

Integrating India's UPI and Singapore's PayNow: Opportunities and Challenges

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Source: REUTERS/Edgar Su

UPI is a unique payment interface enabling seamless money transfer between people or organisations from different banks. Similarly, Singapore's PayNow facility allows individuals and businesses who have linked their unique identity indicators to their mobile phones to initiate payment transactions without any interruption.

On 21 February 2023, Singapore integrated India's Unified Payments Interface (UPI) with its PayNow facility. This was launched virtually by the Reserve Bank of India's (RBI) Governor Shaktikanta Das and the Monetary Authority of Singapore's (MAS) Managing Director Ravi Menon, along with the Prime Ministers of India and Singapore. Leaders from both countries hailed the integration as a significant step in improving bilateral trade between the two nations and ensuring that the transfer of money for remittances and trade purposes becomes easier.

After signing the Comprehensive Economic Cooperation Agreement (CECA) in 2005, India and Singapore have significantly improved their bilateral trade relations. As per the data from 2020, Singapore is the eighth-largest export destination for India, and India is the sixth-largest trading partner of Singapore in terms of imports. Additionally, Singapore accounts for 5.4 percent of remittances towards India. Given the two countries' flourishing trade relations and remittance transfer, policymakers acknowledged that integrating UPI with PayNow would expedite and streamline money transfers.

Bridging the gap with the Indian Diaspora

Policymakers in India can initiate working with other countries within ASEAN to integrate UPI for inter-border cash transfers. Data from 2017 shows that Indians accounted for four percent of the population in Myanmar and eight percent in Malaysia. Facilitating UPI in countries with a sizable Indian diaspora can make remittance transfer easy and improve the facilitation of trade between the two countries.

Ratified in January 2010, the ASEAN-India Free Trade Agreement (AIFTA) was aimed at promoting trade relations between India and the ASEAN countries. Working with these countries to integrate UPI and inter-border trade would facilitate the vision of the trade agreement. This would make it easy for the Indian diaspora to send and receive money as a form of remittance and engage in cross-border businesses. According to a report from *Business Insider*, India's trade with ASEAN countries stood at 142 billion USD, with projections of trade between India and the ASEAN countries to reach 300 billion USD by 2025. The AIFTA played a major role in increasing trade relations between India and the ASEAN region. Introducing UPI to Singapore and expanding it to other countries in ASEAN can make it easier to do business by creating a smoother process for financial transactions between them. This could lead to an increase in trade between the countries. Furthermore, as India has developed into a powerful service sector economy, and exports of services to the ASEAN region are at 24 billion USD, UPI can boost merchant-to-merchant transactions and, in turn, India's export in services.



Source: [AFP Photo/Manan Vatsyayana](#)

The advantages of using UPI for cross-border trade

The government of India is actively collaborating with several countries, including Nepal, Bhutan, UAE, and France, which are vital trading partners, to integrate UPI for cross-border trade. Stakeholders such as merchants, cross-border traders, and multinational corporations, among others, must have access to platforms that enable easy payment and recording of financial data, which can be presented to regulatory authorities for facilitating the verification process.

First, the integration of UPI would enable traders to conveniently pay excise and customs duties while keeping accurate records of transactions, making the entire process hassle-free. By utilising UPI as a cross-border payment portal, traders can bypass the tedious procedures of transferring money to multiple banks, dealing with intermediaries, and managing paperwork to record payment processes. Second, it would lead to significant time savings and accelerate the supply chain process, as all payment records can be easily shared and verified promptly. Third, integrating UPI with other countries is a collaborative process that includes monetary regulatory authorities and banking and non-banking financial organisations from the public and private space.

This would also help strengthen ties between the country's financial sectors and government agencies, improving bilateral ties. With the financial systems well connected, it makes it easier for countries to help each other during financial crises and makes bilateral and cross-border financial cooperation easier.

Challenges of Integrating UPI

The main challenge of UPI is the initial trust factor, with the technology and its ability to expand its scale in a quick time frame. During the initial days of UPI scaling in India, fears of being victims of phishing, data hacking and spamming limited the scalability of UPI. Since UPI would not be indigenous to the East Asian region, the trust factor is critical for UPI to penetrate the East Asian region successfully. The adoption of UPI in Nepal and Bhutan has largely been hailed as a successful project that bridges existing financial gaps. However, the lack of adequate regulations and regulatory and monitoring agencies to ensure smooth operations might lead to an inability to tackle problems as UPI usage continues to scale, especially between cross-border transactions. Furthermore, domestic monetary policies and regulations might hinder the existing functionality of UPI and reduce its effectiveness for cross-border transactions.

Use by non-state actors

The use of UPI has various benefits, as it enables legitimate non-state actors, including individual consumers, merchants, and large-scale businesses, to transfer money seamlessly. For merchants and organizations with a presence in countries with UPI, it can help facilitate easy money transfers to local branches and simplify cross-border e-commerce transactions.

The ease of sending money through UPI can also attract non-state actors with unlawful activities. Criminal organizations can potentially exploit UPI for illicit activities, such as cross-border phishing and scamming, by leveraging the common payments platform. They may also hire mules, who are individuals who transport illegal contraband across borders for criminal organizations. In this context, mules can create UPI accounts to transfer money across borders without undergoing stringent regulatory oversight. While UPI has a strong security system, there is potential for these platforms to be a target of cyber attacks. As UPI's popularity increased over the years in India and became one of the most popular payment interfaces, cybercriminals have a growing interest in targeting them. One way is to trick users into downloading fraudulent apps which would collect their details.

Furthermore, these apps can also be used to show that money is being sent to the other party; however, that would not be the case. Merchants who use UPI can be targeted by such apps.

Therefore, it is crucial for countries to have robust cross-border regulations and regulatory systems in place. Regulatory practices such as Know Your Customer (KYC) and Anti-Money Laundering (AML) measures, including Customer Due Diligence (CDD), recordkeeping, and knowledge transfer of regulatory practices and systems, can establish a solid foundation for preventing UPI misuse by criminals.

The way forward

Integrating India's UPI with Singapore's PayNow facility is a significant step towards streamlining money transfers and promoting economic cooperation between the two countries. Policymakers in India can leverage this success to expand the reach of UPI by working with other countries in the ASEAN region, which could facilitate cross-border trade and remittances and strengthen India's financial reach and soft power. Furthermore, integrating UPI with other countries could promote free trade and strengthen ties between financial sectors and government agencies. Ultimately, the use of UPI as a financial tool could have significant implications for India's position in the global community, enabling the Indian Rupee to compete with other major currencies and become a vital currency for trade and commerce purposes.

About the Author

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