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How UPI boom in rest of India hides a paradox in wealthy states



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While states like Tamil Nadu and Andhra lead in digital-payment adoption, Gujarat and Delhi are among those that fall behind.

India's digital-payment revolution is often hailed as a technological triumph. But dig deeper and you will be surprised by the fact that some of the country's wealthiest states are lagging in adoption. This counterintuitive finding, as pointed out in our study published in the [Journal of Emerging Market Finance](#), ought to prompt policymakers to reassess their assumptions about financial inclusion and digital infrastructure.

According to the study, Telangana, Tamil Nadu, Maharashtra, Daman and Diu, and Andhra Pradesh lead in digital-payment adoption. By contrast, states or regions such as Gujarat, Chandigarh, Karnataka, and Delhi are among those that fall behind. The presence of economically advanced regions in the lower-usage category challenges the conventional wisdom that prosperity automatically translates into technological adoption.

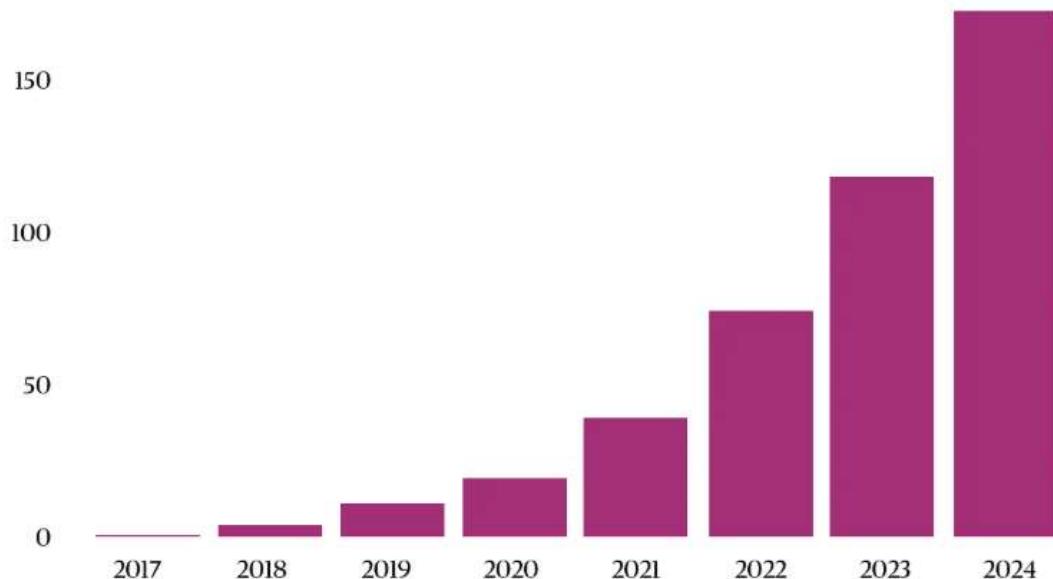
So, why are affluent states lagging in digital-payment adoption?

Low-value transactions

The study offers two compelling explanations.

First, businesses in economically advanced regions typically engage in high-value transactions that exceed UPI's daily limit of INR100,000 for most users. According to the India Digital Payments Report by Worldline, the average UPI transaction value declined 8% year-on-year in the first half of 2024 to INR1,478, reflecting the platform's dominance in small-value, person-to-merchant transactions. The National Payments Corporation of India, **which runs UPI**, notes that 75% of retail transactions in India are below INR100, and half of all UPI transactions involve amounts up to INR200. Wealthier states, with their higher per capita incomes, naturally conduct fewer such micro-transactions.

Number of UPI transactions



Figures in billions for respective calendar year

Source: NPCI, UPI Product Statistics

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The second explanation is more troubling — tax evasion.

Vendors in certain sectors such as real estate, healthcare, and legal and accounting services often avoid digital payments to escape tax liabilities. This indicates that India's digital-payment success story is built largely on small transactions, while the shadow economy continues to thrive in cash. India continues to remain predominantly a cash-based economy. Its cash-to-GDP ratio is the third highest in the world (behind Japan and Hong Kong).

Although events such as demonetisation and pandemics have pushed Indians toward digital transactions, factors such as convenience, security, and user reflection significantly impact both actual usage patterns and future intentions to adopt digital-payment methods.

Demographic divide

Beyond geography, the study exposes deeper demographic divides. Older citizens and women are less likely to use digital payments even when they possess bank accounts, smartphones, and Internet access.

Education emerges as the critical differentiator: individuals with higher secondary education are about 5.5% more likely to adopt digital payments than those without formal schooling, while graduates and postgraduates are about 16.2% more likely. However, education up to middle school shows no significant effect, suggesting that basic literacy alone is insufficient for digital financial inclusion.

The level of financial literacy is low among school-going kids in India, which may also affect their ability to adopt digital payment technologies later in their life.

Digital literacy, encompassing the ability to navigate digital platforms, and financial literacy, the understanding of basic economics and finance for personal financial decisions, are critical drivers of adoption. Thus, both literacies are essential for effective engagement with digital-payment systems.

Essential foundational components

Digital infrastructure also plays an important role towards adoption of digital payment services. To facilitate the adoption of digital payment infrastructure, four foundational components are essential.

First, a steady supply of electricity for banks and other services such as internet connectivity.

Second, the access to affordable information and communication technology infrastructure such as smartphones and cellular data tariffs.

Third, financial infrastructure such as payment exchanges, clearing and settlement systems, data-sharing and data-hosting facilities.

And fourth, a digital identification infrastructure to provide proof of identity and associated credentials.

The government, through its India stack, has done well in fulfilling the last two infrastructural requirements.

The findings on electricity supply offer a silver lining. Bank branches and ATMs depend on continuous power, whereas mobile-based payments can operate on battery-powered devices, easing one long-standing barrier to access. Meanwhile, caste and religion appear to influence adoption only indirectly through their relationship with education and income.

Policy implications

First, infrastructure alone cannot guarantee adoption. Digital-literacy programmes targeted at women and older citizens are essential.

Second, the INR100,000 daily transaction limit on UPI may need reconsideration for business accounts to enable wider use among higher-value commercial transactions. Third, the reluctance of professionals and businesses to embrace digital payments due to tax concerns reflects a deeper crisis of trust between citizens and the state.

India's digital-payment revolution is real, but it is incomplete.

Until we address the barriers of literacy, trust, and transaction limits, the benefits of this transformation will remain concentrated among the young, educated, and economically modest. True financial inclusion requires more than technology — it demands equity, education, and a social contract that makes transparency preferable to concealment.

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