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UNIFIED PAYMENT INTERFACE: REVOLUTIONIZING MODERN PAYMENT SYSTEMS

Ms. K. Suganya[1], Dr. C. Yogalakshmi[2]
[1]*Ph.D Full Time Research Scholar, Department of Banking Management, Alagappa University, Karaikudi, Tamilnadu, India 630 002.*
[2]*Senior Professor & Dean, Department of Banking Management, Faculty of Management, Alagappa University, Karaikudi, Tamilnadu. India 630 002.*

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ABSTRACT
This paper examines the Unified Payment Interface (UPI), a cutting-edge payment system introduced in India by the National Payments Corporation of India. UPI is a mobile-centric, real-time interbank payment platform designed to transform and democratize digital payments in the country. The study delves into the evolution of India's payment systems and provides a comprehensive analysis of UPI's technology, focusing on its architecture and security framework through empirical and theoretical literature. UPI stands out as a major advancement compared to existing payment systems, offering benefits such as reduced costs, user-friendly interfaces, faster settlement times, and robust security measures. With its modular API-based architecture, UPI fosters the creation of innovative solutions for both consumers and businesses. Although still in its early stages, the development of merchant-focused UPI solutions holds the potential to significantly enhance user adoption. By integrating a broader section of the population into the digital economy, UPI could play a pivotal role in advancing financial inclusion in India.
KEYWORDS: *Mobile payments, Real Time Payments, Unified Payment Interface, Digital payments*

1.INTRODUCTION

India, the world's seventh-largest economy with a GDP of USD $2.3 trillion [1], remains predominantly cash-driven despite its scale. As of March 2024, the total currency in circulation stood at Rs. 18,807 crore, such heavy reliance on cash introduces challenges such as the costs of currency production, storage, and management, along with issues of counterfeit currency. Furthermore, the lack of transaction trails facilitates tax evasion, and these issues are expected to intensify as the economy continues to grow. The Reserve Bank of India (RBI) has undertaken systematic measures to encourage digital payments in India, including the establishment of the National Payments Corporation of India (NPCI) as an umbrella organization to develop cost-effective retail digital payment systems. In August 2016, NPCI introduced the Unified Payment Interface (UPI), a cutting-edge mobile-based payment platform that facilitates real-time bank payments. UPI leverages India's high mobile penetration to position mobile phones as the primary payment device for consumers and merchants, aiming to universalize digital payments across the country. This paper explores the technology underpinning UPI and examines the value it adds compared to existing digital payment systems. UPI's rapid growth is attributed to the expanding ecosystem fostered by banks and increasing user adoption, primarily for person-to-person remittances. However, for UPI to achieve its full potential, the development of merchant-focused UPI payment solutions is essential. The paper delves into UPI's technical architecture, transaction processes, and security mechanisms, providing insights that can inspire innovative business solutions. Currently, India faces a shortage of digital payment acceptance infrastructure for merchants, and UPI's cost-effective solutions have the potential to bridge this gap. UPI serves as a compelling case study for both developing and developed nations, showcasing how to establish a universal, low-cost digital payment system.

2.FUNDAMENTALS OF UPI

The National Payments Corporation of India (NPCI) developed the Unified Payment Interface (UPI) as a unified platform for all digital payment systems in India. As the owner, network operator, service provider, and coordinator of the UPI network, NPCI provides the architecture and standardized Application Programming Interface (API) specifications required to facilitate seamless mobile-based digital payments. UPI leverages the

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widespread use of mobile phones and the growing adoption of smartphones, internet connectivity, and data services to enable an instant mobile payment system in India. It allows users to send or request money directly from their bank accounts using their mobile phones, effectively making mobile devices the primary payment tool for the masses. UPI employs the Immediate Payment Service (IMPS) as its switching mechanism to facilitate real-time payments and settlements between financial institutions. Through UPI, anyone with a bank account in India can create a Virtual Payment Address (VPA) or UPI ID (e.g., abc@xyzbank), which serves as their unique payment identity, eliminating the need to share sensitive bank details during transactions. By simplifying digital payments, UPI reduces the reliance on issuing physical payment cards—a process that is both costly and time-consuming. A mobile phone paired with a unique payment ID transforms into a low-cost, widely accessible payment acceptance device. This innovation has made digital payments in India universal, user-friendly, and cost-effective, significantly advancing financial inclusion.

