



INDIA MOVES TO A UNIFIED PAYMENT INTERFACE

Introduction

On April 11, 2016, the Reserve Bank of India (the “RBI”) flagged off the Unified Payment Interface (“UPI”) system, which will be a channel that will enable multiple bank accounts to be accessed through a single mobile application (“APP”). The launch of the UPI system will revolutionize India’s financial sector.

This update discusses the characteristics as well as the impact of the newly launched UPI system.

The current regime

Currently, money transfer is cumbersome and suffers from, among others, the following problems: (i) a single APP cannot be used to access different bank accounts; (ii) the various APPs provided by different banks are one dimensional in nature, i.e., the APP provided by one bank can only be used to operate a bank account held with that particular bank; and (iii) customers have to divulge their personal information like account details and security pin codes while making cashless payments.

Important characteristics of the UPI system

The UPI system will simplify the money transfer process by linking all bank accounts of a customer through the APP. Once the APP is downloaded, a customer can provide an identifier like a virtual address or an Aadhaar number (a unique identification number akin to a social security number), and will be able to link his/her bank accounts and wallets.

Various other entities like utility companies, etc., will register on the UPI server with the own identifiers, and paying them will require a text message to be sent through the APP with instructions to pay. Once payment instructions are sent, the respective banks of the payer and the payee will connect with the UPI server, where the identities of both the parties will be verified, and payment will be completed.

This will allow UPI registrants to make multiple recurring payments (i.e., utility bills, school fees and subscription fees payments) without having to send cheques or having to recall which account has been linked to any particular utility. Organizations can also use this system to pay salaries.

Another exciting feature of the UPI system is going to be the “pay by” date feature, which will allow payment requests to be “snoozed” and paid just before the expiry date, without services being terminated. Additionally, the system will permit a collect payment request to be made to others (person-to-person or entity-to-person).

The dawn of a new era

The UPI system will be a game changer. It will put pressure on the Indian mobile wallet industry because most of the wallet companies do not have payment bank licenses and will have to partner with the banks on the platform. Of course, wallets might still continue to be used by India’s unbanked poor for



transferring funds to remote rural areas, but state-owned banks may eat into this market by pushing their rural penetration.

Even taxi hailing companies like UBER will be able to take advantage of the UPI system. UBER was hauled up by the RBI for breaching its regulations in relation to foreign payments by Indian customers using their credit cards because the payments were actually going into UBER's bank account in the US. Following this, UBER tied up with Indian mobile wallet companies, and all UBER payments are now made using mobile wallets. Going forward, UBER should be able to register its identifier on the UPI system and receive moneys from a customer's bank account through the UPI.

From a customer's standpoint, recovery of money is an issue that will have to be addressed.