

**Policy Paper**

**on**

**Authorisation of New Retail Payment Systems**

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## **Authorisation of New Retail Payment Systems – Policy Paper**

In the [Statement on Developmental and Regulatory Policies](#) released with the [second bi-monthly Monetary Policy Statement 2018-19 on June 06, 2018](#), Reserve Bank had announced that with a view to minimize the concentration risk in retail payment systems, from a financial stability perspective and to foster innovation and competition, the Reserve Bank would encourage more players to participate in and promote pan-India payment platforms and that the Reserve Bank would bring out a policy paper for public consultation by September 30, 2018.

This note outlines the various policy facets in this regard.

### **Existing retail payment services and operator landscape**

1. Payment and settlement systems are essential for smooth functioning of financial markets, individual remittances, financial inclusion and growth of the economy as a whole. Therefore, central banks have a keen interest in their safe and efficient functioning. Reserve Bank of India (RBI, Reserve Bank, Bank), as the regulator of payment and settlement systems in the country, sets the necessary regulatory framework, generally through a consultative process, to ensure that different types of payment systems operate in a safe, secure and efficient manner to meet the needs of varied segments of society. Reserve Bank authorizes Payment Systems in terms of powers vested with it by the Payment and Settlement Systems Act, 2007 (PSS Act).

2. For many years in India, banks have been the traditional gateway to extend payment systems. Over a period of time, given the demand for varied payment services and in keeping with the fast pace of technological changes, non-bank entities have also been permitted access to the payment space. These non-banks are co-operating, as well as, competing with banks, either as technology service providers to banks or by directly providing retail electronic payment services. Reserve Bank's regulatory framework has recognised and facilitated the increasing contribution of non-banks in the payments domain even as some element of distinction continues to be maintained to reflect their differential role and activities vis-à-vis banks.

3. Reserve Bank has been issuing guidelines for various payment systems and grants authorisation to non-banks for setting up and operating payment systems. It may be noted that licensed banks also need to obtain specific permission from Reserve Bank for setting up and operating a payment system. As at the end of 2018 there were 89 authorised non-bank Payment System Operators (PSOs) ([Annex I](#)). The list of payment systems, operators and the permitted type of participants is at [Annex II](#).

4. The National Payments Corporation of India (NPCI), a 'Not for Profit' company, was set up in December 2008 as an umbrella organisation for retail payment systems in India with the guidance and support of the Reserve Bank and the Indian Banks' Association (IBA). With initial shareholding of ten promoter banks, the ownership has since been diversified to 56 banks. RBI approves the appointment of the Chairman, and the Managing Director and Chief Executive Officer (MD & CEO) of NPCI; it also has placed a nominee director on NPCI's Board. Over the years, NPCI has developed various retail payment products. Taking into account the public sector characteristic of NPCI, the shareholding comprises at least 51% stake by the public sector banks.

5. In the retail payments space, RBI manages and operates the National Electronic Funds Transfer (NEFT) system as also Electronic Clearing Service (ECS) – Debit and Credit, while other retail payments are owned and operated by NPCI and other payment system operators as well. ECS (Debit and Credit), is witnessing low volumes and will soon be subsumed in the National Automated Clearing House (NACH) system operated by NPCI. In terms of retail payment system volume and value in financial year 2017-18 (April-March), NEFT had a share of 12% and 60%, respectively. NPCI also operates Cheque Truncation System (CTS) on behalf of RBI.

#### **Retail payments operator landscape: Concentration and competition perspectives**

6. Payment Systems in India have grown in a manner which is characterized by a few operators while there is a wide array of payment systems. This has given rise to certain questions which range largely around concerns of concentration, need for competition and the resultant impact on economic efficiency and financial stability. Against this backdrop, the following issues merit discussion:

- (i) multiple and varied retail payment systems being concentrated in a single entity *versus* diversification across multiple operators;
- (ii) Payment systems managed by a single operator [Unified Payments Interface (UPI), Immediate Payment Service (IMPS), Aadhaar Enabled Payment System (AePS), Aadhaar Payment Bridge System (APBS), Bharat Bill Payment System (BBPS), Instant Money Transfer (IMT)] *versus* multiple systems with similar product features offered by different operators;
- (iii) Availability of a window for licensing operators of a payment system on-tap;
- (iv) Review of the criteria for licensing, to facilitate innovation and competition and to broaden potential applicants.

