International Journal of Social Impact
ISSN: 2455-670X
Volume 11, Issue 1, DIP: 18.02.1006/20261101
DOI: 10.25215/2455/11011006
www.ijsi.in | January – March, 2026

International Journal of Social Impact
A Peer Reviewed Journal

A Comparative Analysis of 'Hundi' (Ancient Credit Instruments) and Modern Digital Payments

Bhoomika N. Vasandani [1]*

ABSTRACT

This research paper explores the evolution of Indian financial instruments by comparing the ancient Hundi system with modern digital payment landscapes under the framework of the National Education Policy (NEP) 2020. The study defines both systems and analyzes their socio-economic utility for diverse stakeholders, including small merchants, large retailers, and individual users. By utilizing secondary data, the research demonstrates how ancient trust-based systems facilitated long-distance trade and how modern technology-driven systems have expanded financial inclusion. The findings highlight that while digital payments offer superior speed, Hundi provided a unique model of community-based accountability. Integrating these lessons into modern curricula can foster a more comprehensive understanding of ethical and efficient wealth management.

Keywords: *Hundi, Digital Payments, UPI, Indian Knowledge System (IKS), National Education Policy 2020 (NEP-2020), Small Merchants, Trust-based Economics, Financial Literacy, Hawala, Sreni (Guilds)*

India has a legacy of advanced financial institutions that supported extensive global trade networks centuries before modern banking. The National Education Policy 2020 (NEP-2020) emphasizes the integration of this "Gyaan Parampara" (knowledge tradition) into modern higher education to instill national pride and self-confidence in learners. Today, while India handles 46% of the world's digital payments, understanding the roots of these systems—from the ancient Hundi to the modern UPI—is vital for a holistic financial education.

2.1 Definitions

- **Meaning of Hundi:** A Hundi is a traditional indigenous credit instrument or bill of exchange used for transferring money or raising credit without the physical movement of cash. It is a written document representing monetary value, relying on a network of trusted intermediaries known as "Hawaladars" or "Shroffs".
- **Meaning of Digital Payment:** Digital payments, or electronic payments, refer to the transfer of monetary value from one account to another using digital devices such as smartphones or computers. This system operates through channels like UPI, mobile wallets, or internet banking, aiming for a "paperless, people-less, and cashless" economy.

[1] Lecturer, G.L.Kakadia College of commerce and Management, Bhavnagar
*Corresponding Author

Received: March 01, 2026; Revision Received: March 20, 2026; Accepted: March 22, 2026

LITERATURE REVIEW

The story of Indian finance is far from a modern invention, representing instead a millennia-old tradition of sophisticated commerce built on foundations of deep-rooted trust. **Aneesh (2025)** argues that these ancient systems were "architectural masterpieces" of economic thought, utilizing standardized interest rates and credit instruments that empowered merchants to trade across oceans long before the existence of formal banking. At the heart of this system was the **Hundi**, which **Martin (2012)** identifies as a "centuries-old artery of credit"—a highly negotiable instrument that seamlessly knitted together goods, capital, and information to provide a level of liquidity and trust that colonial powers found difficult to replicate. This spirit of permanence and reliability extended to the traditional **Bahi-Khata** accounting system, which **ResearchGate (2025)** reveals as a fascinating historical parallel to modern **Blockchain** technology. By sharing the core objectives of security and immutability, both the ancient leather-bound ledgers and today's decentralized digital ledgers prove that the principles of high-tech finance have been alive in the Indian merchant soul for centuries.

The narrative of Indian finance takes a sharp turn into the 21st century, where the ancient "Artery of Credit" has been replaced by modern "Digital Veins" in a transformation that **Deepshikha et al. (2025)** describe as one of the fastest in human history, evidenced by digital transaction volumes surging from 6.9 billion in 2017-18 to 23.8 billion by 2020-21. This fintech "Big Bang," powered by the democratization of mobile wallets and the **Unified Payments Interface (UPI)**, has fundamentally shifted the nation's economic destiny, with **Deepshikha & Makhija (2025)** forecasting a $1 trillion digital payment market by 2025—a milestone that current 2026 projections suggest is only the beginning as UPI now commands nearly 80% of all payment volumes. The real-world impact of this shift is most visible at the "Kirana" level, where **Phatak (2023)** found that digital adoption created a "virtuous cycle" for 300 surveyed enterprises by slashing transaction costs while simultaneously boosting sales and customer satisfaction. Ultimately, this revolution has democratized finance, allowing the local street vendor and the global corporation to operate on the exact same infrastructure, effectively scaling ancient merchant trust into a trillion-dollar digital reality.

