

UPI AND ITS MACROECONOMIC IMPACT ON THE INDIAN ECONOMY

Mayank Mathur, Academic Director, Indian School of Business, Hyderabad, Indian

ABSTRACT

From the barter methods of transferring items to the use of money, humanity has made significant progress. We live in a digital age where everything is available to us instantly. More than ever, the internet has improved the accessibility of our life. Digital payments have become increasingly important, from online restaurant ordering to one-click bill payments.

Keywords: UPI, Finance, Payments, Banks.

INTRODUCTION

Payment apps use the National Payment Corporation of India's single-interface payment system, the Unified Payment Interface, for transactions (NPCI). Users can transfer money between bank accounts using the UPI or Unified Payment Interface smartphone software. UPI is a system that integrates banking services, more direct fund routing, and payments into a single mobile application (of any participating bank). The "Peer to Peer" collection request is likewise catered for; it can be planned and paid for at the convenience of the requestor.

It is a platform where users can quickly link bank accounts from several banks into a single UPI application and exchange money around the clock using their registered cell phone numbers. The UPI Platform is a UPI system that combines several banking functionalities, such as smooth fund routing and merchant payments, under one roof and works with multiple bank accounts in a single mobile application from participating banks. NPCI, the National Payments Corporation of India, created a single-window mobile payment system (Mobile Payments). Customers don't need to submit their bank information and other sensitive data when they start a transaction. New features of UPI include web-based payments, cross-screen QR codes, in-app payments, and the expansion of the services to include online payments made through e-wallets supported by UnionPay. In the past 1.5 years, thousands of businesses from hundreds of different industries have migrated to UPI Autopay after realizing its critical advantages. UPI payment carries substantial security risks despite significantly impacting the digital economy.

How does it work

UPI uses existing systems, such as Immediate Payment Service (IMPS) and Aadhaar Enabled Payment System (AEPS), to ensure seamless settlement across accounts. It facilitates push (pay) and pull (receive) transactions and even works for over-the-counter or barcode payments and multiple recurring payments such as utility bills, school fees, and other subscriptions. Once a single identifier is established, the system allows mobile payments to be delivered without using credit or debit cards, net banking, or any need to enter account details. This would ensure the safety of sensitive information and connect people with bank accounts via smartphones to carry out hassle-free transactions.

A "push" is the UPI term for sending money. Users can send money by choosing the Send Money/Payment option when they log into the interface. After inputting the recipient's virtual ID and the required amount, he selects the account from which the funds will be debited. After the user provides a unique personal identification number (PIN), a confirmation is given.

A "pull" is when money comes through the system. The user chooses the option to collect money after logging into the system. The amount to be collected, the virtual ID for the remitter, and the account where she will deposit the funds must all be entered at this point. The payer is then sent a message asking for payment. If he chooses to proceed with the payment, he enters his UPI PIN to approve the deal. Once the transfer is complete, a text message confirmation is sent to both the sender's and the recipient's telephones.

Features of UPI

Since its introduction, UPI has made it simpler for account holders to conduct financial transactions. Since UPI is supported by more than 200 institutions, numerous digital wallets, and payment applications, the amount of money transferred over it is already more than that transmitted using debit and credit cards. The main component of UPI is Virtual Payment Address (VPA), also known as UPI ID. The addressing layer for a bank account is the UPI Virtual Payment Address, denoted by the symbol @. It promotes privacy preservation and prevents financial fraud. Some advantages of the UPI Payment mechanism are listed below.

Multiple bank accounts can be accessed using a universal payment system

With UPI, users can link various banking accounts to a single UPI-based app and designate one account as their default payment. The key benefit of UPI is that it eliminates the need to download separate apps for various banks, which is its fundamental advantage.

A unique identification makes transactions more straightforward and more secure

UPI implements the user-specific Unique Identifier to address security and privacy concerns (UPI ID or VPA). Users can transfer money using the UPI ID without providing their bank account information. The UPI ecosystem also offers one-click two-factor verification to shield customers from financial fraud while making digital purchases. When using a standard credit or debit card, the user must first provide the card's number, expiration date, and CVV code before proceeding to the payment stage. With UPI, the user types in their UPI ID, receive a notification on their phone, confirms the transaction, and makes their payment in a matter of seconds. This provides banks with an entry point in the ecommerce/m-commerce sector.

No need to register the beneficiary

Unlike IMPS/NEFT, UPI does not ask users to fill in banking details such as account number or IFSC code to register the payee as a beneficiary. This means the users need not wait for 30 minutes (in most cases) to activate a beneficiary. The interface allows the users to transfer money by simply keying in the virtual address or UPI ID to make the requisite payment.

Instant transfer — anytime, anywhere

Customers can do UPI-based transactions round-the-clock. Users can make payments or transfer funds instantly from anywhere at any given time without worrying about banking hours, bank/public holidays, or even a bank strike.

How is UPI used in India?

UPI showed astounding development regarding the number of users and transactions, with over 200 million users and 323 banks jumping on board. Scalability allowed UPI to reach higher altitudes in May 2022. The most UPI transactions ever recorded in a single month since its launch in 2016 were 5.95 billion in May 2022*. Additionally, it saw a 10% increase month over month in both the volume and value of transactions. The increased preference for UPI among customers and merchants is primarily due to connectivity and convenience. PhonePe, Google Pay, Paytm, Amazon Pay, MobiKwik, iMobile, Chillr, and the BHIM app are the most popular UPI-based applications.