7. The payment systems of India can be classified as below:

**A. Classification on the basis of number of operators**

i. Single operator for a single or multiple Retail Payment Systems

- NPCI – National Financial Switch (NFS), CTS, IMPS, UPI-including Bharat Interface for Money (BHIM), National Unified USSD (Unstructured Supplementary Service Data) Platform (NUUP), NACH, AePS, BHIM Aadhaar Pay, APBS, BBPS, National Electronic Toll Collection (NETC), National Common Mobility Card (NCMC), RuPay
- Empays – IMT

ii. Multiple operators for similar Retail Payment Systems

- Automated Teller Machine (ATM) Networks – 5
- White Label ATM Operators (WLAOs) – 8 non-banks
- Card Payment Networks – 5
- Trade Receivables Discounting System (TReDS) – 3 non-banks
- Prepaid Payment Instrument (PPI) Issuers – 48 non-banks and 60 banks
- Money Transfer Service Scheme – Overseas Principal (MTSS-OP) – 9 non-banks

**B. Classification on basis of type of payment service**

Although the same payment system can be used for multiple end use purposes, a broad classification based on the end purpose is as under –

- i. Funds transfer and merchant payment systems – IMPS, IMT, UPI, PPI, Aadhaar based payments, MTSS – cross border inward payments
- ii. Card based systems – Card networks, ATM networks
- iii. Bulk and repetitive payments, utility payments – NACH, BBPS
- iv. Toll collection – NETC
- v. MSME receivables' financing – TReDS

8. NPCI has become an organisation which is pivotal to operations of many of the critical retail payment systems of the country with concentration of many tasks. In October 2018, NPCI has processed nearly 48% of the retail electronic payment transactions (excluding paper) in volume aggregating to 15% of value of retail electronic payment transactions.

9. Concentration of payment system operations within the same entity (or amongst a few operators) has its benefits and concerns –

Advantages

- a) *Standardisation*: Expertise to facilitate uniform and tested systems and procedures, including relevant risk management framework and practices.
- b) *Economies of scale*: Less pressure on capital and infrastructure; profitability and sustainability of various payment systems enhances. The size of market in a jurisdiction may not be large enough to sustain many service providers for similar services. This is also useful where financial breakeven may take time apart from helping participants efficiently manage liquidity. There can be advantages on account of cross subsidisation as well.
- c) *Oversight and governance*: Unity of approach towards regulating and overseeing a single entity or a small group of institutions.

Disadvantages

- a) *Systemic and Operational risk*: Possibility of single point of failure and also makes the entity too big to fail. Absence of redundancy and fall back arrangements may impact continued availability.
- b) *Lack of innovation and upgradation*: Inadequate competition resulting in complacency as there is no need for constant upgradation and innovation in products and processes for retaining the customers.
- c) *Inefficiencies*: Monopolistic trends may negatively impact customers on charges, access, quality of service, etc.

**10. Multi-pronged policy action for a more appropriate level of retail payment systems and operators**

a) *Encourage competition and permit multiple entities –*

- Pros: Permit multiple entities to provide operations (either for similar payment services or distributing payment services across multiple entities) to aid increased competition.
- Challenges: This may require additional investments, creation of suitable institutional infrastructure and time, and thus may have to be done in phases. However, even when there are multiple system providers, the risk of lack of substitution and market failure in a product may not get addressed because capacity, efficiency, availability, accessibility of systems and services of different payment service providers would

- not be similar. The feature of facilitating inter-operability would have to be built in the new payment systems being created.
- b) *Open and keep-on-tap the window of making applications for all the payment systems –*
- Entry: Permit receipt of applications for all payment systems open on-tap.
  - Exit: Prescription of specific “point of arrival” metrics so that entities unable to achieve capacity and scale within a defined time-line can exit.
- c) *Liberal entry point norms –*
- An outline of the existing norms for the major payment systems is indicated in [Annex III](#).
  - Review of the entry point capital (networth) requirement, by a judicious approach of reduction depending on the risk levels of the respective system and an analysis of capability-potential of the entities.
  - Norms for payment systems like UPI, IMPS, NACH, IMT, etc., as well.
  - For all payment systems it would be desirable that they have (a) physical presence in the country, (b) impeccable track record, and (c) are likely to conform to the best overall standards including those pertaining to customer service and efficiency.
- d) *Alignment of regulatory framework to encourage enhanced participation of both bank and non-bank entities –*
- Bank and non-bank entities can be permitted to offer payment systems based on their capabilities and potential, risk assessment, etc.

