FOREWORD

The digital wave embracing the world is unprecedented and transformative. No aspect of life is untouched by its sweep. Digitalisation is driving innovation and efficiency, fostering a new model of economic growth, and facilitating quality improvements. Digital transformation is also evident in the financial sector, where adoption of technology solutions by financial institutions, coupled with the advent of new market players like financial technology firms (FinTechs) and large corporations (BigTechs), is reshaping the conventional notions of finance. Frontier technologies involving application programming interfaces, artificial intelligence and machine learning, and cloud computing are powering financial innovations worldwide. In turn, this revolution is expanding and diversifying the role of central banks and financial regulators.

India is leading the global digital revolution, emerging as a frontrunner on the back of its robust digital public infrastructure, rapidly evolving institutional arrangements, and a growing tech-savvy population. Globally, India ranks first in biometric-based identification (*Aadhaar*) and real-time payments volume; second in telecom subscribers; and third in terms of the startup ecosystem.

The flagship Unified Payments Interface (UPI) has revolutionised the retail payment experience for end-users, making transactions faster and more convenient. In the digital currency arena, the Reserve Bank is at the forefront with pilot runs of the e-rupee, the central bank digital currency (CBDC). The digital lending ecosystem is becoming vibrant with initiatives such as the Open Credit Enablement Network, the Open Network for Digital Commerce and the Public Tech Platform for Frictionless Credit. FinTechs are collaborating with banks and non-banking financial companies (NBFCs) as lending service providers. They are also operating platforms to facilitate digital credit. BigTechs are backing payment apps and lending products as third-party service providers.

Digitalisation in finance is paving the way for next-generation banking; improving access to financial services at affordable costs; and enhancing the impact of direct benefit transfers by effective targeting of beneficiaries in a cost-efficient manner. Loans in the retail segment are being enabled by online payments and innovative credit assessment models with instant disbursements. E-commerce is being boosted through embedded finance. All these innovations are making financial markets more efficient and integrated.

On the external front, digitalisation is driving growth in India's services exports and lowering remittance costs. India's digital journey is setting a benchmark for peer economies. The Reserve Bank's initiatives for internationalisation of home-grown payment modes, cross-border fast payment network linkages and knowledge and experience sharing with peers is energising the transformation of its digital public infrastructure as a global public good.

At the same time, digitalisation also presents challenges related to cybersecurity, data privacy, data bias, vendor and third-party risks, and customer protection. Increased inter-connectedness may lead to systemic risks. Additionally, emerging technologies can introduce complex products and business models with risks that users may not fully understand, including the proliferation of fraudulent apps and mis-selling through dark patterns. Digitalisation may induce human resource challenges in the financial sector, necessitating strategic investments in upskilling and reskilling.

In this rapidly evolving landscape, balancing financial stability, customer protection and competition will remain the key policy challenge. Regulatory and supervisory frameworks must scale up and become more sophisticated to navigate these complexities and future-proof the financial system. The goal is to balance effective regulation with fostering financial innovations in a safe, robust and trustworthy ecosystem.

The Reserve Bank has taken several measures in this regard, including the issuance of guidelines on account aggregators, peer-to-peer lending, digital lending, regulatory sandbox, Reserve Bank Innovation Hub, framework for self-regulatory organisations and strengthening of the supervisory approach by going beyond an entity-focused approach towards a more thematic and activity-based approach. The Reserve Bank is also fostering a strong risk culture focused on customer centricity, governance and business conduct in financial sector entities. The endeavour is to promote a sustainable and resilient financial sector.

Against this backdrop, this year's Report on Currency and Finance has adopted "*India's Digital Revolution*" as its theme. The Report has been prepared by a team from the Department of Economic and Policy Research (DEPR), with inputs from several operational departments. The Report is supported by surveys of key stakeholders and data-based analysis. The comprehensive assessment of the country's digital transformation, with a focus on the financial sector and the payments landscape, should shed more light on the range of opportunities and challenges associated with digitalisation. It is expected that the Report will enable appreciation of the various contours of digitalisation in finance and the ways in which the common person is served while contributing to overall economic and financial development of the Indian economy. I am confident that the Report will spur further deliberations on strengthening and deepening India's digital transformation.

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