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WhatsApp UPI and NPCI Regulations

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Why in News

Recently, **WhatsApp** (a unit of Facebook) has **introduced payments services in India** following approval by the National Payments Corporation of India (NPCI).

The NPCI approval also follows another recent **direction imposing a cap of 30% of the total volume of transactions processed in Unified Payments Interface (UPI)**, applicable to all third-party app providers, **effective from 1st January 2021**.

UPI is a **single platform that merges various banking services and features** under one umbrella and turns **smartphones into a virtual debit card**, allowing **real-time bank-to-bank payments** to be made using a mobile number or virtual payment address (UPI ID).

Key Points

- **WhatsApp UPI in India:**
 - People can send **money on WhatsApp to anyone using a UPI supported app**.
 - India is **one of the biggest markets for WhatsApp**, which first started testing its UPI-based payments system in 2018 and would now **compete with existing players such as Paytm, Google Pay, Amazon Pay and PhonePe**.
 - It is **working with five leading banks in India** viz. ICICI Bank, HDFC Bank, Axis Bank, the State Bank of India, and Jio Payments Bank.
 - However, **not all users in India would be able to access** payment features because NPCI had mandated **expansion** of WhatsApp's UPI user base **in a graded manner** starting with a maximum registered user base of 20 million.

- **Imposition of 30% Cap:**
 - The guidelines stipulate **any entity not exceeding 30% of the total transaction volume to be in compliance.** However, **entities exceeding** the said market share have been given time **till 2023 to comply.**
 - The cap will be calculated on the **basis of total volume of transactions processed in UPI during the preceding three months on a rolling basis.**
 - Seeing the **recent growth in UPI transaction volumes,** NPCI analysed the **risks in the UPI ecosystem** and introduced the cap.
 - The idea for a 30% cap on UPI transaction volumes was **first brought up in a meeting of the NPCI's Steering Committee on UPI in 2019** after concerns of **rising dominance with non-bank third-party app providers** were raised.
 - As of **October 2019, Google Pay and PhonePe** together had around **80% of transaction volumes** in UPI on their platforms.
 - The NPCI is **yet to issue the risk assessment** of the UPI ecosystem on the basis of which the new norms were brought in and **the Standard Operating Procedure (SOP)** for the newly introduced restrictions on transaction volumes.
 - Another reason is **banks' concerns about the sudden rise in transaction volumes and the subsequent load** on their systems, especially after the introduction of WhatsApp UPI.
 - The move could **disincentivize platforms from on-boarding customers of a lower ticket size** and in effect, **could prevent the efforts to accelerate digital payments.**

National Payments Corporation of India

- It is an **umbrella organisation for all retail payments systems** in India.
- It was set up with the guidance and support of the **Reserve Bank of India** (RBI) and **Indian Banks' Association** (IBA).
- **Objectives:**
 - To consolidate and integrate the existing multiple systems into a nation-wide uniform and standard business process for all retail payment systems.
 - To facilitate an affordable payment mechanism to benefit the common man across the country and propel financial inclusion.

Way Forward

- Digital payments in India is still in its development phase and any interventions at this point should be made with a view to accelerate consumer choice and innovation. A choice based and open model is key to drive this momentum.

- The 30% cap has implications for hundreds of millions of users who use UPI for their daily payments and it could impact the further adoption of UPI and the end goal of financial inclusion.

Source: TH