



STUDENTS' ECONOMIC FORUM

A monthly publication from South Indian Bank

*To kindle interest in economic affairs...
To empower the student community...*

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November 2016

Theme 300

UNIFIED PAYMENTS INTERFACE (UPI)



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South Indian Bank is a member of BCSBI and is committed to treat customers in a fair, transparent and non-discriminatory manner.

Theme No: 300: Unified Payments Interface (UPI)

A well informed customer will make the policy makers as well as organizations which produce goods and services more responsive to the customer needs. This will also result in healthy competition among organizations and improve the quality of goods and services produced. The “SIB Students’ Economic forum” is designed to kindle interest in the minds of younger generation.

India has been enjoying a very healthy evolution of payment systems over the past thirty years. This has been the result of the measured road maps periodically adopted by the Reserve Bank of India, in the initial years as a developer and in later years as a catalyst and facilitator. Today our systems are not only comparable to any systems, anywhere in the world, our systems also do set standards and good practices for the world to follow. This month we will discuss “Unified Payments Interface (UPI)”, a silent revolution that has been sweeping the country.

1. What is Unified Payments Interface (UPI)?

The UPI is an improved version of IMPS (Immediate Payment Service). Apart from a bank account, all that you need is a Smartphone. Once you register for UPI with your bank, a unique ‘virtual address’ will have to be created by the customer. This is mapped with your mobile phone. UPI invokes this virtual identity of the beneficiary and transfers money in real-time. It works on single-click 2-factor authentication.

UPI will offer a facility to identify a bank customer with an email-like virtual address. For example, a South Indian Bank customer called XYZ will get a virtual address XYZ@sib. A customer can have multiple virtual addresses for multiple accounts in various banks. In order to ensure privacy of customer’s data, there is no account number mapper anywhere other than the customer’s own bank. This allows the customer to freely share the financial address with others. XYZ can execute a transaction using an MPIN which is known only to him. A customer can also decide to use the mobile

number as the name instead of the short name for the virtual address like 1234567890@sib.

2. What is the aim of Unified Payments Interface?

The UPI seeks to make money transfers easy, quick and hassle free. It will allow customers to make payments and collect money almost as easy as possible with the help of a text message.

3. Who developed the Unified Payments Interface?

The interface has been developed by National Payments Corporation of India (NPCI), the umbrella organization for all retail payments in the country.

4. What are the key drivers of Unified Payments System?

The key drivers of unified payments system are as follows:

i) Simplicity

- a) Paying and receiving shall be as easy as swiping a phone book entry and making a call on mobile phone.
- b) Everyone who has an account shall be able to send and receive money from their mobile phone with just an identifier without having any other bank account details.

ii) Innovation

- a) The solution shall be hassle free with minimal intervention.
- b) It shall be able to have the advantage of enhancements in mobile devices, provide integrated payments on new consumer devices.

iii) Adoption

- a) Solution shall be scalable to a billion users and large scale adoption.
- b) People using Smartphone shall be able to send money to others who are not yet using any mobile application and vice versa.

iv) Security

- a) Solution shall provide end to end strong security and data protection.

v) Cost

- a) Effective use of mobile phone application reduces the cost.

5. What are the Key Features of Unified Payments Interface (UPI)?

The Key Features of Unified Payments Interface (UPI) are:

- i) Send Money ii) Collect Money iii) Balance Enquiry
- iv) Change MPIN v) Transaction Status vi) Complaint Module

6. Explain the working of Unified Payments Interface (UPI)?

Step 1 - XYZ (the customer) had created his virtual ID/ address as part of the registration process with PSP (payment service provider).

Step 2 - The customer XYZ initiates an online purchase using only his virtual ID after selecting UPI as the payment mode

Step 3 - When the transaction request hit merchant's server, it is immediately passed on to the acquiring bank's server where a UPI collect transaction is initiated on the virtual ID shared by XYZ from the merchant's server.

Step 4 - This request is then routed to UPI server and using XYZ's virtual ID the transaction request is directed towards his PSP app

Step 5 - A pop-up/push notification is received on his payment service provider (PSP) app requesting for the secured pin and confirmation of the payment

Step 6 - He simply enters his secure pin to authenticate the purchase transaction and within seconds receives a confirmation of a successful online purchase from the merchant.

Step 7 - This transaction is then pushed to XYZ's bank account, where the credentials are validated and his account is debited

Step 8 - The confirmation is again pushed back to UPI servers and in turn it initiates a credit message to the merchant's acquiring bank and the credit to the merchant happens in real time

7. What are the customer benefits for Unified Payments Interface ?

UPI will bring in a big change in the payments space. The impact of it is that it will allow any bank to on-load customers across board. The major benefits of unified payment interface are as follows:

- i) It does all the functions of a debit card or internet banking in a more secured environment.
- ii) This will allow a customer to have multiple virtual addresses for multiple accounts in various banks.
- iii) In order to ensure privacy of customer's data, there is no account number mapper anywhere other than the customer's own bank.
- iv) It is a unique payment solution as the recipient is now empowered to initiate the payment request from a smartphone without using credit or debit card and internet banking.

- v) This allows the customer to freely share the financial address with others.
- vi) The product will eliminate the need to exchange sensitive information such as bank account numbers, one-time passwords or phone numbers during a financial transaction.
- vii) It will allow a customer to instantaneously transfer funds across different banks with the use of a single identifier.
- viii) A move towards UPI and other modes of electronic payments will also allow for better cost management by banks with ample cross-selling opportunities.
- ix) It is built on top of the IMPS which is immediate, and works 24x7, unlike NEFT or RTGS services, which have specific working hours.
- x) This will make payment systems fully interoperable across all players without having silos and closed systems.

8. What is the nature of payments the customer can make with Unified Payments Interface?

A customer can use UPI app instead of paying cash on delivery on receipt of product from online shopping websites and can perform expenses like paying utility bills, over the counter payments, barcode (scan and pay) based payments, donations, school fees and other such unique and innovative use cases.

9. What is the way forward for the Unified Payments Interface?

Going forward, companies should be able to register its identifier on the UPI system and receive funds from a customer's bank account through the UPI. Such tech-based companies are now banking on mobile wallets. The day is not far off when the banks would be viewed more as technology companies offering banking products and services

Just as Aadhaar has become the base for a lot of policy reform, UPI has the potential to dramatically change the payments landscape. The fact that we have a low-cost acquiring solution which is safe can dramatically propagate merchant acquiring across the country. UPI can bring next innovation such as e-payments on delivery. It could really become a preferred option for payment for both customers and the merchants.

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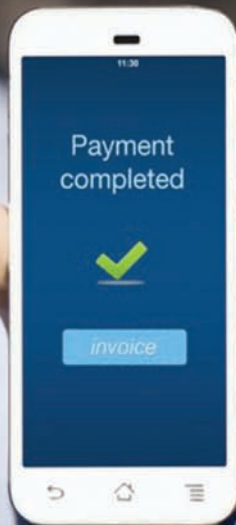
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