The making of another NPCI

Ashish Das[+]
Department of Mathematics, Indian Institute of Technology Bombay, Mumbai 400076

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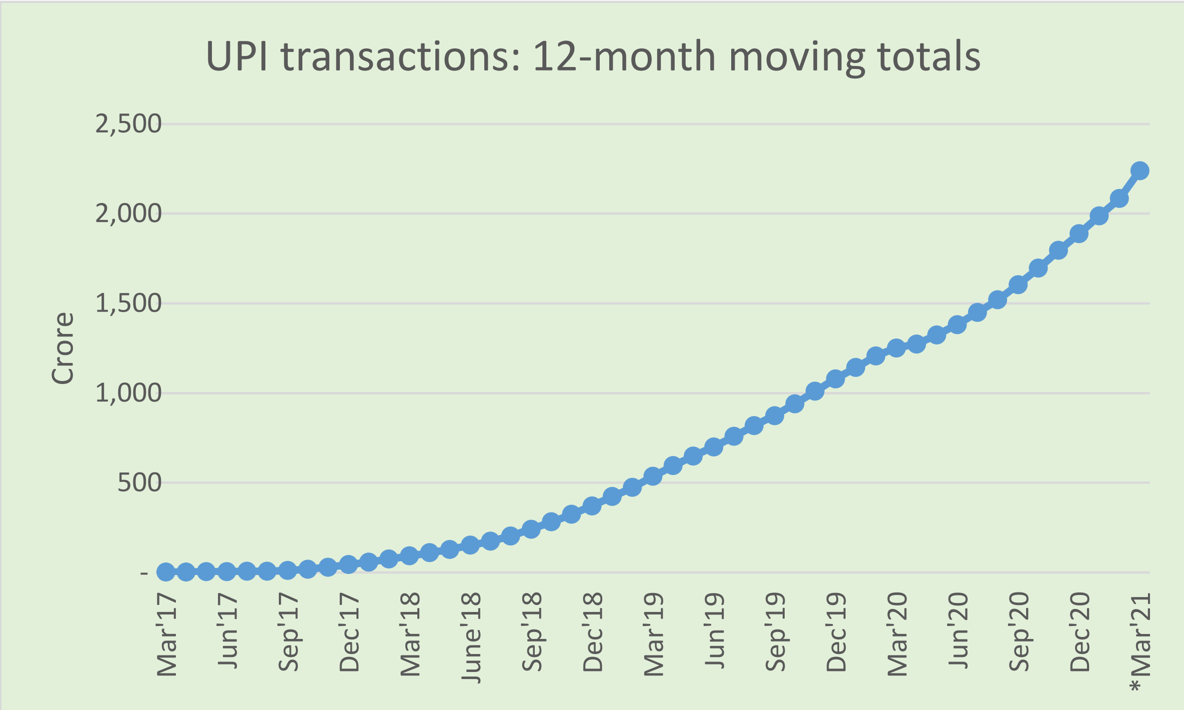
The growth in digital payments

1. With a phenomenal growth in mobile based digital payments there is an unprecedented number of debit and credit transactions hitting the savings/current accounts on a daily basis. Unified Payments Interface (UPI), a retail digital-payments product of National Payments Corporation of India (NPCI), alone would see about 2240 crore transactions during FY21; a whopping increase of nearly 1000 crore transactions over FY20, or a y-o-y growth of 80%.



Source: NPCI (*Mar'21 figure is projected)

[+] Dr. Ashish Das is a Professor of Statistics with the Indian Institute of Technology Bombay. E-mail: ashish@math.iitb.ac.in
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2. On the contrary, the hitherto popular retail payments, based on platforms like ATM, micro-ATM, NEFT, IMPS, POS, RTGS and Cheques, together would account for about 1500 crore transactions in FY21.

3. Robust and secured payment infrastructure with continuous innovations is the bedrock to base large increase in transaction volumes. The new umbrella entities (NUEs) envisioned by RBI is expected to cater to this need. The scope of activities of NUEs would be similar to that of NPCI, however with a distinct difference in intent – the potential of doing business 'for profit'.

The rear-view mirror

4. The payment system of the country sets railroads for easy exchanges of money, be it via physical or digital means. Though banks are primarily the front end of a country's retail payment systems, what we are discussing here is the linkage of all banks through an exchange house (switch) that facilitates real time inter-bank movement of funds. The interoperability of such a retail payment system is an added feature that entails accessing payments service from a bank that is different from the bank where your account resides.

5. RBI and the Government own the currency printing presses of the country and manage the supply chain of currency notes through RBI-owned currency chests. However, cash services for retail customers were confined to cash counters at bank branches until bank based standalone ATMs got introduced. Subsequently, interoperable ATMs came into being and RBI established its own National Financial Switch (NFS), networking all ATMs. The NFS is currently run by NPCI.

