

UPI

Posted at: 04/11/2024

Unified Payments Interface (UPI)

Context:

- The **National Payments Corporation of India (NPCI)** has authorized Paytm to onboard new UPI users, contingent on compliance with all procedural guidelines and circulars.

Background:

- This decision provides relief to Paytm, which faced challenges earlier this year when the **Reserve Bank of India** restricted its associate company, **Paytm Payments Bank Limited (PPBL)**, from onboarding new UPI users.

Unified Payments Interface (UPI):

- Developed by the NPCI in **2016**, UPI operates on the **Immediate Payment Service (IMPS)** infrastructure.
- Allows multiple bank accounts to be accessed through a single mobile application from any participating bank, integrating various banking features such as **fund transfers**.
- Facilitates **peer-to-peer inter-bank transfers** with a simple two-click authentication process.

Features of Unified Payments Interface (UPI):

- Transfers are simplified using the recipient's **UPI ID**, such as a mobile number, QR code, or Virtual Payment Address, eliminating the need for account numbers.
- Users can now access **pre-sanctioned credit lines** from banks via UPI, expanding transaction capabilities.
- Removes the need to enter bank details or sensitive information for each transaction.
- Supports **24/7 transactions** and enhances interoperability among banks.
- Utilizes technologies like IMPS and **Aadhaar-Enabled Payment System (AEPS)** for smooth payment processing.
- Enables users to send and receive money **offline** using compatible devices that support **Near Field Communication (NFC)** through UPI Lite X.
- **UPI Tap and Pay** allows payments at merchant locations via NFC-enabled QR codes with a single tap, without requiring a PIN.

Concerns, Issues, and Challenges Associated with UPI:

- Expanding UPI for a global user base poses **regulatory and compliance challenges** regarding data protection and financial laws in different countries.
- A recent **Parliamentary panel report**, titled "Digital Payment and Online Security Measures

for Data Protection," revealed that foreign entities like **PhonePe** and **Google Pay** dominate the Indian fintech market. As of October-November 2023:

- **PhonePe: 46.91%** market share
- **Google Pay: 36.39%** market share
- **BHIM UPI: only 0.22%** market share in transaction volume.
- UPI is vulnerable to **cyber threats**, with cybercriminals potentially exploiting system weaknesses or using social engineering tactics to access sensitive information, leading to financial losses.
- Presents challenges for **cross-border transactions**, particularly in managing **currency conversion** and **exchange rates** while facilitating payments and loading money into wallets.
- Faces obstacles to **widespread adoption**, especially among individuals unfamiliar with digital payments, which increases the risk of **financial fraud**.



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