2.1Key Features of UPI

The Unified Payment Interface (UPI) transforms mobile phones into primary devices for executing a wide range of payments, including person-to-person (P2P), person-to-entity, and entity-to-person (E2P) transactions. Users can seamlessly send or request payments to/from friends, merchants, or service providers, as well as pay bills, all without sharing sensitive banking credentials. UPI also consolidates multiple banking relationships through a single app, enhancing the overall user experience.

1. **Payment Versatility**: UPI enables users to both initiate payments (push) and collect funds (pull) directly from their mobile devices, making it highly versatile for various payment scenarios.
2. **Virtual Payment Address (VPA)**: Users can create a unique Virtual Payment Address (VPA), allowing transactions without disclosing sensitive details such as bank account numbers or credentials. Payments can be processed using multiple identifiers, including VPA, Aadhaar Number, or a combination of Account Number and IFSC.
3. **Interoperability and API Support**: UPI pro videos a standardized set of APIs, ensuring seamless interoperability across banks, financial institutions, and payment systems. This structure eliminates the creation of silos and enables payment service providers to innovate by building customized solutions for businesses and feature-rich apps for consumers.
4. **Secure Authentication**: UPI employs one-click, two-factor authentication, ensuring safe and secure transactions directly through personal mobile devices. This eliminates the need for additional physical tokens or separate acquiring devices.
5. **User-Centric Functionalities**: UPI apps offer diverse functionalities, such as sending money, requesting money, and making QR-based payments. They also support multiple methods for sending funds, including using a mobile number, UPI ID, Aadhaar Number, or traditional account details with an IFSC code. Users can easily manage accounts from multiple banks and create or reset their UPI IDs.

2.2 Improvements in UPI Over Existing Payment Systems

1. **Pull-Based Mobile Transactions**: Traditional digital payment systems, such as cards and online payments, rely solely on push-based transactions initiated by customers. These systems lack the capability for merchants to initiate a payment request (pull) for customer approval. UPI introduces real-time push and pull transaction capabilities via mobile phones, enabling a more dynamic and user-friendly payment experience.
2. **Interoperable User Interfaces**: UPI supports payments across multiple interfaces, allowing seamless integration. For example, a merchant can request payment on a website, and the user can authenticate and complete the transaction using a mobile phone. This interoperability removes friction and enhances convenience for users and businesses.
3. **Abstraction of Bank Details**: Unlike traditional systems requiring users to share sensitive information like account numbers, UPI allows users to create a unique Virtual Payment Address (VPA). This VPA acts as the user's unique identity for making or receiving payments, eliminating the need to disclose bank details. By minimizing data exposure on third-party platforms, UPI significantly enhances security and reduces risks. These advancements position UPI as a transformative solution in the digital payment landscape, offering enhanced flexibility, security, and ease of use compared to conventional payment systems.
4. **Safety with One-Click, Two-Factor Authentication**: UPI simplifies transactions with a single-click process where users only need to enter their MPIN on their mobile devices to complete a transaction. This eliminates the need for entering card details, usernames, passwords, or OTPs on third-party platforms, reducing risks. The personal mobile device serves as both the authentication and authorization tool, enhancing security and convenience.

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5. **Mobile-First Approach**: UPI is designed with a mobile-first mindset, leveraging India's extensive smartphone penetration to facilitate low-cost, universal digital payments. Unlike traditional systems requiring hardware infrastructure like cards, UPI only needs a bank account and a mobile device, which are widely available among Indian adults. This innovative approach lowers costs and accelerates adoption.
6. **Elimination of Wallet Silos**: Unlike e-wallet systems that operate in silos—requiring both payer and payee to be on the same platform—UPI only requires the beneficiary's payment address, with funds directly credited to their bank account. Moreover, unlike e-wallets that require preloading funds, UPI enables transactions directly from the payer's bank account to the payee's bank account, avoiding the inconvenience of having funds stuck in wallet accounts. These enhancements highlight UPI's superiority in terms of security, accessibility, and cost-effectiveness, making it a revolutionary step forward in the evolution of digital payment systems.