6. Another important payment system infrastructure that RBI ran was the National Clearing Corporation for Magnetic Ink Character Reader (MICR) clearing and settlement of paper cheques. Paper based MICR clearing of cheques was gradually digitalized under RBI's Cheque Truncation System, which is currently handled by NPCI.

7. On the digital payments front, as early as 2004-05, RBI created the RTGS and the NEFT Systems, which are now available 24x7x365 for quick transfer of funds.

8. In a separate development, mastercard/VISA brought credit cards to India and provided a switch for merchant payments with both debit and credit cards as front end. RBI's 2005 vision document on payments system, *inter alia*, envisioned the need for *atmanirbharta* (self-

reliance) on lines similar to mastercard/VISA. This gave birth to NPCI as a 'not-for-profit' self-reliant institution for public good. During the past 12 years, this institution has changed the landscape of payments in India with active support from RBI, the government and the promotor banks, which includes SBI, ICICI Bank, Axis Bank, HDFC Bank, Kotak Mahindra Bank, IndusInd Bank, and more.

More umbrella entities like NPCI – privatizing the country's payment system

9. NPCI has developed a broad-spectrum of digital payment products unlike mastercard/VISA that focused primarily on card-based payments. It came into global limelight with its flagship product – the UPI – which revolutionized digital payments, made them at par with cash transactions in terms of ease and led to its exponential growth.

10. For such innovations to perpetuate it is always healthy to have competition. In this regard, with an objective to further strengthen the retail payments ecosystem in the country by building new payment products, enhance access, improve customer convenience and safety, RBI has invited private players to create NUEs.

11. Though the success stories in telecommunications or banking emanated from competition brought in by private players and the country has reaped its benefits, is it prudent to replicate the experience to country's payments system? Should private entities have privy to the country's sensitive payment information? The information captured through digital payments could be exploited for undue business benefits, stunting competition and engendering risks. This would need RBI to build enough capacity to appropriately regulate and then, supervise the same.

12. Though on one hand we would like to see NPCI, a 'not-for-profit' retail payments umbrella entity, to flourish further before competition takes some of its market share, on the other hand any new umbrella entity, if licensed by RBI may take at least two years to be operational, giving NPCI enough time to further improvise and expand its product base so as to make them more user friendly and secure.

13. However, should private NUEs get license, to eliminate conflict of interest, it is apposite to ensure that no promoter participates in more than one NUE. This would probably bind the banks who are promoters in NPCI not to break away from NPCI since RBI may not have visualized building a new entity at the cost of ghettoizing an existing platform like NPCI.

Is 'for-profit' umbrella entity a good idea?

14. The government and RBI bear the cost for issuance of currency, which is a public good. Digital payments that substitutes paper-based transactions is also public good for which both RBI and NPCI have developed the necessary infrastructure without any intent of profiteering. Should private NUEs for retail payments be allowed to run the same for profit?

15. Like NPCI, the NUE would primarily serve the banks, who in turn would serve their customers to digitally transact in a seamless fashion. Thus, with the ultimate stakeholders being the public, a crucial aspect while building a NUE is the possible pitfalls of it being a 'for-profit' entity. This would reap disparity with NPCI, which is a 'not-for-profit' entity. Moreover, conducting a central payment operation business for a profit is akin to RBI carrying out currency operations with a profit motive. Bringing in a concept of profit for such umbrella entities providing essential payment services, meant for public good, is likely to stifle decisions made towards public policy.

16. What NPCI has contributed to the country as a 'not-for-profit' entity can also be emulated by the NUEs. In order to maintain a level playing field, RBI has categorically prompted the potential players for setting-up of a pan-India umbrella entity on lines similar to NPCI, i.e., the NUE could be a 'not-for-profit' Section 8 Company.

17. The forthcoming opportunity to serve the country in its development, as what RBI did in creating NPCI for public good, one expects the business houses to contribute in the country's payment system infrastructure development by supporting competition under a 'not-for-profit' banner and further independent innovations for the public good rather than private good.

18. To sum up, digital payments should remain public good for more reasons than one. First, it is good to have NUEs for digital payments to promote competition and spur innovation. However, there are risks involved in privatisation and in consumer financial transactions data being exposed to exploitation. Second, like RTGS is with RBI, or UPI with NPCI, other retail digital payments services should remain under an umbrella not run by private entities for profit. Third, NPCI as a 'not-for-profit' umbrella entity is already a role model for the world. Fourth, even if NUEs are licensed, it should be ensured that a single entity does not promote two different NUEs.