**Annex I**

**Number of entities authorised under the PSS Act (as on 31.12.2018)**

<b>Payment System</b>	<b>No. of existing Operators</b>
Retail Payment System Umbrella Organisation (NPCI)	1
Card Networks	5
PPI issuers (non-banks)	48
Instant Money Transfer	1
ATM Networks	5
MTSS – OP	9
WLAOs	8
Bharat Bill Payment Operating Units (BBPOUs)	8
TReDS	3
Bharat Bill Payment Central Unit (BBPCU)	1
<b>Total PSOs</b>	<b>89</b>

**Number of banks approved under the PSS Act (as on 31.12.2018)**

<b>Payment System</b>	<b>No. of banks approved</b>	
<b>PPI issuers</b>	<b>60</b>	Commercial – 53 Co-operative – 5 RRB – 2
<b>BBPOUs</b>	<b>37</b>	Commercial – 29 Co-operative – 6 RRB - 2

Payment System Operators and Participants (banks and non-banks)<sup>1</sup>

S. No	Category	Payment System	Operator	Participants		
				Banks	Non-banks	Others
1	ATM Networks	NFS	NPCI	√ (Direct & sub-member – 1096)	√ (Sub-member – 08 WLAOs)	x
		Cashnet	Euronet Services India Pvt. Ltd. (non-bank)	√	X	X
		BANCS (Banks ATM Network and Customer Services)	Bank of India	Not operational		
		ATM sharing arrangement with Everest Bank of Nepal	Punjab National Bank	It is a bilateral arrangement		
		State Bank ATM network	State Bank of India	√	x	x
2	Funds Transfer	IMPS	NPCI	√ (416)	√ (26 – non-bank PPI issuers)*	x
3	Cards	Card Networks (operated by non-banks)	RuPay by NPCI	√	√ <sup>2</sup>	x
			VISA			
			MasterCard			
			American Express Diners			
4	Bulk and Repetitive payments	NACH	NPCI	√	x	x
5	Aadhaar-based Payments	APBS	NPCI	√ (962)	x	x
		AePS	NPCI	√	x	x
		BHIM Aadhaar Pay	NPCI	√	x	x
6	-	MTSS – OP (Cross Border Money Transfer – inbound only)	9 non-banks (OP)	√ (As Indian Agents of OP)	√ (As Indian Agents of OP)	x
7	-	PPI issuers	Banks and non-banks	√ (60)	√ (48)	x
8	-	IMT	Empays Payment System India Pvt. Ltd. (non-bank)	√	x	x
9	-	TReDS	3 non-banks (Mynd Solutions,	√	√	x

<sup>1</sup> RBI operated retail payment systems (NEFT and ECS) and cheque clearing systems not included.

<sup>2</sup> Certain regulated entities



			Receivables Exchange of India and A.TREDS)			
10	-	BBPS	NPCI (BBPCU)	√ (63 BBPOUs)#	√ (10 BBPOUs) #	x
11	-	UPI	NPCI	√ (129)	x	x
12	-	NETC	NPCI	√ (22)	x	x

\* Indirect for settlement

# 26 banks and 2 non-banks have 'in-principle' approval

## Authorisation Criteria for non-bank PSOs

Sr No.	Payment System	Receipt of Applications	Eligibility Criteria			Review Possibilities
			Financials	Specific to the PS	Common to all	Financials
1.	PPI issuers	Open	Rs 5 cr Networth at time of application Rs 15 cr in 3 years and maintained at all times	Respective regulators' clearance before application	- Company registered under the Companies Act, 2013 - Entities with Foreign Direct Investment (FDI) / Foreign Portfolio Investment (FPI) / Foreign Institutional Investment (FII) shall meet the capital requirements as applicable under the extant Consolidated FDI policy guidelines - The Memorandum of Association (MOA) must cover the specific activity	No change envisaged as the guidelines were recently amended after detailed discussions with all stake holders
2.	WLAOs	Closed	Rs 100 cr Networth at all times	-		Reduction of Networth
3.	BBPOUs	Closed	Rs 100 cr Networth at all times	Applicant must have domain experience in the field of bill collection for a minimum period of one year.		Reduction of Networth
4.	TReDS	Closed	- Minimum paid up equity capital - Rs. 25 cr - Non- promoters, to have shareholding upto 10 per cent of equity capital	-The overall financial strength of the promoters/entity an important criteria - RBI to assess the 'fit and proper' status of the applicants - Sound technological basis to support its operations		Revision of Networth

## Approval Criteria for Banks as PSOs

Sr. No.	Payment System	Window for receipt of application	Eligibility Criteria
1.	PPI issuers	Open	Respective regulators' clearance before application
2.	BBPOUs	Closed, except for newly licensed banks	<ul style="list-style-type: none"> <li>Board approval for undertaking this activity</li> <li>Banks should be engaged in bill payment activity</li> </ul>
3.	Mobile Banking services	Open	<ul style="list-style-type: none"> <li>Banks should be licensed, supervised and have physical presence in India</li> <li>Banks should have implemented core banking solutions</li> </ul>