

# **Bharat Pe and the Transformation of India's Digital Payment Ecosystem: A Conceptual Study**

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## **ABSTRACT**

Bharat Pe has emerged as a major player in India's fintech revolution, focusing on micro and small merchants traditionally excluded from formal financial systems. This conceptual study investigates Bharat Pe's business model, its role in financial inclusion, and the regulatory and operational challenges it faces. By offering zero-cost UPI QR codes and collateral-free loans, Bharat Pe digitizes transactions and enables MSMEs to access credit. The paper uses only secondary data from regulatory sources, consultancy reports, and media publications to build a conceptual ecosystem model. It aims to provide strategic insights for policymakers, fintech researchers, and stakeholders on the future of inclusive digital finance in India.

***Keywords: Bharat Pe, Fintech, Digital Payments, Financial Inclusion, MSMEs, UPI, Digital Lending, Regulatory Compliance, Conceptual Model, IndiaStack***

## **INTRODUCTION**

India's digital payments landscape has witnessed an unprecedented transformation in the past decade, driven by advances in fintech innovation, mobile penetration, and the government's push toward a cashless economy. At the core of this transformation lies a powerful set of public digital infrastructures—collectively known as India Stack—that include Aadhaar-based eKYC, UPI (Unified Payments Interface), and Digi Locker services. These developments have catalysed a fintech boom, particularly after the demonetization in 2016, which nudged businesses and consumers toward digital transactions (RBI, 2022).

Among the new-age fintech enterprises, Bharat Pe has carved out a distinct identity by focusing on the digitally underserved segments of the Indian economy—primarily micro, small, and medium enterprises (MSMEs). Launched in 2018, Bharat Pe introduced India's first interoperable UPI QR code for merchants, enabling them to accept payments from any app such as PhonePe, Google Pay, Paytm, or BHIM without paying merchant discount rates (MDR) (Bharat Pe, 2024). This zero-cost digital payment model, combined with collateral-free working capital loans, positioned Bharat Pe as a revolutionary force in India's payment ecosystem (EY India, 2023).

The company's approach directly addresses a critical gap: the exclusion of informal merchants from formal banking and credit channels. According to a report by NASSCOM (2023), more than 60% of Indian micro-merchants remain underbanked or financially excluded due to lack of credit history, insufficient documentation, and technological illiteracy. Bharat Pe, through its digitally enabled onboarding, transaction-based lending, and merchant-centric mobile platform, brings these merchants into the fold of formal financial systems, thereby contributing to financial inclusion and digital empowerment (NASSCOM, 2023; NPCI, 2023).

However, despite its rapid growth and high valuation, Bharat Pe has also encountered a series of challenges. Regulatory scrutiny has intensified with the Reserve Bank of India's digital lending guidelines (2022), raising concerns about unsecured loans, data protection, and NBFC partnerships. Moreover, internal leadership issues—especially following the controversial exit of co-founder Ashneer Grover—have exposed governance lapses that pose reputational and operational risks (Mint, 2023). These issues highlight the importance of compliance, risk management, and ethical innovation in sustaining long-term fintech growth.

This conceptual paper draws on secondary data from regulatory documents, consultancy whitepapers, academic literature, and reputable business news sources to explore the evolution, business model, and ecosystem of Bharat Pe. The study develops a conceptual framework that maps the platform's stakeholders, services, and regulatory interfaces. It aims to offer valuable insights for policymakers, researchers, and industry stakeholders to understand how Bharat Pe contributes to the transformation of India's digital payments landscape. By addressing these objectives, the study not only contributes to conceptual

knowledge but also offers practical implications for the design, governance, and scaling of fintech platforms in India and other emerging economies.

## LITERATURE REVIEW

The role of fintech in promoting financial inclusion has been widely recognized in scholarly and policy research. According to Gupta & Agarwal (2023), UPI adoption has increased financial participation among low-income groups. Sharma et al. (2024) noted that merchant-targeted solutions like Bharat Pe foster business sustainability by providing digital infrastructure and short-term credit access. RBI's Annual Report (2024–25) emphasizes the importance of digital payment players in MSME upliftment. Further, the World Bank (2023) highlights that India's fintech landscape serves as a model for emerging economies. However, the literature lacks detailed data-based evidence on merchant-centric fintech innovations, which this study aims to fill.

