UPI Booster

Why in news?

The RBI has announced a proposal to popularise UPI payments on feature phones which would be the third iteration of the feature phone payments push in the country.

What is UPI?

- A Unified Payment Interface (UPI) is a smartphone application thaw was launched in 2016 t0 allows users to transfer money between bank accounts.
- It is a single-window mobile payment system that caters to the “Peer to Peer” collect request which can be scheduled and paid as per requirement and convenience.
- It eliminates the need to enter bank details or other sensitive information each time a customer initiates a transaction making it a safe way to bank.
- The interface is developed by the **National Payments Corporation of India (NPCI)** and regulated by the Reserve Bank of India (RBI).
- **Unique features of UPI**
    - Immediate money transfer through mobile device round the clock 24*7 and 365 days
    - Single mobile application for accessing different bank accounts
    - Single Click 2 Factor Authentication
    - Virtual address of the customer for Pull (Receive money) & Push (Send money)
    - Utility Bill Payments, Over the Counter Payments, QR Code (Scan and Pay) based payments
    - Raising Complaint from Mobile App directly

What is UPI 2.0?

- UPI 2.0 was launched in 2018 to shape UPI into an end-to-end digital transacting platform.
- **Key features of UPI 2.0**
    - **Linking of overdraft account-** In addition to current and savings accounts, customers can link their overdraft account to UPI.

- **One-time mandate-** UPI mandate could be used in a scenario where money is to be transferred later by providing commitment at present.
- **Invoice in the inbox-** This feature will help customers to view and verify the credentials and check whether it has come from the right merchant or not.
- **Signed intent and QR-** This feature is designed for customers to check the authenticity of merchants while scanning QR or quick response code.

What are the benefits of UPI?

- **For Banks**
  - Single click two factor authentication
  - Universal application for transaction
  - Leveraging existing infrastructure
  - Safer, secured and innovative
  - Payment basis single/ unique identifier
  - Enable seamless merchant transactions
- **For customers**
  - Round the clock availability
  - Single application for accessing different bank accounts
  - Use of Virtual ID is more secure, no credential sharing
  - Single click authentication
  - Raise complaint from mobile app directly
- **For Merchants**
  - Seamless fund collection from customers - single identifiers
  - No risk of storing customer's virtual address like in cards
  - Tap customers not having credit/debit cards
  - Suitable for e-com & m-com transaction
  - Resolves the COD collection problem
  - Single click 2FA facility to the customer - seamless pull
  - In-App Payments (IAP)

What is the need for RBI to popularise UPI payments on feature phones?

- The monthly transactions value by UPI increased from Rs 1.8 lakh crore in November 2019 to Rs 7.6-lakh crore by November 2021.
- While credit and debit card payments flat-lined at Rs 13-lakh crore between FY19 and FY21, the use of UPI payments have jumped from Rs

8.7-lakh crore to Rs 41-lakh crore.

- But usage of cash is still high and UPI commands less than a 10 % share of digital retail payments with considerable scope for growth.
- To expand penetration, RBI plans to deploy innovative solutions allowing feature phone users to onboard UPI.
- Since, about 37 % of India's mobile phone users are still using basic phones and internet connectivity in the hinterland, this is a good idea.

What is the past experience of feature phone payments push?

- **USSD**- In 2012, the NPCI had launched a USSD (Unstructured Supplementary Services Data)-based mobile banking service called ***99#**
- Initially, the facility was only available to MTNL and BSNL users but later expanded to all telecom service providers and linked to Pradhan Mantri Jan Dhan Yojana in 2014.
- **USSD 2.0-** The USSD 2.0 was launched alongside BHIM in 2016, incorporating all the UPI options, but it hasn't quite taken off**.**
- This is because of the low penetration of UPI-linked bank accounts then and the need to remember the beneficiary's bank details.
- **Addressing the flaws**- RBI needs to address UPI's high transaction failure rates which make users hesitant to rely on it for high-value payments.
- Such failures can be attributed to the large volume of transactions below Rs 200 which clogs the banks' system capacities.
- Such transactions can be routed through an on-device wallet in the UPI app, which works like a prepaid instrument, to avoid multiple debits and credits to the underlying account.
- Holding participant banks more accountable for slow reversal of failed transactions is needed.
- RBI guidelines set a 1 day limit for a beneficiary bank to reverse a failed account-to-account UPI transaction and a 5 day limit for merchant payments, with a penalty of Rs 100 per day for failure to comply, but these rules are often breached.
- The RBI's plan to issue a discussion paper specifying transaction charges across digital modes must be in such a way that it does not disturb the **zero Merchant Discount Rate policy** which today renders UPI free of cost to users.
- RBI can use this opppurtunity to redouble efforts to wean the economy away from cash to digital modes.

The merchant discount rate is the rate charged to a merchant for accepting payment from their customers through digital means.

References

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