



RuPay - A Reality

A truly Indian debit card will be in the market soon. The National Payments Corporation of India, which pioneered the card, is upbeat that it will hold the true spirit of the country. How soon will it displace the stronger global players? It's a matter of time, believes A.P. Hota, Managing Director and CEO, NPCI, who is passionate about how the Indian market will receive the card. Excerpts from an interview:

Small N. Mohan: Can you outline the current status of RuPay?

A.P. Hota: 'RuPay' as the domestic card payment scheme is already a reality. As per the roadmap of RuPay scheme, the first product is ATM card. Around 15 banks - mostly urban cooperative banks - have already issued RuPay Cards and these are being accepted at 91,000+ ATMs under National Financial Switch (NFS). The next product is ATM/microATM cards. These combo cards are Aadhaar-enabled and can be used at ATMs under NFS as well as microATMs with business correspondents of banks.

Bank of India has already issued the cards to its 'No Frills Account' holders in rural areas where financial transactions are carried out with on-line biometric authentication by Unique Identification Authority of India (UIDAI). NPCI has built connectivity with UIDAI to make biometric authentication of Aadhaar possible. A few other banks are in the process of issuing such Aadhaar based cards. In due course, such cards are likely to replace the current lot of smart cards which are not interoperable. The next product is the one that everyone is waiting for - the RuPay Debit Card.

It is now undergoing pre-launch audit and would go live in the last week of March 2012.

Is RuPay card project the same as the IndiaPay project that Sanjay Sharma committee of IBA had suggested?

Yes. After setting up of NPCI in 2009, the task of implementing the recommendations of Sanjay Sharma committee on domestic card payment project was entrusted to NPCI. The brand name talked about at that time was "IndiaPay". It appealed to every one. But when NPCI decided to register the brand

ame, it was observed that the name as already been filed for registration by two other agencies. Therefore, NPCI considered it prudent to search for another brand name. We decided on RuPay - that stands for our currency - rupee and the function of Payment. With fast forward sign we wanted to present the vision of a rapidly moving nation.

Q: Are all the banks participating as issuers of RuPay debit cards?

We have so far signed MoU with seven banks - State Bank of India, Punjab National Bank, Bank of Baroda, Bank of India, Union Bank of India, Canara Bank and ICICI Bank - for issuance of RuPay debit cards. Testing has been completed with two banks - Union Bank of India and Bank of India - and they would be the first two banks to issue the card. Other five banks are at various stages of testing and certification. Other 20 banks have shown interest. But we have kept it on hold. We would like to ensure that all components of a debit card program are in place at our end before expanding the card base.

Q: Which are the banks joining as acquiring banks? At how many POS terminals RuPay cards would be accepted?

Initially, RuPay debit cards will be accepted at the PoS terminals of State Bank of India, Corporation Bank and Axis Bank. The reason for starting small in 'Acceptance' is the same as starting small for 'Issuance'. We would like to test our systems thoroughly. Number of PoS terminals would also be around 25,000 on Day-1; but it would be scaled up quickly.

Q: Would RuPay debit card be a signature card?

No. We have decided RuPay debit card to have a very reliable authentication system right from the beginning. It will be PIN-based. The country is now adequately prepared for PIN-based authentication. The fraud risk in PIN-based card products is far lower than signature products.



AP Hota believes by making the card payment system accessible to all the banks - commercial, cooperative and RRBs - there will be increased usage of the card payment mechanism

Q: Will the RuPay debit cards be accepted on ATMs in the country?

Yes. RuPay debit cards would be accepted at all the ATMs in the country.

Q: When do you think the RuPay cards will be accepted at all the PoS terminals in the country?

Two major acquirers - HDFC Bank & ICICI Bank Merchant Services - together

have around 3 lakh POS terminals. They are in the process of upgrading their systems and they would activate their POS terminals a little later. They are deeply committed for widening RuPay Acceptance; but they have preferred the same to be synchronized with their system upgradation. All other banks would acquire RuPay cards by June 2012. Making the POS terminals ready for accepting cards of a new card scheme is a very slow process.

Q: Will the RuPay cards be accepted abroad? What is RuPay international Acceptance strategy?

Currently, RuPay has been designed as a pure domestic card. As per the thinking of the Reserve Bank of India, NPCI should be focusing on domestic operations to start with. However, NPCI has created a roadmap for international acceptance of RuPay cards and the same has been approved in-principle, by RBI. Discussions are in progress for a collaborative arrangement with Discover, which has the third largest acceptance footprint worldwide. RuPay International debit card will be a separate product and will be rolled out a few months after the launch of domestic debit card.

