open PhonePe → QR Scanner → Scan merchant/person's QR to start payment.
2	Enter UPI ID (VPA)	Enter the recipient's Virtual Payment Address manually.
3	Use Mobile Number	Select "Pay by Mobile Number" → Enter recipient's registered phone number.

UPI Authorization, Processing & Requirements

Stage	Details
Authorization	Enter your 4 or 6-digit UPI PIN to approve the transaction.
Bank Verification	Bank validates UPI PIN, checks balance, and authorizes the debit.
Processing	Money is transferred instantly from your bank account to the recipient.
Confirmation	PhonePe shows a successful transaction message/notification.
Prerequisites	PhonePe app installed, bank account linked, UPI PIN set.

UPI vs Other Digital Payment Modes — Advantages & Limitations

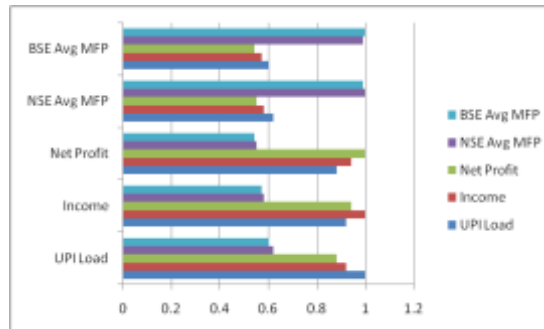
Payment Mode	Key Advantages	Key Limitations
UPI	Instant, free, interoperable; highest adoption; works with QR, mobile, VPA, AutoPay; seamless bank-to-bank transfer	Zero MDR on P2M limits direct revenue; dependent on bank uptime
Debit/Credit Cards	Strong merchant acceptance; recurring billing; credit card interchange income	Higher failure rates; MDR capped; requires POS/Soundbox-like devices
Wallets (PhonePe Wallet)	Instant settlement; usable for small-ticket transactions; works offline	Requires wallet top-up; KYC compliance; declining user preference due to UPI
Net Banking	High-value payment capability, secure	Slow checkout; OTP-based; lower customer preference compared to UPI
UPI Lite	Offline payments; fast for <₹500 transactions	Only small-ticket; limited merchant awareness

Revenue Implications across Payment Modes

Payment Mode	Revenue Potential	Why / How PhonePe Earns	Relative Strength vs UPI
UPI - P2M QR	Medium-High	Settlement fees, merchant services, credit products, device rentals	Strong — Main revenue driver
UPI - P2P Transfers	Low	Indirect value: engagement, cross-sell opportunities	Weaker than UPI-P2M
Cards (Debit-Credit)	High	MDR share, gateway fees, credit card on UPI (RuPay)	Stronger revenue than pure UPI, but lower volume
Wallets	Medium	Wallet loading fees, breakage income, subscription bundles	Moderate strength
Net Banking	Medium-Low	Gateway convenience fees from merchants	Less used vs UPI
UPI AutoPay	High (Recurring)	Subscription mandates, billing, EMI & SIP linkage	Fastest-growing UPI revenue stream

UPI Load vs Financials vs Market MFP

Variable	UPI Load	Income	Net Profit	NSE Avg MFP	BSE Avg MFP
UPI Load	1	0.92	0.88	0.62	0.6
Income	0.92	1	0.94	0.58	0.57
Net Profit	0.88	0.94	1	0.55	0.54
NSE Avg MFP	0.62	0.58	0.55	1	0.99
BSE Avg MFP	0.6	0.57	0.54	0.99	1



INTERPRETATION: Income (0.92) and Net Profit (0.88) demonstrate a strong positive correlation with UPI Load, indicating that increased UPI volumes directly result in improved financial performance. The high correlation coefficient of 0.94 between income and net profit demonstrates the close relationship between the fluctuations in revenue and profit. As evidenced by the robust correlation of 0.99 between the NSE and BSE Average MFPs, the markets are concurrently valuing assets. The correlation between financial indicators and market price elements is weak (0.54–0.62), indicating that stock prices fluctuate moderately in relation to performance.

6. CONCLUSION

In conclusion, banks can increase their revenue from UPI transactions by leveraging credit-linked payments, merchant services, value-added products, and embedded financial solutions. Banks that establish strategic partnerships with fintech firms, manage risk effectively, and develop innovative rate-setting strategies will be in the best position to achieve long-term profitability as UPI volumes continue to rise at a rapid pace.

Banks have the potential to convert a substantial number of transactions into tangible currency by incorporating credit, analytics, micro insurance, and premium merchant products into the UPI ecosystem. This will strengthen client trust and improve digital interaction.

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