



Decoding the RBI's Payments Vision 2025

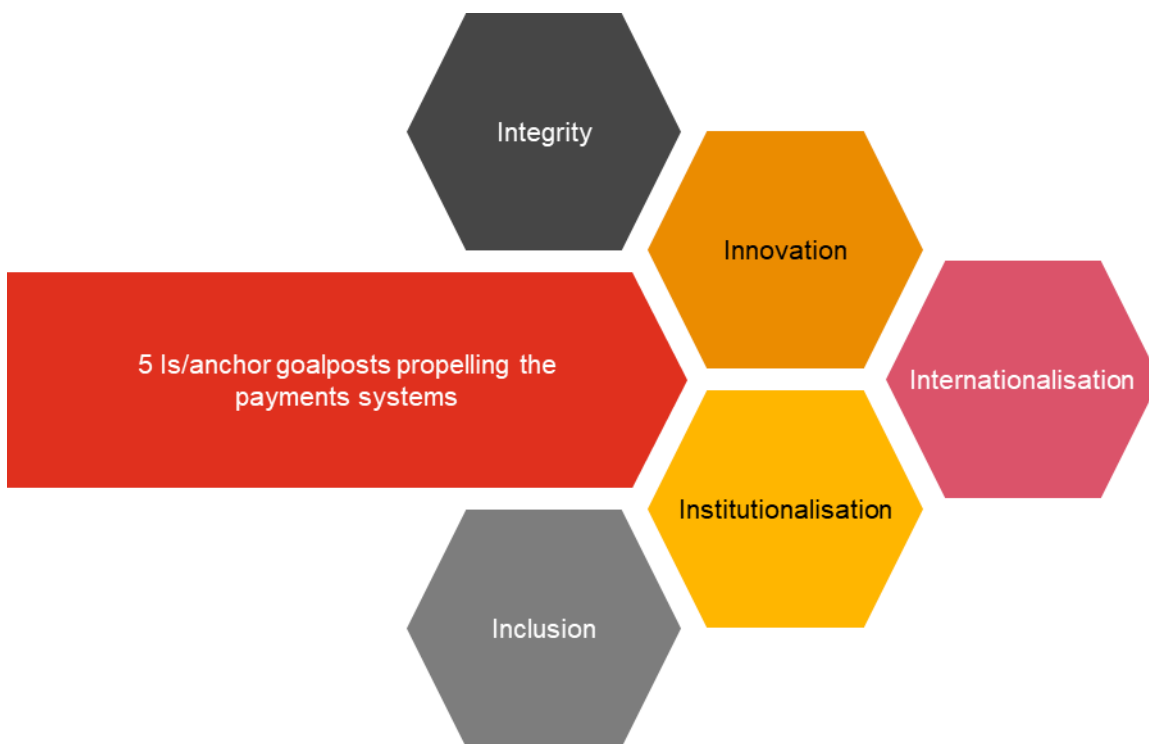
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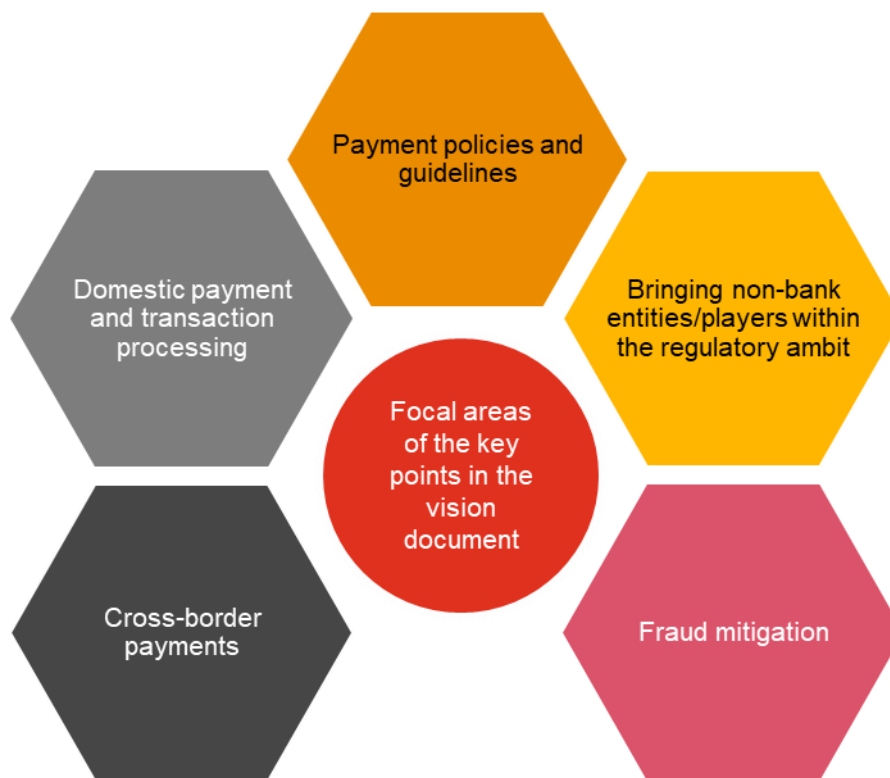
In June 2022, the Department of Payment and Settlement Systems, the Reserve Bank of India (RBI) released the Payments Vision 2025 document.¹ The document covers the achievement of the goals set out in the 2019–21 payments vision and lays out the payments vision for 2025, building on the earlier vision and providing a strategic direction and implementation plan for the development of the payment ecosystem.