3.UPI ARCHITECTURE

The Unified Payment Interface (UPI) operates on a unified interface layer developed and managed by the National Payments Corporation of India (NPCI). This common layer coordinates transactions and ensures seamless settlement between bank accounts, leveraging the Immediate Payment Service (IMPS) and the Aadhaar Enabled Payment System (AEPS). Banks, financial institutions, and other entities offering UPI services connect to NPCI's interface through standardized APIs, enabling secure transactions via Virtual Payment Addresses (VPAs) without requiring users to share sensitive bank account details or credentials.

Key Aspects of UPI Architecture

1. **Unified Interface**: UPI's architecture provides a single platform for processing transactions between different financial institutions, ensuring compatibility and interoperability across the ecosystem. This layer facilitates both "push" and "pull" payment types through standard APIs, making it easier to carry out real-time transactions.
2. **Payment Authentication and Authorization**: Payment authorization and authentication are performed on the user's personal mobile device. This simplifies the process and ensures that sensitive information is protected, with no need to share banking details during transactions.
3. **Stateless API Services**: UPI APIs are stateless services exposed over HTTPS, using XML format for input and output. This ensures that each API interaction is independent and does not rely on the state of previous interactions, offering greater reliability and scalability.
4. **Idempotent API Calls**: All entities that interact with UPI services must ensure idempotency in their API implementations. This ensures that repeated API calls with the same data do not result in duplicate transactions, which is crucial for preventing errors and maintaining the integrity of payment processing.
5. **Asynchronous Communication**: UPI APIs are asynchronous, meaning that once a payment request is initiated, the response is returned separately via a response API. This approach allows for immediate acknowledgment of requests, while the processing of the transaction occurs independently. This non-blocking design improves performance and enhances scalability by avoiding waiting times.
6. **Transaction ID for Request-Response Correlation**: Each transaction request is assigned a unique transaction ID, ensuring accurate tracking and correlation between requests and responses. This allows users to follow up on transactions, both instant and delayed, with a reliable identification system.
7. **Scalability**:
   The architecture's asynchronous and stateless nature enables it to handle a large volume of transactions without blocking or slowing down the system. This ensures that UPI can scale effectively to meet growing demand as the digital payments ecosystem expands. UPI's architecture is designed for flexibility, security, and scalability, enabling efficient and interoperable payment solutions across various platforms and institutions.

4. THE UPI ECOSYSTEM

4.1 Payment Service Players (PSPs): Customers can access UPI payment services through apps provided by Payment Service Players (PSPs). These PSPs include banks, payment banks, and third-party software providers associated with banks. These players enable customers to register, create Virtual Payment Addresses (UPI IDs), and provide a wide range of payment services through their UPI apps. Importantly, users are not limited to using their own bank's UPI app; they can choose any PSP app to make transactions. Furthermore, the Payer's and Payee's PSP apps may belong to different banks, enabling a flexible and interoperable payment ecosystem.

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Types of Transactions Enabled by PSP UPI Apps

1. **Non-Financial Transactions**: These transactions are related to account management and UPI services, including:
    - Customer registration on the UPI platform
    - Creation and management of Virtual Payment Addresses (UPI IDs)
    - Setting and changing of MPIN
    - OTP requests for additional authentication
    - Checking bank balances
    - Raising disputes or checking the status of transactions in case of issues
2. **Financial Transactions**: These transactions involve the actual transfer of funds and include:
    - **Push Transactions**: Payments initiated by the payer, based on Virtual Payment Address, Account Number & IFSC Code, or Aadhaar Number
    - **Collect Transactions**: Payments initiated by the payee, enabling the receiver to request money from the payer

4.2 Virtual Payment Address (VPA): A key feature of the Unified Payment Interface (UPI) is the concept of the **Virtual Payment Address (VPA)**, which simplifies the process of making digital payments. Unlike traditional systems that require sharing detailed bank account information (such as account number and IFSC code), UPI allows users to create a unique Virtual Payment Address (UPI ID) to represent their bank accounts. This VPA acts as an abstract identifier for a user's bank account, making digital transactions more secure and easier to execute.