The literature emphasizes the distinctive features of the Indian digital payments environment, such as the country's strong reliance on cash transactions, sizable unbanked population, and government initiatives to promote a cashless economy. By increasing financial inclusion, increasing transparency, and lowering the costs associated with cash-based transactions, scholars highlight how digital payments might help address these issues (Dwivedi et al., 2018; Gopinath & Jeevandran, 2020).

**Adoption and Usage of Digital Payments:** A number of research concentrate on the variables affecting India's adoption and use of digital payment systems. These elements include user knowledge, infrastructure availability, perceived ease of use, security concerns, and technological trust (Gupta et al., 2020; Mishra & Sahu, 2020). Furthermore, scholars investigate how government regulations, network effects, and social influence shape consumer behavior with regard to digital payments (Saha et al., 2019; Sivakumar et al., 2020).

**Technology and Innovation's Role:** Research highlights how important technology and innovation are to the expansion of digital payments in India. Researchers talk about how mobile wallets, the Unified Payments Interface (UPI), and mobile technology have all advanced to facilitate digital payments (Dwivedi et al., 2018; Jain & Sharma, 2019). Additionally, they stress the need of adopting cutting-edge technologies like blockchain and biometrics, as well as the necessity of user-friendly interfaces and seamless connectivity with current platforms (Bhatia & Prasad, 2019; Tripathi et al., 2018).

**Opportunities and Challenges:** Scholars have identified a number of opportunities and challenges within the Indian digital payments ecosystem. These include the need for focused interventions to address the concerns of various user segments, infrastructure constraints, cybersecurity threats, interoperability problems, and regulatory complexity (Gopinath & Jeevandran, 2020; Kishore et al., 2021). Additionally, the literature emphasizes the potential social and economic advantages of digital payments, including greater financial inclusion, decreased corruption, and enhanced economic efficiency (Dwivedi et al., 2018; Jain & Sharma, 2019).

### **OBJECTIVES OF THE STUDY**

1. To understand the evolution and business model of Bharat Pe and the impact of Bharat Pe on MSME financial inclusion.
2. To examine the challenges and regulatory concerns faced by the platform.
3. To assess its strategic potential and future in the Indian fintech landscape.

### **RESEARCH METHODOLOGY**

This is a conceptual research paper based on secondary data, including RBI and Ministry of Finance reports, Industry analyses (EY, PwC, BCG), Bharat Pe's website and press releases, Articles from credible news outlets (Mint, ET, Business Standard), Academic publications on fintech and MSME financing

#### **Evolution and Business Model of Bharat Pe**

Founded in 2018, Bharat Pe sought to address three core merchant pain points:

- High MDR (merchant discount rates)
- Lack of credit access
- Fragmented payment systems

#### **Key Services Offered**

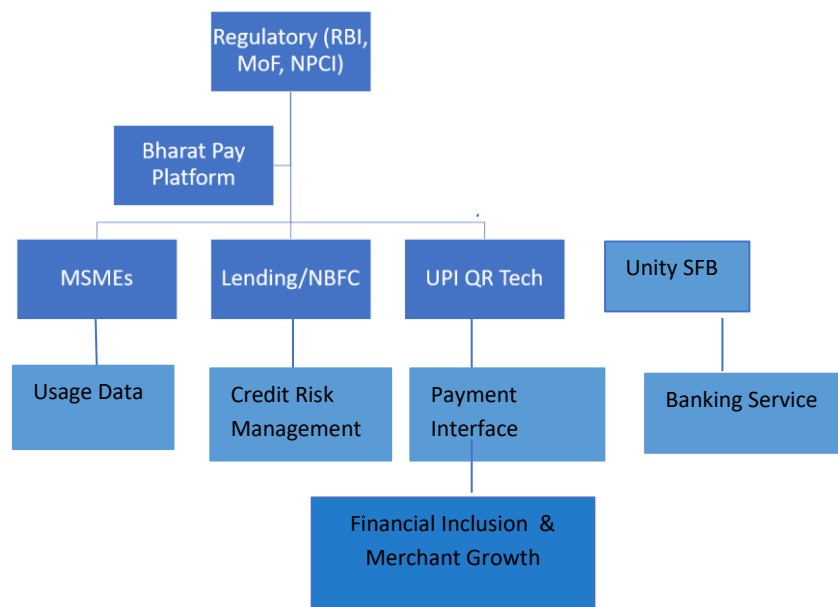
**Table: Conceptual Model of Bharat Pe's Digital Payment Ecosystem**

