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RBI Allows Interoperability Among Mobile Wallets

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Recently the Reserve Bank of India (RBI) released guidelines to facilitate payments among different mobile wallets, a move aimed at promoting digital transactions.

Background

- The government has taken several steps to discourage people from using cash and persuade them to switch to digital transactions. Mobile wallets have shown a huge potential to drive the government's agenda.
- So far, the wallets operate in semi-closed loops and cannot interconnect with each other. For eg. Money from Paytm can't be transferred to MobiKwik.
- As per the road-map laid down in 2017, interoperability of all KYC-compliant Prepaid Payment Instruments (PPIs) was to be enabled in three phases -
 - interoperability of PPIs issued in the form of wallets through Unified Payments Interface (UPI),
 - interoperability between wallets and bank accounts through UPI, and
 - interoperability for PPIs issued in the form of cards through card networks.
- The Reserve Bank of India (RBI) issued consolidated guidelines for enabling all phases in order to prepare better for implementation of interoperability.

Interoperability

- Interoperability is the technical compatibility that enables a payment system to be used in conjunction with other payment systems.
- Interoperability allows PPI issuers, system providers and system participants in different systems to undertake, clear and settle payment transactions across systems without participating in multiple systems.

Implications

- Now interoperability between PPIs such as wallets and cards will effectively allow users of popular payment wallets such as Paytm, Freecharge, Mobikwik, PhonePe and PayZapp, among others, to transfer money from one wallet to another.
- Further, wallets can implement interoperability through the Unified Payment Interface (UPI).
- The RBI also allowed PPIs to issue cards using authorised card networks such as Mastercard, Visa or Rupay.
- The biggest beneficiaries of interoperability will be the wallet users, who will not have to specifically look for merchants who accept a certain wallet. With interoperability, they can make payments from a wallet to any merchant who accepts digital payments. **This will bring wallets on par with cards**, a symbolic transition with all transactions being accepted at all networks.
- This is progressive move for non-bank players and huge foundations to reach under-banked and unbanked with equally powerful payment product in league of debit/credit cards.
- Different companies, which are otherwise competing with each other for a larger share of the business, will end up sharing resources, and can focus on creating a more distinct value added platform.
- While boosting the e-wallet segment, new guidelines would also ensure the safety and accuracy of the transfer of money by individuals from one wallet to another.

Unified Payments Interface (UPI)

- UPI is a single-window mobile payment system developed by the National Payments Corporation of India (NPCI). The interface is regulated by the Reserve Bank of India (RBI).
- It is a payments system launched by the National Payments Corporation of India in August 2016. It facilitates instant fund transfer between two bank accounts on the mobile platform, without having to provide any detail of the beneficiary's bank account.
- It is a system that powers multiple bank accounts into a single mobile application (of any participating bank), merging several banking features, seamless fund routing & merchant payments into one hood.
- The system is said to be a safe and secure method of transferring money between two parties, and cuts out the need to transact with physical cash or through a bank.
- It also caters to the "Peer to Peer" collect request which can be scheduled and paid as per requirement and convenience.