Key Aspects of Virtual Payment Address

1. **VPA Structure**: The Virtual Payment Address is represented in the format "xyz@psp", where:
    - **xyz** is a unique name chosen by the user, and
    - **psp** is the name of the Payment Service Player (PSP), i.e., the bank or service provider that facilitates the UPI transaction. This VPA allows users to identify each other and send/receive payments without exposing sensitive bank details.
2. **VPA Creation and Storage**: The VPA is created by the user within their PSP's UPI app. It is stored securely within the PSP's database. The VPA serves as a reference for the user's bank account, allowing for seamless transactions.
3. **Address Resolution**: For a transaction to occur, the VPA must be resolved into the actual bank account details (account number and IFSC code). The VPA is mapped through the **NPCI Central Mapper**, which connects the VPA with the corresponding bank account information.
    - The **PSP UPI App** resolves the VPA for the user, while the **NPCI Mapper** links the VPA to the actual bank details (such as account number and IFSC code).
4. **Privacy and Security**: The use of VPA abstracts the actual bank account details, eliminating the need for users to share sensitive information (e.g., account numbers and IFSC codes) during transactions. Users can simply exchange their VPAs to initiate payments securely.
5. **Transaction Flexibility**: The VPA ensures that users can send and receive money without the complexity of sharing detailed bank account information, fostering ease of use and increasing the adoption of digital payments. The **Virtual Payment Address** provides a user-friendly and secure way to perform digital transactions, eliminating the need for sharing sensitive bank details and enhancing privacy for all parties involved.

4.3 NPCI Central Mapper: The **NPCI Central Mapper** plays a crucial role in the Unified Payment Interface (UPI) and other payment systems in India. It acts as a central repository that maps customer details, such as their mobile number, bank account, Aadhaar number, and Virtual Payment Address (VPA), to facilitate seamless and secure digital payments. The mapper simplifies transactions by allowing users to send and receive money using only mobile numbers or Aadhaar numbers, without the need for full bank account details.

Key Functions of the NPCI Central Mapper

1. **Mapping Customer Information**: The central mapper maintains a link between several identifiers associated with a customer:
    - **Mobile Number**: Used for routing payment instructions.
    - **Bank Account**: Maps the customer's account details for transaction processing.
    - **Aadhaar Number**: Links to the bank account, enabling Aadhaar-based payments.
    - **Virtual Payment Address (VPA)**: A unique identifier for UPI transactions, allowing users to make payments without sharing their bank details.

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2. **Routing Payment Instructions**: The central mapper helps route payment instructions based on the customer's mobile number. For example, a user can send money to another user using their mobile number or VPA, without needing to know the beneficiary's full bank account details.
3. **Supporting Multiple Payment Systems**: The NPCI central repository is not limited to UPI; it also supports other digital payment systems such as:
    - **Aadhaar Payments**: Direct Benefit Transfers (DBT) using Aadhaar numbers.
    - **National USSD Platform (NUUP)**: A USSD-based payment system for users without smartphones or internet access.
    - **IMPS**: Immediate Payment Service, used for instant interbank transactions.
4. **Aadhaar as a Payment Address**: One of the key innovations of the NPCI Central Mapper is its ability to link **Aadhaar Numbers** with bank accounts, allowing Aadhaar itself to function as a payment address. This provides an efficient way to send or receive money directly using an Aadhaar number, significantly improving the ease of digital payments, especially for the unbanked or underbanked population. The **NPCI Central Mapper** serves as the backbone of multiple payment systems, enabling interoperability and making digital payments easier, more secure, and accessible. Its role in linking mobile numbers, Aadhaar, bank accounts, and VPAs allows for fast, efficient, and secure payment transactions across a variety of platforms.

5.TRANSACTIONS IN UPI

UPI enables both **Non-Financial** and **Financial Transactions**. The financial transactions within UPI can be classified into two types: **Pay Request (Push Payment)** and **Collect Request (Pull Payment)**. These types of transactions enhance the flexibility and functionality of UPI, allowing users to either send or receive funds seamlessly.

