

From Hundi to UPI: The Cultural Continuity of Trust-Based Transaction Systems in India

Dr. Viral Kiritbhai Chavda

Assistant Professor, M.M. Ghodasara College, Junagadh

Abstract

The rapid adoption of India's Unified Payments Interface (UPI) is typically explained through technological innovation and state-led digital infrastructure. This paper advances a complementary thesis: UPI's success represents the contemporary technological expression of a much older, culturally embedded tradition of trust-based, formally documented financial transactions. Drawing on Kautilya's *Arthashastra*, the historical practices of *Hundi* (indigenous bills of exchange), *Bahi Khata* (traditional merchant ledgers), and the Marwari community's accounting traditions, this study traces a genealogical line from ancient transactional philosophies to modern Digital Public Infrastructure (DPI). It further examines how British colonial rule systematically disrupted this indigenous financial knowledge system — an epistemic rupture that concealed the continuity this paper seeks to recover. The paper argues that India's digital finance revolution constitutes not a belated adoption of Western modernity but a technological resurfacing of deep-seated cultural norms around documented, accountable, and trust-centric exchange.

Keywords: Indian Knowledge System; trust-based transaction systems; Bahi Khata; Hundi; Unified Payments Interface; financial cultural continuity; Arthashastra economics; epistemic rupture; Digital Public Infrastructure

1. Introduction

India's Unified Payments Interface (UPI) has achieved a scale of digital payment adoption unmatched in any developed economy. The dominant explanations emphasise technological design, state capacity in creating the National Payments Corporation of India, and the enabling ecosystem of Jan Dhan bank accounts, Aadhaar biometric identity, and Mobile connectivity (D'Silva et al., 2022). These explanations are accurate but incomplete. They leave a crucial question unanswered: why did Indian society adopt these systems so rapidly and so trustingly?

Comparative experience suggests that technological availability does not automatically produce adoption. Multiple developed economies possess the technical capacity to implement UPI-like systems; none have achieved comparable uptake. The gap between technical capacity and societal adoption points toward factors beyond technology and policy — factors located in cultural predisposition, historical experience, and inherited norms of transactional behaviour.

This paper advances a thesis grounded in cultural continuity: that Indian society possesses a historically evolved comfort with formalised, trust-based financial documentation — an indigenous transactional

knowledge system — that long predates digital technology, was systematically suppressed but not extinguished under colonial rule, and has resurfaced in technological form in the twenty-first century. UPI, in this reading, is not a foreign innovation but a contemporary technological expression of transactional principles that Indian commerce has practised for millennia.

To substantiate this thesis, the paper proceeds through five sections. Section 2 establishes the philosophical foundations of India's transactional tradition through Kautilya's *Arthashastra*. Section 3 examines the historical instruments of *Hundi* and *Bahi Khata*. Section 4 presents the Marwari community as a case study in cultural continuity. Section 5 analyses the colonial disruption as epistemic rupture. Section 6 discusses contemporary relevance, mapping historical principles onto UPI and DPI.

2. Philosophical and Conceptual Foundations

The Indian approach to economic transactions was never merely technical. It was embedded in a philosophical framework integrating material prosperity (*Artha*) with ethical conduct (*Dharma*) and social order, most systematically articulated in Kautilya's *Arthashastra* (c. 2nd century BCE – 3rd century CE). While not an accounting manual, its detailed provisions for revenue administration, auditing, and trade regulation reveal a state apparatus built upon systematic financial documentation and a sophisticated understanding of trust (Kangle, 2014; Shamasastri, 1915).

2.1 Documented Accountability

The *Arthashastra* is strikingly specific on financial record-keeping. It specifies that accounts be maintained for each department, that officials shall not enter the same item of income or expenditure twice, and that heads of departments bear personal liability for discrepancies discovered during audit (Kangle, 2014). It catalogues numerous forms of embezzlement that auditors must identify, including misclassification of expenses, delayed deposits, and fraudulent procurement (Shamasastri, 1915).