Let's go back in time to comprehend the origins, growth, and future of this innovative payment mechanism in India. We examine the expansion of UPI transactions in India and how they have grown to play a crucial role in the developing cashless ecosystem in the nation. The creation of UPI has transformed recurring payments beyond recognition. UPI made its debut in 2016. When Raghuram G. Rajan was the governor of the RBI at the time, it was brought in by the National Payments Corporation of India (NPCI) and introduced by its 21 member banks. Everyone who transfers money via digital ways is part of UPI's target demographic. Despite the Rs. 1 lakh UPI payment restriction, over 3 billion transactions were made on UPI platforms in 2018, with 620 million of those transactions reaching the Rs. 1 lakh crore milestone alone in December.

Macroeconomic Analysis of UPI

According to the business, there was a 10.5 percent growth in the value of online financial transactions in India between December 2019 and December 2020. Digital wallets have overtaken credit cards as the preferred form of payment in India by 2020, according to a joint report by market research firm WorldPay. Data from EY shows that between June 2020 and June 2021, the volume and value of digital transactions based on UPI increased by 110% and 109%, respectively. UPI's contribution to the nation's digital payments industry will significantly rise if current trends continue over the coming years. The country's aim of 30 billion transactions may be attained in the following year thanks to the steady rate of development shown in UPI payments by as much as 18%.

UPI has experienced exponential growth in the past year, displacing competitors like PhonePe, Paytm, and Google pay for a sizeable portion of the market. 21,317 crores in transactions totalling 125.1 billion INR were made in FY20, representing a 13.2% rise in volume and a 14.3% increase in value compared to FY19. At the end of 2021, UPI had transactions valued at Rs5.3 trillion, the most significant amount ever. The value of UPI transactions increased from INR 2,162 billion to INR 3,290 billion between January 2020 and September 2020, as per the latest RBI data.

Sixty billion UPI platform transactions will be more than half of all digital payments in India by 2023. The overall number of UPI transactions topped 800 million in March 2019, according to the number of years. UPI transactions are increasing more quickly this year compared to the same period last year. 14.79 billion transactions were made between April and

August 2021, which is 22 times the 6.68 billion transactions made over the same time in 2018. UPI To reach one billion transactions per month and the subsequent billion in years, it took three years.

The rise in UPI transactions has boosted consumer interest in using e-commerce platforms to pay bills, recharge phones, and purchase non-essential items. The Indian market has been dramatically impacted by UPI Payments, which have altered consumer payment options and online buying venues Table 1.

Table 1 UPI REMITTER BANKS – TOP 50 BANKS (SEPTEMBER 21)							
Sr. No.	UPI Remitter Banks (September-2021)	Total Volume (In Mn)	Approved %	BD %	TD%	Total Debit Reversal Count (In Mn)	Debit Reversal Success %
1	State Bank Of India	1,036.45	89.52%	7.00%	3.48%	14.87	96.04%
2	HDFC Bank Ltd	327.32	94.77%	5.16%	0.07%	1.7	98.43%
3	Bank Of Baroda	231.73	92.28%	7.53%	0.19%	1.38	98.46%
4	ICICI Bank	225.22	94.29%	5.16%	0.55%	2.06	43.31%
5	Axis Bank Ltd	214.22	95.19%	4.14%	0.67%	1.5	60.12%

Data on UPI transactions by various banks is shown in the above table. It displays the participation of some of India's biggest banks in UPI transactions, and one of the columns also displays the percentage of approved transactions.

In India, quick payments resulted in incremental cost savings of \$12.6 billion in 2021, according to research by Cebr Economic Research. The same factor contributed to India's economy producing \$16.4 billion, or 0.56% of its GDP. According to projections, UPI payments will increase India's GDP by \$45.6 billion, or 1.12%, by 2026.

CONCLUSION

UPI is one such invention that supports the digital ecosystem and helps include the bottom of the pyramid in the financial system. The introduction of digitalization itself is a ground-breaking innovation, and UPI has a bright future ahead of it. It has improved our quality of life and is unquestionably one of the fastest and safest payment methods. The government aims to deploy UPI to facilitate cross-border transactions and provide a robust risk management mechanism in the event of fraud. UPI stands for a nation's progressive transition to a digital economy. Additionally, the pandemic was a significant factor in the growth of India's digital economy. Transactions made over UPI are expanding quickly and have room to develop, which may considerably impact India's GDP.

The future of money is digital, and this is something that moves to integrate credit cards with UPI, and other projects make very evident. India's widespread adoption of UPI serves as a case study for the world because it has solidified its position as a pioneer in digital payments.

Received: 06-Mar-2023, Manuscript No. AAFSJ-23-13304; **Editor assigned:** 08-Mar-2023, PreQC No. AAFSJ-23-13304(PQ); **Reviewed:** 22-Mar-2023, QC No. AAFSJ-23-13304; **Revised:** 24-Mar-2023, Manuscript No. AAFSJ-23-13304(R); **Published:** 31-Mar-2023