The story of India's financial evolution concludes with the profound realization that a sustainable digital future must be built upon the foundations of its traditional past, addressing a significant "gap" between modern technical skills, like learning Python, and historical wisdom, such as the legacy of the **Hundi**. To bridge this divide, the **UGC (2023)** has introduced a transformative policy mandating that at least **5% of higher education credits** be dedicated to **Indian Knowledge Systems (IKS)**, an initiative aimed at "de-colonizing the Indian mind" by integrating ancestral intelligence with modern technology. This educational synthesis suggests that a future Fintech developer who understands the trust-based, highly negotiable credit mechanisms described by **Martin (2012)** will be uniquely equipped to design the secure, decentralized systems of tomorrow, as evidenced by the parallels between traditional record-keeping and **Blockchain** identified by **ResearchGate (2025)**. Ultimately, this integration ensures that India's projected **$1 trillion digital payment market** is not merely a replica of Western financial models, but a sophisticated and authentic evolution of its own ancient financial soul.

Objectives

- To understand the operational mechanism of the ancient Hundi system as a credit instrument.

- To analyze the growth trajectory and socio-economic benefits of modern digital payment systems.
- To compare the utility and risks of Hundi and Digital Payments for small merchants, retailers, and normal persons.

RESEARCH METHODOLOGY

This study utilizes a **Descriptive and Analytical Research Design** based on secondary sources. Data were collected from:

- Peer-reviewed journals (2024–2025) and historical economic reports.
- Government policy documents including the NEP-2020 and UGC Guidelines.
- Industry reports from NPCI, RBI, Deloitte, and PwC.

Research Gap

While research exists on the technological aspects of digital payments and the historical accounts of ancient India, there is limited literature providing a direct comparison of stakeholder-specific utility through the lens of NEP-2020. This paper aims to connect the "trust-based" utility of Hundi with the "efficiency-based" utility of modern FinTech.

Data Analysis

The following are the data analysis on A Comparative Analysis of 'Hundi' (Ancient Credit Instruments) and Modern Digital Payments on the basis of above mentioned objectives.

OPERATIONAL FRAMEWORK OF HUNDI

The Three-Party Operational Framework

The mechanism of a Hundi transaction typically involves a sophisticated network of three primary actors:

1. The Drawer: The remitter or merchant who initiates the payment by depositing funds with an intermediary.

2. The Payee: The intended recipient of the funds at a distant location.

3. The Holder/Intermediary (Shroff/Hawaladar): Trusted community members who facilitate the transfer. Shroffs were highly skilled "money-changers" and "money-lenders" who operated on the basis of reputation and community trust.

Functional Classification of Hundis

The operational mechanism varied depending on the type of instrument used, primarily categorized into two broad groups based on the time of payment:

A. Darshani Hundi (Sight Bill)

- **Mechanism:** Payable immediately upon presentation to the drawee (Shroff).
- **Utility:** Functioned like a modern demand draft or check. It was used for the immediate transfer of funds to a recipient in another city without the physical movement of cash.

B. Muddati Hundi (Time Bill)

- **Mechanism:** Payable only after a specific period (usance) mentioned in the document.
- **Credit Function:** This was a primary credit instrument. Merchants used it to raise loans. The intermediary (Shroff) would "discount" the Hundi—meaning they would pay the merchant the amount minus a commission or interest called **Hundiana** upfront.

Specialized Security Mechanisms

Ancient Indian merchants developed sophisticated "low-tech" security features to prevent fraud:

- **Nam-Jog Hundi:** Payable only to the specific person named. This acted like a "restrictive endorsement" in modern banking.
- **Nam-Jog with Password:** Some Hundis required the receiver to provide a secret code or password shared by the sender before the Shroff would release the funds. This is an early precursor to modern digital One-Time Passwords (OTPs).
- **Mudhiya Scripts:** Records and Hundis were often written in specialized scripts (like Mudhiya) which omitted vowels (*matras*), making them unreadable to outsiders and serving as a linguistic "encryption".
- **Economic Advantages of the Mechanism**
- **Risk Mitigation:** Enabled merchants to participate in long-distance trade (e.g., from Surat to Java or Mokha) without the risk of theft associated with carrying metallic coins.
- **Liquidity Management:** By allowing for the "discounting" of bills, the Hundi system provided immediate liquid capital to small merchants who had their wealth tied up in goods during transit.
- **Decentralized Regulation:** The system was self-regulated by merchant guilds (*Sreni*). Dishonesty was penalized by social boycott, ensuring high levels of ethical compliance without state intervention.