Crucially, documentation serves as an instrument of trust rather than merely surveillance. By rendering transactions visible and verifiable, it reduces uncertainty, protects honest officials, and assures merchants that contracts will be enforced. This conception of documentation as a trust-building mechanism finds striking resonance in the architecture of contemporary DPI.

2.2 Moderate Extraction and Visible Reinvestment

The *Arthashastra* advises moderate and predictable taxation, allowing economic actors to plan with confidence (Kangle, 2014). It recommends that rates increase only as the economy grows and that officials imposing unauthorised levies face severe penalties. Sustainable state revenue, in this framework, depends on perceived fairness. When citizens perceive taxation as excessive or arbitrary, compliance becomes coercion — expensive and fragile.

The third principle completes the framework. The *Arthashastra* assigns the state responsibility for investing in infrastructure enabling commerce: roads, irrigation, protection of trade routes, and standardised weights and measures (Kangle, 2014; Shamasastri, 1915). These investments reduce transaction costs while making the state's beneficial role visible, transforming taxation from unilateral extraction into reciprocal exchange.

The interdependence of these three principles — documented accountability, moderate extraction, and visible reinvestment — constitutes a philosophy of transactional trust. It is a philosophy in which documentation serves fairness, the state's demands are ethically bounded, and compliance is motivated by perceived reciprocal benefit rather than fear of punishment (Basham, 1954).

3. Historical Systems and Methods

The *Arthashastra's* philosophy was operationalised through instruments addressing distinct functional requirements: transferring value across distance and recording obligations over time. These systems share structural features: they were documentary rather than oral, depended on community-based trust mechanisms, and carried cultural significance that elevated record-keeping to a normative practice.

3.1 The Hundi: Trust Across Space

The *Hundi* was an indigenous bill of exchange enabling value transfer across geographical distance without physical movement of coin. Originating in medieval trading networks and reaching elaborate development under Mughal and early colonial rule, *Hundis* financed trade routes across the subcontinent and beyond (Habib, 1990; Raychaudhuri & Habib, 1982).

A *Hundi* transaction involved the drawer who issued the instrument, the drawee who accepted the obligation, and the payee to whom payment was made (Jain, 1929). The instrument could be payable on demand or after a specified period, and could be negotiated through endorsement — functionally equivalent to the modern promissory note. What distinguished the *Hundi* was its institutional ecosystem. Enforcement depended not primarily on state courts but on merchant bodies that maintained credit registries, adjudicated disputes, and imposed sanctions including commercial ostracism on defaulters (Bayly, 1983; Markovits, 2008).

The *Hundi* thus functioned as a trust instrument across space: it solved the problem of value transfer across distance by relying on a decentralised network of reputationally interdependent merchant houses. The system was sufficiently robust to sustain Indian Ocean trade for centuries — a fact British East India Company officials acknowledged when they adopted *Hundis* for their own remittance operations before colonial banks were established (Roy, 2012).

3.2 The Bahi Khata: Trust Across Time

If the *Hundi* addressed trust across space, the *Bahi Khata* — the traditional merchant ledger — addressed trust across time, creating durable, verifiable records that could be consulted, audited, and presented as evidence years after the original transaction.

The *Bahi Khata* was a system of interconnected ledgers, hand-stitched and bound, maintained by family businesses across northern and western India. The core ledger recorded *Jama* (credit or receipts) and *Udhaar* (debit or expenses), tracking the flow of goods, cash, and credit (Jain, 1929). Its authority derived from ceremonial inauguration and meticulous maintenance. The cultural significance attached to these ledgers — their association with auspicious occasions and deities of prosperity — reinforced the seriousness with which they were kept (Basham, 1954).