Q: What according to you is the value proposition of RuPay. How will it be different from Visa/Mastercard?

There would be three distinct value propositions - pricing, governance and control and ease of product development. In terms of pricing, NPCI is planning to make RuPay card very cost effective - for both issuing banks and acquiring

Visionary Step

RBI, in its Payment Vision document 2009-12 had discussed the concept of a domestic payment card and a domestic POS switch network for issuance and acceptance of payment cards: "The need for such a system arises from two major considerations - (a) the high cost borne by the Indian banks for affiliation with international card associations in the absence of a domestic price setter; (b) the connection with international card association resulting in the need for routing even domestic transactions, which account for more than 90% of the total, through a switch located outside the country."

banks. Instead of more than 20 types of charges levied by the card schemes that banks in India are familiar with, NPCI fee structure will have five heads only, including the administrative charges, which will be waived for regional rural banks and cooperative banks. Fees would be transparent. In terms of governance and control, member banks will have greater say in governance of the RuPay scheme by way of participation in user group meetings, steering committee, task forces and other focus groups. Ten major banks have also control through board level supervision of NPCI. RBI and the government have also closer contact and supervisory control. Considering the public sector characteristic of the organization, the government can also have control over NPCI to sub-serve the national interest. The ease of product development is due to adoption of new tools and techniques. Network services would be web based. Since NPCI is the umbrella organization for all retail payment system there is enough flexibility for integrating various payment systems. Integrating card payment systems with Aadhaar authentication of UIDAI is therefore, easier. Integration of mobile payment system with card payment system would also be similarly easier.

Do you think the RuPay scheme can facilitate faster growth of the electronic payment system in the country?

Definitely. This is another value proposition of RuPay. By making the card payment system accessible to all the banks - commercial, cooperative and RRBs - there will be increased usage of the card payment mechanism. Currently, many cooperative banks and RRBs do not issue cards to their customers, mainly because of the prohibitive cost of technology infrastructure and the minimum quarterly fee being levied by international schemes. With RuPay, these banks will be able to participate and offer electronic payments services to their customers. NPCI also plans to integrate payments through various channels -

RuPay and Aadhaar – the transformative Tools

Two products are being rolled out by NPCI in collaboration with UIDAI:

- Distribution of Electronic Benefit Transfer (crediting the bank accounts of the beneficiaries as identified from the UID number – called Aadhaar Payments Bridge System (APBS); and
- Providing basic financial services (cash deposit, balance enquiry, cash withdrawal and remittance) at low cost access devices (called MicroATMs) maintained at Business Correspondents in an interoperable way - called Aadhaar Enabled Payment Service (AEPS).

These two products supplement each other – while the first product is for crediting the account; the second product would be for day-to-day servicing of accounts. Aadhaar based payment cards would be the most convenient way of using AEPS.

cards, mobile, money transfer, etc. NPCI would also work towards increasing the activation ratio of the existing card base.

Will RuPay cards be used for internet transactions?

Yes. NPCI has tied up with a US based solutions provider to build an internet based card payment system. Using this technology, RuPay card holders will be able to transact at e-commerce sites as well. We expect that the success ratio of RuPay internet transactions will be better than the internet transactions under the current 3-D secure mode. The solution offered is also based on the regulatory mandated 2-factor authentication by optimizing the process flow in a better way.

What are NPCI's plan for EMV implementation in view of the recent circular of RBI?

NPCI plans to launch RuPay international debit cards on the EMV platform right from the beginning. These will have a chip and PIN. The fallback mechanism of magnetic-stripe will continue to be used in India until all the POS terminals in the country are made EMV-enabled.

Don't you think that six lakh PoS terminals are too less for a country of India's size? How is NPCI planning to build an ecosystem to increase the number of PoS terminals in the country?

For a country with 35 million merchant establishments, availability of only 6 lakh

POS terminals is not adequate. What more important is - as much as 70% of the POS terminals are in the top 30 cities, which means that tier-3 and tier-4 cities have hardly any POS terminal. This is mainly because of acquiring business not being as rewarding as issuing business. While more than 60 banks have issued debit cards, barely 20 banks are in acquiring business. Besides, three acquirers (Axis Bank, ICICI Merchant Services and HDFC Bank) own nearly 6 lakh out of 6 lakh POS terminals.