The growth trajectory and socio-economic benefits of modern digital payment systems

The growth trajectory and socio-economic benefits of modern digital payment systems in India, specifically the Unified Payments Interface (UPI) and mobile wallets, have transformed the country into a global leader in real-time payments. This transformation has particularly impacted small merchants and retailers through increased efficiency and financial inclusion.

1. Growth Trajectory of Digital Payments (2015–2025)

The Indian payment ecosystem has shifted from a cash-dominated economy to one of the world's largest digital markets within a decade.

- **Massive Volume Expansion:** Total digital transactions surged from 1.8 billion in FY 2015–16 to 130 billion in FY 2024–25, representing a nearly 72-fold increase.
- **UPI Dominance:** Since its launch in 2016, UPI has become the backbone of retail payments. By 2025, UPI accounts for approximately 85% of all digital payment transactions by volume.
- **Transaction Volume and Value:** In the first half of 2025 alone, UPI processed 106.36 billion transactions worth ₹143.34 trillion. The transaction volume grew at a Compound Annual Growth Rate (CAGR) of 129.5% between 2017 and 2025.

- **Merchant Network Expansion:** The network of UPI QR codes more than doubled in just six months, rising from 321 million in January 2025 to 678 million by June 2025.

2. Socio-Economic Benefits for Small Merchants and Retailers

Digital adoption has moved from being an "urban convenience" to a "strategic necessity" for small businesses and micro-enterprises.

Benefit Category	Key Statistical Impact	Description of Benefit
Revenue Growth	58% reported 15–25% increase	Small merchants saw significant revenue jumps post-adoption due to increased customer convenience.
Operational Efficiency	44.7% reduction in billing time	Average billing time per customer dropped from 3.8 minutes to 2.1 minutes. Organized retailers like D-Mart and Reliance saw UPI transaction times as low as 5 seconds.
Customer Acquisition	62.1% rise in new customers	Merchants reported a significant increase in their ability to acquire and retain tech-savvy customers.
Safety and Security	73% feel safer from theft	Small business owners feel digital payments enhance safety by reducing the need to handle or store large amounts of physical cash.
Access to Credit	"Digital Resume" for loans	Digital payments create an electronic record of transactions, which allows small retailers to improve their creditworthiness and access formal bank loans.
Cost Savings	5–10% operational savings	For large retailers, digital payments minimize cash handling setups and logistics costs, leading to direct savings in operational expenses.

3. Factors Driving Adoption

The rapid adoption by micro-merchants and street vendors can be attributed to several supportive frameworks:

- **Policy Support:** Government initiatives like the "Zero Merchant Discount Rate (MDR)" policy allowed merchants to accept UPI payments without transaction fees, serving as a major catalyst for small business adoption.
- **Infrastructure:** Rapid smartphone penetration and the deployment of simple, interoperable QR code infrastructure removed traditional hardware barriers like expensive Point of Sale (PoS) terminals.
- **Democratization of Finance:** UPI has enabled even the most marginalized members of society, such as street hawkers and rural vendors, to operate on the same digital rails as major enterprises.

4. Remaining Challenges

Despite the growth, systemic friction points persist:

- **Technical Issues:** 41% of semi-urban merchants cite poor internet connectivity or device issues as a primary hurdle.
- **Security Concerns:** Approximately 40% of shopkeepers identify cybersecurity and the fear of fraud as barriers to full-scale adoption.
- **Infrastructure Gaps:** Infrastructural limitations in rural areas continue to hinder consistent digital payment usage compared to urban centers.

Comparative Analysis of Utility and Risks: Hundi vs. Digital Payments

The transition from the ancient Hundi system to modern Digital Payments reflects a fundamental change in the Indian Knowledge System (IKS) of finance. While the Hundi relied on **Reputational Capital** and social networks, Digital Payments rely on **Digital Infrastructure** and encryption. Below is the stakeholder-specific breakdown.