The *Bahi Khata* functioned as the firm's institutional memory, credit history, and legal archive. The practice of presenting ledger records in merchant adjudication gave them quasi-legal status that incentivised accuracy: a firm whose books were found unreliable lost not only the dispute but its broader creditworthiness.

4. Case Study: The Resilience of Marwari Accounting Traditions

The Marwari community offers a revealing case study in cultural continuity, demonstrating that the indigenous knowledge system was not merely historical but a living practice that has adapted to modern regulatory change.

Originating from the Marwar region of present-day Rajasthan, the Marwaris emerged over the eighteenth and nineteenth centuries as one of India's most prominent trading communities, establishing networks across the subcontinent and overseas (Timberg, 1978). Their commercial success was underpinned by a distinctive business culture emphasising financial discipline, creditworthiness, and meticulous record-keeping — values transmitted across generations through apprenticeship within family firms (Hardgrove, 2004; Timberg, 1978).

What is significant is the persistence of these practices despite waves of regulatory change that might have rendered them obsolete. Traditional ledgers continue to be maintained alongside digital accounting systems, with the traditional records functioning as the trusted core record while digital systems serve regulatory compliance (Hardgrove, 2004). This dual record-keeping reflects a dynamic in which the traditional system provides cultural confidence to engage with modern regulatory apparatus.

This persistence suggests that tradition and modernity are not necessarily opposed; culturally embedded practices can function as bridges to, rather than barriers against, technological and regulatory change. It is a dynamic that has operated at national scale in the adoption of UPI.

5. The Colonial Interregnum: Epistemic Rupture

If the indigenous transactional knowledge system was as sophisticated as the preceding sections argue, why is it not better known? The answer lies in its systematic disruption under British colonial rule — an epistemic rupture: the dismantling of an intellectual tradition through marginalisation, devaluation, and replacement by an alien framework.

5.1 Legal Marginalisation

The *Hundi* was initially utilised by the British East India Company, which relied on indigenous banking networks before colonial banks were established (Roy, 2012). As the Company consolidated control, however, the *Hundi's* legal status was progressively eroded. Merchant bodies that had enforced obligations through community reputation lost jurisdiction to colonial courts applying English common law. Indigenous commercial custom carried no legal weight unless explicitly recognised — which it rarely was (Rudner, 1994).

The *Hundi* continued to circulate in internal trade well into the twentieth century, but its relegation to the informal sector meant its mechanisms were never studied, codified, or built upon. The knowledge embedded in the system — credit assessment practices, dispute resolution procedures, the network architecture enabling trust without centralised enforcement — was lost to formal economic institutions (Jain, 1929; Markovits, 2008).

5.2 Educational Displacement and Economic Restructuring

The colonial education system prioritised English-language instruction in Western subjects. The traditional accountant trained in indigenous systems was reclassified as uneducated, while the English-educated clerk became the standard for commercial employment (Kumar, 1991). This was not a neutral substitution but a status reversal that rendered indigenous expertise invisible — not because it was ineffective, but because the framework defining accounting knowledge recognised only the Western tradition as legitimate.

Simultaneously, traditional trading networks were disrupted by the deindustrialisation documented by economic historians. India's globally dominant textile manufacturing was systematically undermined, transforming the subcontinent from exporter to importer of manufactured goods (Bagchi, 1976; Roy, 2000). The cumulative effect was not the destruction of the indigenous knowledge system — as the Marwari case demonstrates, key practices survived — but its fragmentation, exclusion from formal institutions, and disappearance from the historical record as a coherent tradition (Roy, 2000).

5.3 The Inherited Blindness

This epistemic invisibility persists. The standard account treats the colonial period as introducing modern banking, accounting, and commercial law to a pre-modern economy — an account that is radically incomplete. It fails to recognise that what was introduced was not modernity per se but a particular institutional form that displaced an existing, sophisticated set of practices (Bagchi, 1976; Roy, 2012). If indigenous traditions are invisible, contemporary phenomena that might represent their resurgence will be interpreted as novel achievements of technology and policy rather than as cultural continuities.