1. Pay Request (Push Payment)

A **Pay Request** is a **Push Payment** transaction initiated by the payer (the user sending money). In this transaction, the payer "pushes" the payment into the beneficiary's bank account. The payer can use different identifiers for the transaction, such as:

- **Account Number and IFSC Code**
- **Aadhaar Number**
- **Virtual Payment Address (VPA)**

The payer initiates the transaction through their PSP (Payment Service Player) UPI app by entering the required payment details (such as VPA or Aadhaar Number). The payment is immediately debited from the payer's bank account and credited into the beneficiary's account.

2. Collect Request (Pull Payment)

A **Collect Request** is a **Pull Payment** transaction initiated by the beneficiary (the person receiving money). In this case, the beneficiary sends a payment request to the payer, asking to "pull" funds from the payer's account. The beneficiary uses their **Virtual Payment Address** to generate this request.

- **Expiry Time Limit**: The beneficiary can define an expiry time for the Collect Request. If the payer does not approve the transaction within the specified time, the request expires.
- **Payer's Authentication**: The payer will receive the **Collect Request** on their PSP UPI app. To complete the transaction, the payer must authenticate the payment using a **4-6 digit MPIN** (Mobile Personal Identification Number).

6.SECURITY IN UPI

Two-Factor Authentication (2FA) in UPI

In India, two-factor authentication (2FA) is a mandatory requirement for digital transactions to enhance security. UPI (Unified Payment Interface) uniquely implements a **one-click, two-factor authentication** system, ensuring both ease of use and robust security.

1. First Factor of Authentication: Mobile Device Fingerprint

- **Purpose:** The mobile device fingerprint is the first layer of authentication. It helps to establish the user's bona fide identity.
- **Process:**
    - During profile creation in the Payment Service Provider (PSP) UPI App, the user's **mobile number** is linked to the device using several identifiers, such as **Device ID, IMEI ID, SIM Number,** and **PSP App ID**.

- An encrypted outward message is sent from the bank-registered mobile number to bind these identifiers together and create a unique **device fingerprint**.
- If any of these identifiers change, the user is prompted to re-authenticate their mobile device to ensure security.

2. Second Factor of Authentication: MPIN

- **Purpose:** The second factor of authentication is a **4-6 digit MPIN** created by the user. This serves as the second layer of security.
- **Process:** The MPIN is used to authenticate the transaction. When the user initiates a transaction, they must enter this PIN to authorize the payment, adding an additional security layer.

Data Security Classification

UPI employs a data security model that classifies information into three categories to ensure data privacy and protection:

1. Sensitive Data

- **Definition:** Sensitive data includes highly confidential information, such as **passwords**, **PINs**, and **biometric data**.
- **Security Measures:** Sensitive data cannot be stored but can only be transmitted in **encrypted format**. This prevents unauthorized access to crucial user information.

2. Private Data

- **Definition:** Private data includes financial details like **bank account numbers**.
- **Security Measures:** Private data can be stored by the PSP but must be kept in **encrypted format** to safeguard it from unauthorized access.

3. Non-Sensitive Data

- **Definition:** Non-sensitive data includes basic information such as **name, transaction history (amount, timestamp, response code, location)**, and other metadata.
- **Security Measures:** Non-sensitive data can be stored in **unencrypted form**. However, while it is less critical, it is still protected against misuse to maintain security.

UPI's **two-factor authentication** system combines **device fingerprinting** and an **MPIN** to ensure secure digital transactions. By classifying data into **sensitive, private, and non-sensitive** categories, UPI implements a strong data security framework that prioritizes user privacy and protection. This robust approach ensures that UPI remains both secure and user-friendly for digital payments in India.

IMPACT OF UPI

The **Unified Payments Interface (UPI)** has had a profound impact on India's digital economy, revolutionizing the way people make payments and interact with financial services. Here's a breakdown of its key impacts:

1. Increased Financial Inclusion

- **Access to Banking for the Unbanked:** UPI has made it easier for people in remote areas to access financial services. By using just a mobile phone and a simple UPI ID, individuals can now make payments, transfer money, and receive payments without the need for physical bank visits.
- **Bank Account Linking:** With UPI, people can link multiple bank accounts to a single mobile app, eliminating the need for physical debit/credit cards and enabling anyone with a mobile phone and a bank account to participate in the digital economy.