NPCI plans to structure its fees in such a way that acquiring banks are adequately incentivized. NPCI will like to see more and more banks enter the acquiring business. NPCI is also discussing with solution providers as to how low cost-effective POS terminals can be manufactured indigenously. There are also exciting developments in mobile phones as acceptable devices.

NAME OF BANK	NO. OF POS	MARKET SHARE
AXIS BANK	1,90,860	32.53%
HDFC BANK	1,49,950	25.56%
ICICI BANK	1,42,657	24.32%
IDBI BANK	21,581	3.68%
AMERICAN EXPRESS	16,210	2.76%
CORPORATION BANK	16,077	2.74%
HSBC	14,556	2.48%
OTHERS	34,783	5.93%
TOTAL	5.86.674	100.00%

The task force on Aadhaar-Enabled Unified Payment Infrastructure (chairman, Nandan Nilekani) has recommended setting up of one million microATMs at post offices and business correspondents banks. NPCI is actively working with DAI in this regard. These microATMs are like POS devices in rural areas.

RuPay scheme will facilitate universalization and democratization of card payment system which could not be done in the last three decades by international card schemes. RuPay is thus transformational in character. The coming together of RuPay and Aadhaar is something that the country is waiting for.

What is the reason for not going in for credit cards when the value of transactions in credit cards is double that of debit cards?

The segment RuPay is going to target initially will have a preference for debit card. RuPay card will be like a common man's card, a method of accessing the bank account. Product development, risk management and risk mitigation issues in credit cards are more complex. Though the value of transactions in credit cards is high, in terms of number of transactions, debit cards have already overtaken credit cards. NPCI is primarily focusing on low-value high-volume transactions.

When do you think RuPay will be able to replace Visa/Mastercard in India?

The payment market in India is so large that all card schemes would have

ample opportunity for growth. Currently NPCI's task is to reach out to the segments which have not tasted the fruits of card payment system as yet. The size of the potential of the untapped market is very large. Once NPCI builds credibility in its functions, it will be only a matter of time for the mainstream segment also to shift to RuPay card.

How long NPCI would take for the infrastructure to be fully functional?

Around 18 months – for all the modules and the envisaged products to be in place including e-Commerce acceptance and issuance of international debit cards by a few banks.

What about the fraud prevention capabilities of RuPay?

NPCI has procured a state-of-the-art fraud monitoring solution and it is currently into customization stage. The solution can be meaningfully used only over a period of time when large database is created and rules for alerts and monitoring are framed (real-time and near real-time). NPCI has already a strong risk management team, implementing the system.

How is Indian Banks' Association helping NPCI?

It is IBA which had coordinated the efforts of banks in the creation of NPCI. Therefore, NPCI and IBA have close relationship. NPCI provides update to IBA on a regular basis and also takes guidance from IBA. IBA is also in

complete sync with the domestic card payment initiative of NPCI. Prior to the setting up of NPCI, IBA itself had been driving the IndiaPay project (now christened as RuPay by NPCI).

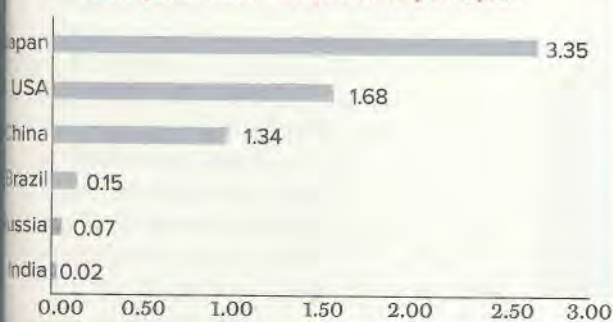
What special support NPCI is getting from the government and RBI for the RuPay scheme? Will RBI be issuing a mandate to banks to use RuPay cards?

Though the idea of a domestic card payment system was envisaged by the RBI, we do not expect RBI to issue any mandate to banks for issuance of RuPay cards. It will be difficult to replicate the success of China's UnionPay in India. The RBI as regulator, felt the need for a domestic card payment system from a strategic angle and entrusted the task to IBA. It is now IBA which can consider sending advisory to banks to support NPCI. RBI may, like any other regulator, like to see NPCI facing the competition and emerging stronger. NPCI has demonstrated its strength in ATM switching space.