6. Discussion: The Contemporary Resurgence

India's contemporary digital finance revolution represents a technological resurgence of the principles embedded in the indigenous transactional knowledge system. Recognition of this continuity carries significant implications.

6.1 From Hundi to UPI: Trust Across Space, Digitised

The functional parallels between *Hundi* and UPI are striking. Both enable value transfer without physical cash movement. Both operate on trust architectures decentralised at transaction initiation but backed by institutional mechanisms guaranteeing settlement — merchant networks for the *Hundi* (Bayly, 1983), the National Payments Corporation of India and banking system for UPI (D'Silva et al., 2022). Both reduce transaction costs, expanding the scope of commerce.

The critical difference lies in the trust mechanism: reputational for the *Hundi* (Markovits, 2008), institutional-technological for UPI (D'Silva et al., 2022). Yet the experience of trust — confidence that transactions will complete, funds will arrive, records will be accurate — is functionally similar. This

similarity is not coincidental. Indian society entered the digital payments era with centuries of culturally transmitted experience participating in documented, traceable transaction systems. The *Hundi* created a cultural template: expectations about how trustworthy transactions should work. UPI conforms to that template. Its rapid adoption reflects not merely technical merit but cultural legibility — resonance with a historically constituted comfort with formalised transaction systems.

6.2 From Bahi Khata to the Digital Ledger

A parallel genealogical line connects the *Bahi Khata* to UPI's digital transaction records. Every UPI transaction produces an instantaneous digital entry — timestamped, amount-specified, counterparty-identified — serving as a durable, verifiable account of financial activity. Like its predecessor, it can be consulted, audited, and presented as evidence.

More significant is the cultural meaning. In a society where large segments were historically excluded from formal financial institutions, the digital transaction record functions as a mechanism of financial identity, transforming the informal into the documented. This is precisely the function the *Bahi Khata* historically served: a record establishing financial identity and creditworthiness in a form carrying authority within its institutional context (Jain, 1929).

6.3 The State as Enabler of Trust

The role of the state in this continuum challenges the dominant narrative that India's digital finance success represents a rupture from a past of state failure. The genealogical reading suggests DPI succeeds because it re-instantiates a conception of the state's economic role with deep cultural roots.

The *Arthashastra* advised moderate, predictable taxation with visible state investment in public goods (Kangle, 2014). UPI is virtually free for users, reduces transaction costs, and integrates with direct benefit transfers — making the state's reinvestment visible in every subsidy or pension delivery (D'Silva et al., 2022). The *Arthashastra*'s auditing apparatus prevented embezzlement while simultaneously enabling merchants to establish creditworthiness. Similarly, the creation of digital financial identities for millions of Indians represents documentation as both accountability mechanism and empowerment tool (D'Silva et al., 2022).

These parallels are not evidence of direct influence. The argument is subtler: the design choices producing UPI and the societal response enabling its adoption reflect a cultural orientation toward trust-based, documented, accountable transaction systems that is historically constituted and culturally transmitted. The *Arthashastra* is not a blueprint UPI's designers followed; it is evidence that the principles UPI embodies have deep roots in Indian civilisation.

6.4 Implications for Policy and Design

Recognition of this cultural continuity carries practical implications. First, cultural congruence should be treated as a design parameter: systems aligning with inherited norms of trustworthy transactions achieve adoption that purely technical solutions cannot match. Second, the informal sector should be reframed not as a problem requiring formalisation but as a repository of practices from which formal systems can learn (Jain, 1929; Timberg, 1978). Third, intellectual self-reliance should extend beyond technological sovereignty to encompass recovery and integration of indigenous knowledge traditions — not as nativist nostalgia but as scholarly rigour (Basham, 1954; Raychaudhuri & Habib, 1982).

