Energizing Indian Payment Systems

The backbone of any economy is its payment system – the ability of the entities within the economy to receive and make payments at their convenience and at the lowest cost. The Indian payment system has come a long way from the cheques to mobile payments. India is poised to explore the possibility of micro payments using the mobile. BFSI Vision chatted up **Mr. A P Hota**, MD and CEO of National Payment Corporation of India. We bring you edited excerpts from the interview.

A P Hota

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The Raison'D Etre

NPCI was created to support the Reserve Banks vision of creating a less cash society. This can happen only if we have a robust interbank payment system. The first step was to take over the Reserve Bank's operational role in the payment system. This will help the Reserve Bank focus on regulation and supervision and operate only the large value payment systems, especially from a risk reduction perspective. RTGS falls in the category of "Large Value Payment". All other payment systems are retail in nature. And when it comes to retail payments, convenience matters – how quickly and cost-effective can we make that payments. To do this efficiently, we need technology. To achieve this there was a necessity to build a specialist organization. That was the genesis of NPCI in 2009. And since NPCI was conceived as a institution of public good, it was formed as Section 25 firm. Apart from this, it is a deemed public sector firm considering that majority of shareholding would have to be with public sector banks. From the governance perspective, NPCI has a director nominated by the RBI, but has no officers from the RBI working in the firm. To avoid any conflict of interest, RBI appointed a renowned person outside RBI.

The Operations

This is the fifth year of operations. NPCI started operations on January 1, 2010 bytaking over the ATM switch run by IDRBT. This freed up IDRBT to focus on Research and Development. NPCI has come a long way in the past four years. One of the first projects carried out was to develop a back up to the INFINET by creating the NPCINET. Banks use the INFINET for large value payment systems and NPCINET for the retail payments. The next step was to take over the cheque clearing operations of the RBI – starting with the three metros. Apart from this, NPCI has taken over all the MICR centers run by banks as a part of the RBI's plan to convert all the 68 MICR centres in three truncation-based Clearing Grids. At present around 80% of the cheque clearing work is done by NPCI. NPCI operates the cheque clearing on 4 platforms, one each for 3 grid clearings and one for common back up for 3 grids.NPCI has to date migrated 51 of the 68 MICR centres to CTS mode. The remaining 17 will be migrated in a few months. The next project is to merge the existing ECS Credit and the ECS debit – into a new system called ACH (Automated Clearing House). NPCI has taken over around 90% of the ECS Credit and around 15% of ECS Debit.

The Development Agenda

Apart from taking over the operations from IDRBT / RBI for ATM Switching, Cheque

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Clearing and ACH, NPCI has number of few development Agenda. The first developmental work done by NPCI was on the remittance front. With the emergence of mobile communication NPCI wanted to build a payment system around the mobile channel. This led to a 24X7 mobile payment system. Banks participated in the system – some using both smart phone and SMS based systems and some with only the smart phone platform. The system did gain acceptance. But NPCI realized that building a channel specific platform is not the right step –people use the internet for the same type of payments. NPCI converted the interbank payment system to Instant Mobile Payment system. The IMPS has today emerged as the third platform, supporting the RTGS and NEFT. The IMPS is a multi channel platform, where a customer can initiate a transaction through a mobile device, internet, IVR or USSP. These transactions will be completed immediately. In fact some banks have started a IVR based funds transfer product. The disappointment is that mobile payment has not picked up in the way NPCI envisaged. One of the probable causes cold be that extreme caution on the banks part has rendered the product very complex to operate. NPCI sees around 85000 transactions in the interbank space and around a million transactions in the intra-bank space, with SBI leading the volumes.

The second developmental work is the RuPay card.It is a part of RBI's vision of a domestic card payment system – to create a domestic competition to the existing MNC card payment systems. For country of 1.2 Billion people, and whose card transaction volumes are surging by 35% Y-O-O, there is a need for a domestic player to set the price, and build products relevant to the domestic market. The idea of the payment data of a country – which includes the data and the consumer buying behavior – residing on the servers in another country is not a good one. This data is very precious. Using this data multiple analytic services could be developed. These international players could in fact sell this data. The RuPay stared with the ATM, Point of Sale and e-commerce channels. As on date Rupay is accepted at 8,40,000 terminals of an estimated 9,60,000 terminals. But issuance is a bit slow. NPCI hopes to get 25 million cards in circulation by this year. All PoS terminals except two MNC banks are accepting RuPay cards. These banks have indicated that they will have the technology pieces in place by July 2014. The good news is that wherever these banks have their terminals, a RuPay compatible terminal is also available to the customer.

Unlike the China Union Pay which is accepted in over a 100 countries as on date, RuPay does not have such wide international acceptance as yet. It is unfair to compare China and India – in China the MNC card payment systems were not allowed to issue domestic cards. India is a free economy and RuPay has to compete on price and service quality. It has its merits.

NPCI has the best in class technology. The challenge is with the banking system not fully backing RuPay. Banks often cite the lack in international footprint to avoid issuing RuPay cards – this when around 95 percent of the transactions are domestic. Things are changing with Bank of Baroda, Central Bank of India and Saraswat Bank issuing international RuPay cards. Priced at one third of the MNC network and with superior service, RuPay makes compelling business sense.

One of the value added service is built around data analytics. NPCI cannot share customer transaction data with other banks, but it is offering high level data and analytics like – the percentage of the banks customers using interbank ATM, or time transaction slices based on days and time slots, or malfunctioning of ATMs and the like free of charge. The same analytics from a competing network would cost a small fortune.