Impact on Small Merchants (Kirana Stores, Street Vendors)

Small merchants have historically been the backbone of the Hundi network and are now the primary drivers of the UPI revolution.

Feature	Hundi (Ancient/Traditional)	Digital Payments (Modern UPI/Wallets)
Utility	**Immediate Liquidity:** Merchants could "discount" a Hundi (Muddati) to get instant cash minus a commission (*Hundiana*) for goods in transit.	**Revenue Growth:** 58% of small merchants report a 15–25% increase in monthly revenue post-adoption due to customer convenience.
Risk	**Social Regulation:** Dishonesty led to a "stain on the caste" and social boycott, but there was limited legal protection under formal acts like the 1881 Negotiable Instruments Act.	**Operational Friction:** 42% cite transaction fees as a burden, and 37% struggle with poor internet connectivity or device glitches.

Impact on Retailers (Organized Chains and Large Enterprises)

For organized retail, the shift is driven by the need for massive scale and operational cost reduction.

Feature	Hundi (Ancient/Traditional)	Digital Payments (Modern UPI/Wallets)
Utility	**Immediate Liquidity:** Merchants could "discount" a Hundi (Muddati) to get instant cash minus a commission (*Hundiana*) for goods in transit.	**Revenue Growth:** 58% of small merchants report a 15–25% increase in monthly revenue post-adoption due to customer convenience.

Feature	Hundi (Ancient/Traditional)	Digital Payments (Modern UPI/Wallets)
Risk	**Social Regulation:** Dishonesty led to a "stain on the caste" and social boycott, but there was limited legal protection under formal acts like the 1881 Negotiable Instruments Act.	**Operational Friction:** 42% cite transaction fees as a burden, and 37% struggle with poor internet connectivity or device glitches.

Impact on the Normal Person (Individual Users)

For the common man, the evolution has moved financial management from private, trust-based remittances to instant, trackable transactions.

Feature	Hundi (Ancient/Traditional)	Digital Payments (Modern User)
Utility	**Privacy and Remittance:** Offered a secure way to send money to family in distant cities without carrying cash. Transactions were private and unreadable to outsiders due to special scripts like *Mudhiya*.	**24/7 Accessibility:** 90% of users agree that digital payments are faster and more transparent. Users have instant access to funds for emergencies 365 days a year.
Risk	**Lack of Formalization:** Relying on informal brokers meant there was no government guarantee if a broker defaulted or went bankrupt.	**Behavioral & Financial Scams:** India lost ~₹11,000 crore to cyber scams in early 2024. Digital payments also reduce the "pain of paying," leading to unplanned impulse buying.

KEY FINDINGS AND SUGGESTIONS

Key Findings: The analysis of secondary data yielded the following key research findings:

- **Formalization of the Grassroots Economy:** Digital payments act as a "financial resume" for small merchants. While Hundi transactions were often unrecorded, modern digital transaction history has enabled 58% of small merchants to improve their creditworthiness for formal bank loans.
- **Significant Efficiency Gains:** For organized retailers, transaction time has dropped by 83% (from 30 seconds for cash to 5 seconds for UPI). Small vendors reported a 44.7% reduction in billing time per customer.
- **Exponential Growth Trajectory:** India's digital payment volume grew nearly 72-fold between 2015 and 2025. By 2025, UPI has become the dominant mode, accounting for 85% of all digital payment volumes.
- **The Trust Paradigm Shift:** The ancient Hundi system relied on "Community Trust" and social accountability, which carried low fraud risk within local networks. In contrast, modern systems rely on "Technological Trust" (Encryption), which is highly efficient but vulnerable to large-scale scams; India lost approximately ₹11,000 crore to cyber scams in the first nine months of 2024.

- **Direct Economic Impact:** Digital adoption has led to a 15–25% increase in monthly revenue for a majority of small retailers due to increased customer convenience and faster checkouts.