7. Conclusion

This paper has advanced a thesis of cultural continuity: UPI's widespread adoption reflects a historically constituted cultural disposition toward trust-based, formally documented financial transactions — an indigenous knowledge system that predates digital technology, was suppressed but not destroyed under colonial rule, and has resurfaced in technological form.

The evidence spans philosophical foundations (the *Arthashastra*'s integration of *Artha* and *Dharma*), historical instruments (*Hundi* for trust across space, *Bahi Khata* for trust across time), ethnographic observation (Marwari persistence with traditional accounting), and structural analysis (functional parallels between historical instruments and contemporary DPI). Together, these suggest UPI is not a foreign import but a technological expression of principles Indian commerce has practised for millennia.

The colonial disruption — through legal marginalisation, educational displacement, and institutional restructuring — constituted an epistemic rupture that rendered the indigenous tradition invisible within formal economic discourse. This invisibility persists, causing standard accounts to overlook the cultural dimension of India's digital finance success. The present paper has sought to correct this oversight.

The implications extend beyond Indian economic history. The case suggests that sustainable technological adoption is most effective when innovations resonate with inherited cultural logics. Societies with rich but academically marginalised transactional traditions may possess latent resources for institution-building that standard development frameworks fail to recognise. India's experience with UPI — simultaneously at the technological frontier and congruent with civilisational norms — offers a model where the journey to a digital future is guided by the enduring wisdom of the past.

To know India's transactional past is to better understand its digital present — and to build its future on foundations that are both modern and deeply its own.

References

1. Bagchi, A. K. (1976). De-industrialization in India in the nineteenth century: Some theoretical implications. *Journal of Development Studies*, *12*(2), 135–164. <https://doi.org/10.1080/00220387608421565>
2. Basham, A. L. (1954). *The wonder that was India*. Sidgwick & Jackson.
3. Bayly, C. A. (1983). *Rulers, townsmen and bazaars: North Indian society in the age of British expansion, 1770–1870*. Cambridge University Press.
4. D'Silva, D., Filková, Z., Packer, F., & Tiwari, S. (2022). The design of digital financial infrastructure: Lessons from India. *BIS Papers*, (106). Bank for International Settlements. <https://www.bis.org/publ/bppdf/bispap106.htm>
5. Habib, I. (1990). Merchant communities in pre-colonial India. In J. D. Tracy (Ed.), *The rise of merchant empires: Long-distance trade in the early modern world, 1350–1750* (pp. 371–399). Cambridge University Press.
6. Hardgrove, A. (2004). *Community and public culture: The Marwaris in Calcutta, c. 1897–1997*. Columbia University Press.
7. Jain, L. C. (1929). *Indigenous banking in India*. Macmillan.

8. Kangle, R. P. (Trans.). (2014). *The Kauṭīlīya Arthaśāstra* (3rd ed., Vols. 1–3). Motilal Banarsidass. (Original work composed c. 2nd century BCE – 3rd century CE)
9. Kumar, K. (1991). *Political agenda of education: A study of colonialist and nationalist ideas*. Sage Publications.
10. Markovits, C. (2008). *Merchants, traders, entrepreneurs: Indian business in the colonial era*. Palgrave Macmillan.
11. Raychaudhuri, T., & Habib, I. (Eds.). (1982). *The Cambridge economic history of India: Vol. 1. c. 1200–c. 1750*. Cambridge University Press.
12. Roy, T. (2000). *The economic history of India, 1857–1947*. Oxford University Press.
13. Roy, T. (2012). *India in the world economy: From antiquity to the present*. Cambridge University Press.
14. Rudner, D. W. (1994). *Caste and capitalism in colonial India: The Nattukottai Chettiars*. University of California Press.
15. Shamasastri, R. (Trans.). (1915). *Kautilya's Arthashastra*. Government Press, Bangalore.
16. Timberg, T. A. (1978). *The Marwaris: From traders to industrialists*. Vikas Publishing House.