2. Boost to Digital Payments

- **Rise in Cashless Transactions:** UPI has been instrumental in driving the adoption of digital payments across India, reducing dependency on cash. It enables quick, real-time transactions that can be made using just a smartphone, making it more convenient than traditional payment methods.
- **Growth in Merchant Payments:** UPI has also seen adoption by merchants, with many small and medium businesses now accepting payments via UPI, facilitating a more inclusive cashless ecosystem.

3. Promotion of Innovation

- **Open-Source Platform:** UPI's architecture, with open APIs, has allowed banks, fintech firms, and third-party app developers to innovate. This has led to a wide range of payment apps and financial services tailored to specific needs.
- **Wide Range of Services:** UPI has enabled not only peer-to-peer (P2P) payments but also peer-to-merchant (P2M) payments, bill payments, mobile recharges, and even government welfare disbursements. This versatile platform has created many new business opportunities.

4. Security and Fraud Prevention

- **Secure Authentication:** UPI's one-click two-factor authentication system (combining mobile device fingerprint and MPIN) has improved the security of digital payments by ensuring only authorized users can perform transactions.
- **Real-time Monitoring:** UPI provides real-time transaction tracking, which helps to detect and prevent fraudulent activities. It also gives users more control over their transactions, ensuring transparency.

5. Government and Policy Impact

- **Financial Ecosystem for Government Programs:** UPI has become the backbone for several government programs such as direct benefit transfers (DBT), subsidy payments, and welfare schemes. The linkage of Aadhaar with UPI has enabled efficient, transparent, and targeted disbursements of government funds.
- **Support for "Digital India" Initiative:** UPI has contributed significantly to the government's **Digital India** initiative by promoting cashless transactions and empowering citizens with digital tools to manage their finances.

6. Cost-Effectiveness

- **Low Transaction Fees:** UPI transactions are generally low-cost or free for users, making it a highly cost-effective solution compared to traditional banking systems or card payment methods.
- **Reduced Operational Costs for Banks and Financial Institutions:** Since UPI eliminates the need for physical infrastructure like ATMs and POS terminals, it reduces operational and maintenance costs for banks and financial institutions.

7. Increased Financial Literacy

- **User-Friendly Interface:** UPI's simple and intuitive interface has made it easier for users to understand and adopt digital payment methods. As more people use UPI, financial literacy across India has gradually improved.
- **Educational Programs and Campaigns:** The widespread use of UPI has driven banks, fintech companies, and the government to conduct awareness campaigns to educate people about safe and efficient digital payments.

8. Improved Ease of Doing Business

- **Faster Transactions for Businesses:** UPI has streamlined business transactions by enabling fast and secure payments. This is particularly beneficial for small businesses that previously relied on cash payments or slower digital payment methods.
- **Global Recognition:** UPI's success has put India on the global map as a leader in digital payments, with the system being explored by several countries looking to replicate its success.

9. Behavioural and Societal Changes

- **Shift in Payment Habits:** UPI has played a significant role in altering consumer payment behavior. People are now more comfortable using mobile phones for everyday transactions, reducing the reliance on cash and card-based payments.
- **Digital Wallets and E-Commerce Integration:** UPI has paved the way for the growth of digital wallets and e-commerce platforms, which now offer seamless payment options through UPI integration.

10. Challenges and Areas for Improvement

- **Digital Infrastructure in Rural Areas:** Despite the growing use of UPI, challenges remain in reaching remote areas with limited internet connectivity. Increasing mobile internet penetration is essential for further adoption.
- **Security Concerns:** While UPI has implemented robust security measures, the rise in digital payments has also seen an increase in cyber threats. Continuous efforts are needed to enhance security features and build trust among users.

CONCLUSION

UPI has had a transformative effect on India's digital payment landscape. It has driven financial inclusion, promoted a cashless economy, supported innovation, and improved government services. Its simplicity, security, and wide adoption make it a global benchmark for digital payment systems, setting the stage for further

advancements in financial technology. However, challenges related to digital infrastructure and security remain, which will need to be addressed to ensure the continued growth and success of UPI.

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