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Nandan Nilekani to Head Panel on Digital Payments

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The Reserve Bank of India has appointed a **five-member panel** headed by **Nandan Nilekani** to suggest ways to **improve digital payments**. The committee will submit its **report in 90 days** from its first meeting.

- **Terms of reference** of the panel are
 - Assess the **current levels** of **digital payments** in financial inclusion,
 - Suggest measures to strengthen the **safety and security** of digital payments,
 - Provide a road map for increasing **customer confidence** to use digital transactions, and
 - Suggest a **medium-term strategy** for deepening of digital payments.
- According to a report on India's financial sector by Credit Suisse, in India is still **estimated at 70% in value terms** and **digital payments currently aggregate only \$200 billion**, compared with \$5-trillion mobile payments in China. One way to increase digital payments is **payment integration into popular apps**.

Background

- In **August, 2016** the government had constituted a **Committee on Digital Payments** to review the payment systems in the country and to recommend appropriate measures for encouraging Digital Payments **under the Chairmanship of Ratan P. Watal**.
- Payments through all electronic forms such as debit and credit cards, mobile wallets, real-time gross settlement (RTGS), national electronic funds transfer (NEFT) and Unified Payments Interface (UPI) have **seen a huge rise over the last few years**, especially since the government's **demonetization exercise in November 2016**.
- The newest mode of digital payments, Unified Payment Interface (UPI), which was launched in 2016 has **witnessed an over 300%** rise in transaction volumes in the last one year and the growth is seen continuing in the near term.

Digital Payments

As per the **Payment and Settlement Act, 2007**, digital payment is any “**electronic funds transfer**” means or any transfer of funds which is initiated by a person by way of instruction, authorization or order to a bank to debit or credit an account maintained with that bank through electronic means and includes point of sale transfers; automated teller machine transactions, direct deposits or withdrawal of funds, transfers initiated by telephone, internet and, card payment.

Types of Digital Payments

- **Unified Payment Interface (UPI)** is a payment mode which is used to make fund transfers through the mobile app.
- **AEPS (Aadhaar Enabled Payment Service)** is an Aadhaar based digital payment mode wherein customer needs only his or her Aadhaar number to pay to any merchant. AEPS allows bank to bank transactions.
- **E-Wallets** or mobile wallet is the digital version of physical wallet with more functionality. E.g.: ICICI Pockets, Freecharge, Paytm etc.
- **Cards** have been the most used digital payment modes till now. They are used for transferring funds and making digital payments. Credit cards, debit cards and prepaid cards are the main types of cards.
- **Unstructured Supplementary Service Data (USSD) banking** or *99# Banking is a mobile banking based digital payment mode. One does not need to have a smartphone or internet connection to use USSD banking. It can be used with any normal feature phone.

The *99# code works as a bridge between telecom operator’s server and bank’s server.

Best Practices of Digital Payments

Contactless Payment

Alternate payment channels such as **contactless and wearables** have gained acceptance with the widespread use of smartphones, mobile banking and payments applications.

- Contactless payments enable consumers to make everyday purchases quickly and safely especially for low-value transactions.
- **Mobility, Internet of things (IOT)**, connected homes, entertainment, and media are expected to augment the volumes of non-cash transaction volumes significantly.

Distributed Ledger Technology

Banks and FinTech’s are exploring **blockchain technology** for cross-border payments to provide faster, inexpensive, and efficient services.

Cybersecurity Regulations

- Cyberattacks can cause **personal and commercial data to be lost or compromised** causing financial institutions financial and reputational loss. Based on estimates, cyberattacks cost the **global economy 1% of annual GDP**.
- As cyber-attacks and data breaches around the world are **rising in terms of both, frequency and intensity**, regulators are focusing on compliance with current cybersecurity and data privacy laws.
- Regulators across the world are bringing in new cybersecurity regulations and standards which could impose heavy fines, injunctions, audits, even criminal liability on firms for a data breach.
- The **cyber insurance industry grew 35% in 2016 to \$1.35 billion** in terms of direct written premium, which shows that corporates are looking to protect themselves from liabilities related to cybersecurity laws.
- However, **lack of harmonization in cybersecurity laws** in different countries is posing a challenge for multinational companies operating across the globe.

Payment Infrastructure

- Globally, **payments infrastructure is being transformed** to become faster and more inclusive to new players that will launch valuable offerings for retail and businesses.
- Payments infrastructure is expected to **converge through mergers and acquisitions** to expand the reach of the payments firms, increase their value proposition to meet changing customer expectations, and create customized solutions.
- Payment schemes and intermediaries are also looking for infrastructure rationalization to be able to **provide services in niche** and high demand areas of **data analytics, cloud, and Digital Customer Experience (DCX)**.

Way Forward

- The Digital Payments ecosystem in India are undergoing a transformation with the **entry of global tech giants** that are acting as aggregators for retail transactions. Within just four months of launch, Google's payments app is now already processing a large number of digital transactions.
- **Measurement of Digital Payments** is extremely important to monitor progress. The different components of Digital Payments have to be comprehensively studied with respect to global best practices and the list of indicators which are **universally acceptable and relevant in the current context**.