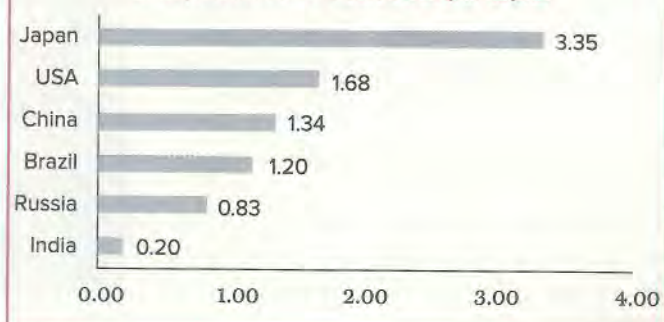
The government may, however, support NPCI because of the public sector character of the organization and "not for profit" orientation. NPCI is a Section 25 company and public sector banks have a majority stake. NPCI is also working with the Government and UIDAI in meeting the strategic objectives of financial inclusion. RuPay is India's own card – a transformational opportunity whose time has arrived.

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Card penetration – Credit cards per capita



Card penetration – Debit cards per capita



RuPay - a True Indian Card

Bank of India and Union Bank of India will be the two nationalized banks which will initiate a RuPay pilot. Pushpinder Singh, general manager - IT, Bank of India, and Lalit Sinha, general manager, Alternate Delivery Channels and New Initiative Department of Union Bank of India, share their vision:

N. Mohan: Can you elaborate on the work that your banks have done in terms of putting the required technology infrastructure in place?

Pushpinder Singh: Bank of India has participated with NPCI in multiple pilots like DHAN Aadhaar. We took up the pilot launch of RuPay debit cards both as issuer and acquirer. As with any launch, the system integration testing and the end-to-end UAT were the most critical tasks. Our technology teams toiled day and night with the NPCI and the service provider technology teams to complete the testing successfully in time.

Lalit Sinha: Huge efforts have gone into preparing for RuPay card launch both from the bank side and from NPCI. While NPCI has drawn elaborate specifications for RuPay cards, these needed to be tested with the different types of EFT switches operating in the country. We volunteered to undertake the exercise and as our EFT switch is also used by about 20 more banks, separate testing and certification by all banks will not be required.

Can you outline the plans for issue of cards?

Pushpinder Singh: We plan to issue the Gold variant of the RuPay card from Day 1 of the launch. The high value customers using their debit cards for their day-to-day transactions would be our target base. The issuance will commence in metro cities and by end-2012 we should be able to issue it across all geographies.

Lalit Sinha: As the RuPay cards will work on ATMs, PoS and internet for domestic transactions, we would provide these to all our customers. Particularly in the rural and semi urban segments, we will issue RuPay cards only. Its all India roll out is expected to start in the first quarter of 2013.

When do you expect to have a substantial volume in transactions?

Pushpinder Singh: By end of Q1 2013, we expect the volumes to considerably pick up in count of cards issued as well as transaction volumes.



Pushpinder Singh



Lalit Sinha

Lalit Sinha: We will step up issuance immediately as the pilot concludes. We expect to see some transaction volumes by end of Q1 2013.

NPCI is bullish about the prospects of the card. Do you share this optimism?

Pushpinder Singh: We agree with RBI's vision for the requirement of a domestic card scheme. We need a local scheme which would understand the requirements of customers in India and design a product which takes care of the same. We have been associated with the creation of the scheme and have been part of the product designing at each phase. Because of the transparency of the scheme, we are quite confident about its popularity.

Lalit Sinha: NPCI has every reason to be bullish about the prospects of RuPay card. We have the China-Union Pay as a reference which started from domestic acceptance and now is accepted all over the world.

How are you planning to make use of RuPay card in financial inclusion projects?

Pushpinder Singh: We have launched the RuPay DHAN Aadhaar card with NPCI. This card uses the UIDAI-issued Aadhaar number for authenticating customers. The card is specifically targeted at customers in the remote areas of the country who are getting covered under the financial inclusion projects. For such regions where a full fledged ATM does not make business viability, the micro ATMs are more widely accepted and we have successfully issued these cards to our customers.

Lalit Sinha: RuPay card is expected to help financial inclusion in a major way. We are already testing a RuPay card with Aadhaar based authentication. This is likely to change the entire financial inclusion scenario particularly as the Nilekani report envisages transfer of all government benefits through Aadhaar linked accounts. RuPay prepaid cards may also have good acceptance as far as financial inclusion is concerned.

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