The vision document emphasises the **five Is/anchor goalposts** of integrity, inclusion, innovation, institutionalisation and internationalisation that drive the payment systems, along with a core theme of **four Es**, namely e-payments for everyone, everywhere, every time. This theme is built on the **six attributes** of safe, secure, fast, convenient, accessible and affordable payment systems identified in the previous vision.



In this document, we have analysed the key points in the vision document and their implications for industry players. These have been categorised based on the focal areas below:

¹ <https://www.rbi.org.in/Scripts/PublicationVisionDocuments.aspx?Id=1202>



Sr. no.	Points	What do they mean?	Possible implications for industry players
Focal points around cross-border payments			
1	Two-factor authentication (2FA) for cross-border card transactions	Introduction of an additional factor of authentication (AFA) for international transactions using cards issued in India shall be evaluated by the RBI to provide additional safety to customers.	<ol style="list-style-type: none"> 1. Financial institutions (FIs) would need to ensure that they have the necessary infrastructure and details to support an AFA for international transactions. Alternatives in addition to using OTP as an authentication factor would have to be explored. 2. Issuers would be required to inform their customers in advance in case of the introduction of an AFA.
2	Global outreach of RTGS, NEFT, UPI and RuPay cards	<p>The feasibility of settling foreign currencies on Indian payment systems using bilateral and multilateral arrangements of the foreign countries will be studied.</p> <p>In addition, the RBI shall also evaluate the possibility of central banks of other countries opening their INR accounts with the RBI and making payments through the Centralised Payment System (CPS). Similarly, the possibility of the RBI opening accounts with other central banks shall be explored.</p>	<ol style="list-style-type: none"> 1. The RBI may evaluate models similar to those used by China and Hong Kong for the settlement of foreign currencies within these countries. 2. The financial messages used within India may need to be revamped to include additional currencies. 3. FIs would have to refine the payments messaging routing if foreign currency transactions and settlements can be made within India.

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3	Bring further efficiencies in payment processing and settlements on introduction of Central Bank Digital Currency (CBDC) – domestic and cross-border	The RBI is working towards the introduction of CBDC in India and is exploring use cases for the use of CBDC within India and also globally.	<ol style="list-style-type: none"> 1. The RBI will have to evaluate CBDC use cases for domestic as well as cross-border transactions. 2. The RBI can focus on linking CBDC of multiple countries as one of the focal points during India's G20 presidency. 3. FIs need to understand the use cases, explore their technical feasibility, and assess infrastructure availability to facilitate CBDC transactions.
Focal points around domestic payment and transaction processing			
1	Explore local processing of payment transactions	The RBI is exploring the possibility of processing payment transactions within India that currently can be processed abroad.	<ol style="list-style-type: none"> 1. FIs, especially card network operators, will have to explore processing of transactions within India by setting up a processing switch to ensure the transaction data doesn't leave the country and the investment required for the same. 2. The charges levied by operators may need to be revisited considering that the transaction processing cost and investment cost could change.
2	Operationalise a National Card Switch for card transactions at point of sale (PoS) and resultant settlements	At present, card transactions at PoS terminals are processed only through the concerned card network. The RBI has specified the option of implementing a National Card Switch instead of the card network to increase the competitiveness and efficiency of processing card transactions. This is expected to be similar to the National Financial Switch (NFS) for ATM transactions.	<ol style="list-style-type: none"> 1. All acquirers and issuers will have to be aligned and route their transactions through the National Card Switch and not through their respective switch. 2. FIs will need to have the necessary technology and make investments to process transactions through the National Card Switch. 3. Due to increased competition, card scheme operators may have to revisit their switching pricing to customers.