SUGGESTIONS

Based on the findings, the following recommendations are made for policymakers and educational institutions:

- **Curriculum Reform (IKS & Finance):** Higher education institutions should integrate historical case studies of Indian merchant guilds (*Sreni*) and Hundi mechanisms into Commerce and MBA Finance modules to teach ethical credit management and decentralized finance.
- **Targeted Digital Literacy:** To bridge the 60% digital divide among senior citizens, financial literacy programs should use familiar traditional concepts—such as the "trust-based logic" of Hundi—to explain digital security and encryption to non-tech-savvy populations.
- **Fee Regulation for Micro-Merchants:** Since 42% of small vendors cite transaction fees as a major hurdle, policymakers should strengthen fee-regulation frameworks to ensure the digital economy remains inclusive for the smallest traders.
- **Integration of Vedic Mathematics:** Finance students should be encouraged to learn Vedic Mathematics, which can reduce multi-step calculation time by 60–85%, enhancing their mental computational speed for modern FinTech environments.

CONCLUSION

The journey from Hundi to Digital Payments reflects India's transition from a community-based trust economy to a technology-driven transparent infrastructure. This study concludes that while digital payments offer unprecedented speed and scalability, the Hundi system provided a robust model for social accountability and ethical finance that remains relevant today. Under the framework of NEP-2020, integrating these Indian Knowledge System (IKS) principles into modern education is not merely a look at the past, but a strategic necessity. By combining ancient wisdom on "Ethical Wealth" (*Artha*) and "Duty" (*Dharma*) with modern digital efficiency, India can build a sustainable financial future that is both technologically advanced and culturally rooted.

REFERENCES

Aneesh, S. (2025). The evolution of banking and financial systems in ancient India. *Journal of Indian Historical Insights and Culture*, 1(1).

BSSS Journal of Commerce. (2025). Decoding wealth management and financial systems in ancient India: Reflections from Indian Knowledge Systems and their relevance to NEP 2020. *BSSS Journal of Commerce*, 17(1), 70-77.

Deb Roy, P. (2025). Vedic Mathematics: A comprehensive review of ancient wisdom and modern applications. *International Journal of Science, Engineering and Technology*.

DECODING WEALTH MANAGEMENT AND FINANCIAL SYSTEMS ..., accessed on January 31, 2026, https://www.researchgate.net/publication/397030940_DECODING_WEALTH_MANAGEMENT_AND_FINANCIAL_SYSTEMS_IN_ANCIENT_INDIA_REFLECTIONS_FROM_INDIAN_KNOWLEDGE_SYSTEMS_AND_THEIR_RELEVANCE_TO_NEP_2020

Deepshikha, Y., & Makhija, R. (2025). Cashless India: A comparative analysis of digital payments and their impact on the economy. *International Journal of Law Management & Humanities*, 8(2), 1060-1069.

Indian Knowledge Systems - Ministry of Education, accessed on January 31, 2026, https://www.education.gov.in/en/nep/indian-knowledge-systems

Influence of Indian Knowledge Systems on Investment Decisions: A ..., accessed on January 31, 2026, https://iupindia.in/ViewArticleDetails.asp?ArticleID=8085

Martin, M. B. V. (2012). *An economic history of Hundi, 1858-1978*. Published Dissertation, Semantic Scholar.

Pal, D., Danu, A., & Pal, R. K. (2025). Influence of Indian Knowledge Systems on investment decisions: A theoretical framework. *The IUP Journal of Financial Risk Management*, 22(3), 50-59.

PwC India. (2025). *Combating payments fraud in India's digital payments landscape*.

Summary of Guidelines for Incorporating Indian Knowledge in Higher Education Curricula - IKS Resources for Children and Youth, accessed on January 31, 2026, https://www.brhateducation.in/iksresources/guidelines

TRANSFORMATION OF ACCOUNTING SYSTEM: A STUDY ..., accessed on January 31, 2026, https://www.researchgate.net/publication/390683428_TRANSFORMATION_OF_ACCOUNTING_SYSTEM_A_STUDY_WITH_REFERENCE_TO_INDIA

University Grants Commission (UGC). (2023). *Guidelines for incorporating Indian Knowledge System in higher education curricula*. Government of India.

Vishal Barsa. (2025). Impact of digital payment system on small business. *International Journal of Progressive Research in Engineering Management and Science*, 5(4), 2345-2353.

Acknowledgments

The author(s) appreciates all those who participated in the study and helped to facilitate the research process.

Conflict of Interest

The author declared no conflict of interest.

How to cite this article: Vasandani, B.N (2026) A Comparative Analysis of 'Hundi' (Ancient Credit Instruments) and Modern Digital Payments. *International Journal of Social Impact, 11*(1), 38-46. DIP: 18.02.1006/20261101, DOI: 10.25215/2455/11011006