Unit 55. Unified Payment Interface (UPI)- Made Simple

Unified Payment Interface (UPI) is recently in news. UPI is believed to revolutionize the way Indians do banking. In this post we will see what UPI is and how safe is using UPI.

What is UPI?

Unified Payment Interface (UPI) is a newly introduced platform to transfer money between any two bank accounts in India, by avoiding the existing complexities.

UPI is an indigenous payment system which works with the help of a smartphone.

But how is UPI different from netbanking (NEFT/RTGS/IMPS)?

- UPI is standardized across banks, which means you can initiate a bank account transfer from anywhere with a few clicks. This means that UPI will help you to pay

directly from your bank account to different merchants without the hassle of typing your netbanking password, credit card details or IFSC code.

- Apart from cards, netbanking and wallets, your can now pay through UPI too.
- Unified Payment Interface (UPI) allows to pay someone as well as 'collect' cash from someone.

Why UPI?

- Even after introducing net-banking in India, the number of cash transaction happening in India is very high (almost 95% of all transactions).
- UPI is part of RBI's efforts towards 'Less Cash' India.

Who developed UPI?

UPI was developed by National Payment Corporation of India (NPCI) under the guidelines of RBI. UPI is based on the Immediate Payment Service (IMPS) platform.

6 Steps to start using UPI

UPI is now publicly available. Check if your bank has released an updated mobile app with UPI support already.

1. Download the UPI app of your bank from Google Play Store/Apple Apps Store and install it in your phone.
2. Set app login.
3. Create a Virtual Payment Address (VPA). Eg: Roychoudary@icici
4. Add your bank account.
5. Set MPIN.
6. Start transacting using UPI.

What is MPIN?

An MPIN is given to a banking customer once they register for Mobile Banking support. Chances are you have one already, but have never used it.

How exactly does one make a payment transaction?

For example, consider that you are trying to book tickets online for a film via your mobile.

When you click buy, the mobile website/ mobile app you used will trigger the UPI payment link. Now, you are taken to the pay screen of the UPI app. Here, the transaction information is verified and a click followed by entry of a secure PIN completes the purchase.

How safe is UPI?

It is safe as the customers only share a virtual address and provide no other sensitive information. The 'virtual payment address' is alias to your bank account.

The virtual payment addresses doesn't allow your security to be compromised when a certain merchant's account is hacked, because their database will have only a list of virtual addresses. The payment addresses are denoted by 'account@payment_service_provider'.

It offers better security than other payment methods where details like credit card numbers are send. While using UPI, all these details are hidden as only a Virtual Payment Address (VPA) is used.

What kind transactions can be performed via UPI?

Merchant payments, remittances, bill payments among others.

Is there any limit regarding the amount that can be transferred in a single transaction?

The per transaction limit is Rs.1 lakh.

UPI Payment Service Providers: Banks vs Wallets

Currently, UPI has permitted only banks to be registered as Payment Service Providers (which means they can run bank accounts). But this scope can get wider and perhaps even include wallets later.

Significance of Unified Payment Interface

- Facilitate Person to Business (P2B) transactions via collect payment option. This would boost business and Indian Economy overall.
- UPI will bring down cash circulated in the economy (currently cash in circulation is 12% of GDP).
- UPI will bring down annual cost of currency transactions (currently around Rs. 20000 crore)

Ok; so far good. Any negatives?

- Refunds are currently not part of UPI and the authority for all arbitration lies with NPCI.
- The introduction of UPI is most likely to badly affect the Wallet Companies.
- The per transaction limit of Rs.1 lakh may not go well with all customers/business.