



New Umbrella Entity for Payment Systems

Why in News

The **private companies** have shown interest in setting up **New Umbrella Entities (NUEs)** for payment systems - an idea floated by the [Reserve Bank of India \(RBI\)](#).

- The aim is to create an **alternate mechanism** to the existing [National Payments Corporation of India \(NPCI\)](#).

Key Points

▪ New Umbrella Entities (NUEs):

- **About:** NUEs will be a **non-profit entity** that will **set-up, manage and operate new payment systems**, especially in the retail space such as [ATMs, white-label PoS; Aadhaar-based payments and remittance services](#).
- **Functions Envisaged:**
 - NUEs will develop **new payment methods, standards and technologies**.
 - These will **operate clearing and settlement systems, identify and manage relevant risks** such as settlement, credit, liquidity and operation and **preserve the integrity** of the system.
 - These will **monitor retail payment system developments and related issues** in the country and internationally **to avoid shocks, frauds and contagions** that may adversely affect the system and the economy in general.

▪ Need for NUEs:

- **Limitations of NPCI:** Currently, the umbrella entity for providing retail payments system is NPCI, which is a non-profit entity, owned by banks.
 - NPCI operates settlement systems such as [UPI](#), [AEPS](#), [RuPay](#), [Fastag](#), etc.
 - Players in the payments space have indicated the various pitfalls of NPCI being the only entity managing all of retail payments systems in India.
- **To Increase Competitiveness:** RBI's plan to allow other organisations to set up umbrella entities for payments systems aims to expand the competitive landscape in this area.
 - Players planning to establish these NUE aim to get an even bigger share in the digital payments sector.

▪ Framework Related to NUEs:

- **Owned and Controlled by Residents:** The promoter or the promoter group for the NUE should be 'owned and controlled by residents' with 3 years' experience in the payments ecosystem.
 - The **shareholding pattern should be diversified**. Any entity holding more than 25% of the paid-up capital of the NUE will be deemed to be a promoter.
- **Capital:** The umbrella entity shall have a minimum paid-up capital of Rs. 500 crore.

- No single promoter or promoter group should have more than 40% investment in the capital of the entity.
- A minimum net worth of Rs. 300 crore should be maintained at all times.
- **Governance Structure:** The NUE should conform to the norms of corporate governance along with 'fit and proper' criteria for persons to be appointed on its board.
 - The RBI retains the **right to approve the appointment of directors** as also to nominate a member on the board of the NUE.
- **Foreign Investment:** Allowed in NUEs as long as they comply with the [existing guidelines](#).

[Source: IE](#)

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