Service Area	Description
Unified QR Code	Interoperable across BHIM, GPay, PhonePe, Paytm

Service Area	Description
Merchant Loans	Unsecured working capital credit via NBFC tie-ups
PostPe App	Buy-now-pay-later (BNPL) offering for consumers
Neo Banking	Through Unity Small Finance Bank, post PMC Bank acquisition

### Conceptual Model of Bharat Pe's Ecosystem

**Figure 1: Bharat Pe's Conceptual Business Ecosystem Model**



### Explanation of the Model:

The conceptual model of Bharat Pe's digital payment ecosystem places the Bharat Pe platform at its core, functioning as the central integrator that bridges various financial services to empower small and micro-merchants. This platform connects three key verticals: digital payments, lending, and banking. Through interoperable UPI QR codes, Bharat Pe facilitates seamless digital payment acceptance from multiple apps, eliminating the need for separate payment systems or hardware. The transaction data generated via these payments is then utilized by Non-Banking Financial Companies (NBFCs), which partner with Bharat Pe to offer collateral-free loans tailored to merchant behavior and revenue

flow. Complementing these services is the banking layer, represented by Unity Small Finance Bank (SFB), which provides merchants with access to savings accounts, deposit schemes, and credit products, further integrating them into formal finance. Overseeing this ecosystem are regulatory bodies like the Reserve Bank of India (RBI), Ministry of Finance (MoF), and National Payments Corporation of India (NPCI), which ensure the platform operates within a robust legal and compliance framework. Altogether, the model highlights how Bharat Pe facilitates financial inclusion and merchant growth by aligning technology, finance, and regulation.

- The core is Bharat Pe's platform that connects digital payments, lending, and banking.
- UPI QR enables digital acceptance.
- NBFCs provide loans based on transaction data.
- The banking layer offers savings and credit products.
- Regulatory oversight ensures legal and operational compliance.

### **Impact on MSMEs and Financial Inclusion**

Bharat Pe has made notable strides in promoting financial inclusion and empowering micro, small, and medium enterprises (MSMEs) across India, especially in underserved regions. According to secondary data, the platform has successfully onboarded over 1 crore (10 million) merchants by 2024, marking a substantial contribution to the digitization of small businesses. One of its most impactful achievements has been the disbursement of over ₹7,500 crore in unsecured loans to merchants (Bharat Pe, 2024), many of whom previously lacked access to formal financial institutions. By leveraging digital transaction data through UPI QR-based payments, Bharat Pe has helped merchants build a verifiable digital transaction trail, which in turn facilitates eligibility for formal credit and financial products. Furthermore, the company has expanded its reach into Tier II, Tier III, and Tier IV cities, bridging the rural-urban gap in financial services and supporting economic participation from previously excluded communities. These achievements underscore Bharat Pe's growing role in fostering inclusive growth and transforming India's retail and informal business ecosystem through technology-led financial solutions.

Impact Area	Details
Access to Credit	Merchants now qualify for loans without traditional documentation
Digital Inclusion	Accelerated adoption of UPI and fintech tools in unbanked areas
Cost Reduction	No MDR, no hardware POS required
Women Entrepreneurs	Enabled home-based sellers and women-led businesses

### Challenges and Regulatory Implications

Bharat Pe, while a pioneer in democratizing digital finance for small merchants, faces multiple regulatory and operational challenges that could affect its long-term sustainability. One of the key regulatory concerns arises from its unsecured lending model, which has come under scrutiny following the Reserve Bank of India's Digital Lending Guidelines (2022). These guidelines emphasize transparency, consumer protection, and proper governance—areas where fintechs must tread carefully. Additionally, Bharat Pe's strategy of rapid merchant onboarding has raised questions around its compliance with Know Your Customer (KYC) and Anti-Money Laundering (AML) norms. Another growing area of concern is data security and privacy, especially in light of the Digital Personal Data Protection (DPDP) Act, 2023, which mandates stricter controls on data usage, storage, and consent management.