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3	Migrate all RBI-operated payment system messages to the ISO 20022 standard	<p>The RBI shall take necessary steps to migrate the existing RBI-operated payment system messages that currently do not use the ISO 20022 standard such as NEFT to the ISO 20022 standard.</p> <p>However, the vision document does not speak about NPCI-operated payment systems such as UPI and RuPay.</p>	<ol style="list-style-type: none"> 1. Banks may have to evaluate the use of message translators in case they do not wish to change their existing systems. 2. The NPCI may have to evaluate moving to ISO 20022 for the UPI rail. 3. If the ISO 20022 standard is made applicable for RuPay cards, banks will also have to plan for migration from ISO 8583 to ISO 20022 for RuPay transactions. In such a case, banks may have to continue using different messaging standards for players and for RuPay.
4	Create a payment system for processing online merchant payments using internet/mobile banking	As current settlement through payment gateways and aggregators takes time and involves delays in merchant payments, the RBI plans to introduce a framework to process merchant transactions through payment systems.	<ol style="list-style-type: none"> 1. The creation of a parallel system to process merchant transactions may adversely impact payment gateways (PGs) and payment aggregators (PAs). 2. PG and PAs should evaluate methods to enable faster credit to merchants at a lower cost to stay competitive.
5	Review need for multiple payment identifiers	<p>Currently, an FI uses multiple payment identifiers to enable credit to a beneficiary. The RBI is evaluating the use of bank account numbers without using bank IFSC to enable faster and simpler fund transfers.</p> <p>At the same time, the RBI has encouraged the use of the Legal Entity Identifier (LEI) in payment systems and areas of sanction screening, know your customer (KYC), corporate invoice reconciliation, fraud detection, etc.</p>	<ol style="list-style-type: none"> 1. Introduction of a common identifier such as the LEI may result in an additional cost for banks to issue new identifiers to customers. 2. FIs would be required to have necessary systems in place to capture the LEI information. 3. The scheme operator may have to make changes to the messaging format to enable the use of an alternative identifier like the LEI instead of IFSC.
6	Co-ordinate migration of government receipts and payments to digital mode	The RBI plans to integrate all government payments and receipts via digital payment methods through eKuber.	<ol style="list-style-type: none"> 1. Central and state governments will need to integrate their payment platforms with the RBI's eKuber. 2. FIs will also need to ensure integration with eKuber to enable transfer of funds to beneficiaries.

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7	Expand interoperability to contactless transit card payments in offline mode	The transit payment space has evolved considerably from a closed-loop system to a full-fledged open-loop smartcard-based ecosystem, allowing the use of smart cards outside the transit landscape as well. The objective here is to make smart cards fully interoperable across multiple use cases in a number of locations.	<ol style="list-style-type: none"> 1. FIs, with the help of FinTechs, can explore the possibility of using National Common Mobility Card (NCMC) across different transit operators as well as for retail payments. 2. FIs will need to ensure interoperability at the acquiring end. Card schemes need to ensure that interoperability for offline transactions is seamless with respect to blacklist management, reconciliation, settlement and other operations processes.
Focal points around payment policies and guidelines			
1	Constitute Payments Advisory Council (PAC) to assist the Board for Regulation and Supervision of Payment and Settlement Systems (BPSS)	The RBI shall constitute a PAC comprising experts and industry stakeholders to assist the BPSS.	<ol style="list-style-type: none"> 1. There will be additional oversight by the PAC for governance and strategic decisions related to payment systems.
2	Revisit guidelines for prepaid payment instruments (PPIs), including closed system PPIs	<p>The RBI plans to review and develop a framework for all types of PPIs.</p> <p>This includes closed system PPIs that are not currently regulated or supervised by the RBI.</p>	<ol style="list-style-type: none"> 1. With the review of PPIs guidelines, the currently unregulated closed system PPIs may be brought within the regulatory and supervisory ambit of the RBI with relaxed guidelines compared to semi-closed PPIs. 2. All PPI issuers may be required to implement a formal customer grievance redressal framework to handle customer complaints or grievances and define turnaround times for complaint resolution.
3	Explore guidelines on payments involving buy now pay later (BNPL) services	BNPL services would be examined by the RBI and BNPL service providers may be mandated to follow guidelines for providing BNPL services.	<ol style="list-style-type: none"> 1. BNPL service providers may be regulated and licensing requirements may be introduced under the digital lending guidelines. 2. Requirements around KYC, fraud management and governance framework may be mandated for service providers.

