

# India leads the world in payment processes with UPI

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**Mumbai, Sep 03, 2016** - While we continue to deliberate on consumers' changing tastes in what they buy, the equally significant parallel story is that they are also changing how they transact.

The huge socio-economic divide, cultural differences and disparity in education may seem to some as India's biggest development roadblocks, but are also our strongest drivers of innovation. In payment processes, contactless payments were introduced to counter security issues and aid convenience, payment banks have been sanctioned as a step towards inclusion, and the Aadhaar card initiative has the ambitious target of introducing system and cost efficiencies in payment disbursement. We are now at the cusp of another innovation.

Here's where we stand today. Consumers continue to have no time, merchants still battle security concerns, and financial institutions are continuously trying to become more efficient and keep pace with consumer demands. This, despite various innovations to counter such problems. Life has certainly become easier and more secure but there is room for so much more. The issue of financial inclusion, regulation and control are still looming large in India.

## Enter UPI

In this scenario, the primary body that governs payment systems in India - National Payment Corporation of India (NPCI) launched the Unified Payment Interface (UPI). What it does is act as an aggregator of all accounts held by a consumer so that people can make transactions from multiple accounts owned by them, from one single mobile application or web interface. The huge convenience of not having to log into multiple secure websites and applications is supplemented by security as well. Using UPI, consumers can make or 'collect' payments by creating a unique virtual address similar to their existing email addresses - thereby eliminating the need to share bank account numbers.

Designed to facilitate interoperability and a new level of security, UPI boasts the following features:

### Virtual payment address, a new paradigm in security

UPI completely eliminates the need to divulge sensitive financial and personal details like account details, personal information and sensitive pin numbers. Instead, consumers create a virtual address in the 'account@provider' format resulting in unique IDs like ram.kapoor@icici.

In addition, these handles don't need to be permanent; they can be created for a specific duration or even a single transaction. Consequently, a user can own multiple unique handles and organise payments or collections the way it suits them. Special instructions like setting an upper limit for payments on certain handles, and restriction of merchants or outlets at which a certain handle can be used, and standing payment instructions make the entire process very useful to consumers.

### Single interface convenience or interoperability

With UPI, the bank can now become a single entity for a consumer, completely eliminating the need to juggle between different banking apps with their different user IDs and passwords. The promise of interoperability is probably the single biggest draw for consumers to adopt the process. Financial institutions who become first movers in the UPI space by offering inter-operable platforms are like to earn loyalty of consumers alongside the obvious benefit of commissions on other bank transactions made on their platform.

### Critical financial inclusions

The biggest social impact of the UPI process is the possibility to integrate global identifiers like the Aadhaar number to collect payment. This holds the potential of transforming how the weaker sections of society transact and receive government benefits.

## Everybody wins

UPI is a win-win for all stakeholders. Consumers are probably the biggest gainers with the huge convenience of operating all their bank accounts from one unified interface. The icing on the cake is the security benefit of no divulging sensitive data. Merchants will also breathe a sigh of relief as they will not be under the administrative scanner because incidences of fraudulent transactions will be greatly reduced. Moreover, those merchants - like

e-commerce players who have cash-on-delivery options can collect more securely with UPI. Banks and other financial institutions are all too eager to be the first to deliver on customer demands. The savvy first movers who set up user-friendly unified apps will score with consumers and earn loyalty.

The only possible loser in all of this will be mobile wallets, whose usefulness will come under question. Since regulators do not allow interoperability between wallets, consumers may be quick to switch to UPI which makes it easy to pay for products and services that need small change, like taxi services. With UPI as an aggregator, banks will become 'open-ended wallets'.

## **UPI 2.0**

UPI already offers interoperability, the security of a virtual payment address, and pull requests and a real-time payment experience. But, technology companies leading the process say that this is only the beginning. In future, UPI is expected to further eliminate the need of cash transactions. The digital revolution will also hopefully lead to the regulators allowing e-KYCs, thereby allowing consumers to open bank accounts far more conveniently user just their smartphones.

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