From an operational standpoint, Bharat Pe encounters merchant churn, driven largely by the absence of customer retention programs or value-added services that can encourage long-term engagement. The company also bears the burden of high credit risk due to its focus on unsecured, small-ticket loans—many of which have seen rising defaults and non-performing assets (NPAs), particularly in the post-COVID recovery period. These financial vulnerabilities are compounded by leadership instability, most notably the public resignation of co-founder Ashneer Grover, which impacted both investor sentiment and public trust in the brand.

Bharat Pe operates in a highly competitive environment, facing aggressive competition from PhonePe, Paytm, and Google Pay. These players not only offer

similar UPI-based payment services but also come with deeper ecosystem integration, including wallet services, wealth management, and loyalty features. As such, Bharat Pe must continuously innovate and strengthen its compliance, operational strategy, and customer value proposition to stay relevant in India's rapidly evolving fintech sector.

### Strategic Recommendations for Scalability and Sustainability

Strategic Area	Recommendation
<b>Compliance</b>	Strengthen internal audits and align fully with RBI's 2022 digital lending norms
<b>Credit Risk</b>	Use AI/ML for improved credit scoring; diversify lending portfolio
<b>Product Innovation</b>	Offer insurance, investment tools, and tax filing services for merchants
<b>Geographical Focus</b>	Expand into rural and tribal regions via agent networks
<b>Tech Infrastructure</b>	Enhance cloud security and enable real-time data analytics

### CONCLUSION

Bharat Pe stands out as a significant innovation in the rapidly evolving landscape of India's digital financial services. By integrating UPI-based digital payments, collateral-free lending, and neo-banking services within a unified platform, Bharat Pe has redefined how financial services are delivered to the micro, small, and medium enterprise (MSME) sector, particularly in semi-urban and rural India. This integration has allowed millions of small merchants—many of whom previously operated outside the formal financial system—to access technology-enabled solutions that enhance their business operations, improve cash flow, and facilitate access to short-term working capital.

The platform's innovative approach of using transactional data to underwrite loans represents a bold step in alternative credit scoring and risk-based financing. Moreover, the acquisition of Unity Small Finance Bank has enabled Bharat Pe to move beyond payments and lending into the broader financial services domain, offering a full suite of banking services to underserved populations.

Despite these achievements, Bharat Pe faces a number of critical challenges that could hinder its long-term scalability and sustainability. Key among these is the



growing regulatory complexity in India's digital lending space, particularly following the RBI's digital lending guidelines (2022) and the enactment of the Digital Personal Data Protection (DPDP) Act, 2023. These frameworks demand higher transparency, stronger consumer protections, and enhanced data governance—all of which require significant internal reforms and compliance investments. Additionally, Bharat Pe must improve its credit risk management processes, especially given the high exposure to unsecured lending and the potential for rising non-performing assets (NPAs) in volatile economic conditions. Furthermore, sustained growth will depend on the platform's ability to maintain merchant engagement, reduce churn, and introduce value-added services that enhance customer loyalty and retention.

This conceptual paper, based entirely on secondary data from regulatory, academic, and industry sources, offers a foundational understanding of Bharat Pe's ecosystem and the strategic dynamics that shape it. It presents a conceptual model that maps the platform's relationships with merchants, lending partners, banks, and regulators, illustrating how a digital-first approach can drive inclusive growth in emerging economies. While this study is not empirical, it establishes a theoretical framework that can inform future field research, policy analysis, and fintech innovation studies, particularly in the context of financial inclusion and digital transformation. As Bharat Pe continues to evolve, its journey will serve as an important case study for other developing nations aiming to leverage fintech for equitable economic development.

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