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4	Revisit scope and usefulness of the Payments Infrastructure Development Fund (PIDF) scheme	The RBI shall revisit the effectiveness of the PIDF scheme to check whether it is really working. If required, the RBI may expand the incentives to other areas or allocate more funds towards the PIDF scheme.	<ol style="list-style-type: none"> 1. Issuing banks may evaluate setting up acquiring infrastructure at the specified locations to avail subsidies. 2. Acquiring banks should adopt a scientific process for identification of deployment areas as payouts are based on the achievement of targets.
5	Active engagement and involvement in international fora (discussions of standard-setting bodies)	India will assume the presidency of the G20 from 1 December 2022 to 30 November 2023. India can play a leadership role in transforming the payment ecosystem across the globe with its active participation in such fora.	<ol style="list-style-type: none"> 1. India shall continue its active participation in G20 similar to the role that it is playing in various international standard-setting bodies. 2. It is expected that India shall focus on aspects related to digital transformation, countering money laundering and financing of terrorism, reducing remittance costs, multi-country CBDC, etc.
6	Undertake evaluation of charges for all payment systems	The RBI shall evaluate the charges for all payment systems levied by FIs on merchants/customers.	<ol style="list-style-type: none"> 1. The RBI may place caps on charges levied by FIs on merchants/customers to ensure that the charges are reasonable and that they do not avert the use of digital payment systems. 2. FIs may have to revisit their pricing strategy and reduce the pricing for a few products and in some cases, increase the pricing for products that are currently not being priced.
Bringing non-bank entities/players within the regulatory ambit			
1	Consider a framework for regulation of all significant intermediaries in the payment ecosystem	Offline PAs may be brought under the regulatory ambit.	<ol style="list-style-type: none"> 1. Payment intermediaries including offline PAs may need to comply with licensing and capital requirements. 2. They will have to comply with the regulatory guidelines/mandates put forth by the RBI.

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2	Attempt regulation of BigTechs and FinTechs in the payment space	BigTechs and FinTechs may be brought under the regulatory ambit.	<ol style="list-style-type: none"> 1. The RBI may introduce a policy framework focusing on various elements such as domestic incorporation, data use and reporting which BigTechs and FinTechs would be expected to follow. Licensing may be introduced for these entities in case they provide financial services.
Focal points around fraud mitigation			
1	Weave in alternative authentication mechanism(s) for digital payment transactions	The RBI may prescribe the forms of AFA considering the concerns associated with authentication using OTP.	<ol style="list-style-type: none"> 1. The RBI may come up with alternative risk-based authentication mechanisms and mandate that banks use these alternative mechanisms. 2. FIs can evaluate whether they have the infrastructure to facilitate AFA using behavioural biometrics, location/historical payments, digital tokens or in-app notifications and make suitable investments, if necessary. 3. Introduction of alternative mechanisms may provide an opportunity for technology players to offer innovative payment solutions that ensure security as well as a seamless transaction experience to customers.
2	Leverage the online dispute resolution (ODR) system for fraud monitoring and reporting	<p>As a part of the RBI's Master Direction on Digital Payment Security Controls,² regulated entities were expected to set up a robust governance structure, implement standards of security controls and provide a mechanism to customers for immediate notification of fraudulent transactions to the issuer entity.</p> <p>Since building the above feature in the Central Payments Fraud Information Registry (CPFIR) is expected to take some time, the RBI has suggested examining and leveraging the ODR system in the interim period.</p>	<ol style="list-style-type: none"> 1. Regulated entities should evaluate utilising the ODR system which is used for resolving customer disputes and grievances, and for monitoring and reporting frauds. 2. FIs should parallelly look at technical aspects and build a mechanism to enable customers to report fraudulent transactions to the CPFIR.

² <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12032&Mode=0>

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