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# RBI Vision 2019-2021: The way forward

August 2019





# RBI Vision 2019-2021: The way forward

## Foreword

Dear Readers,

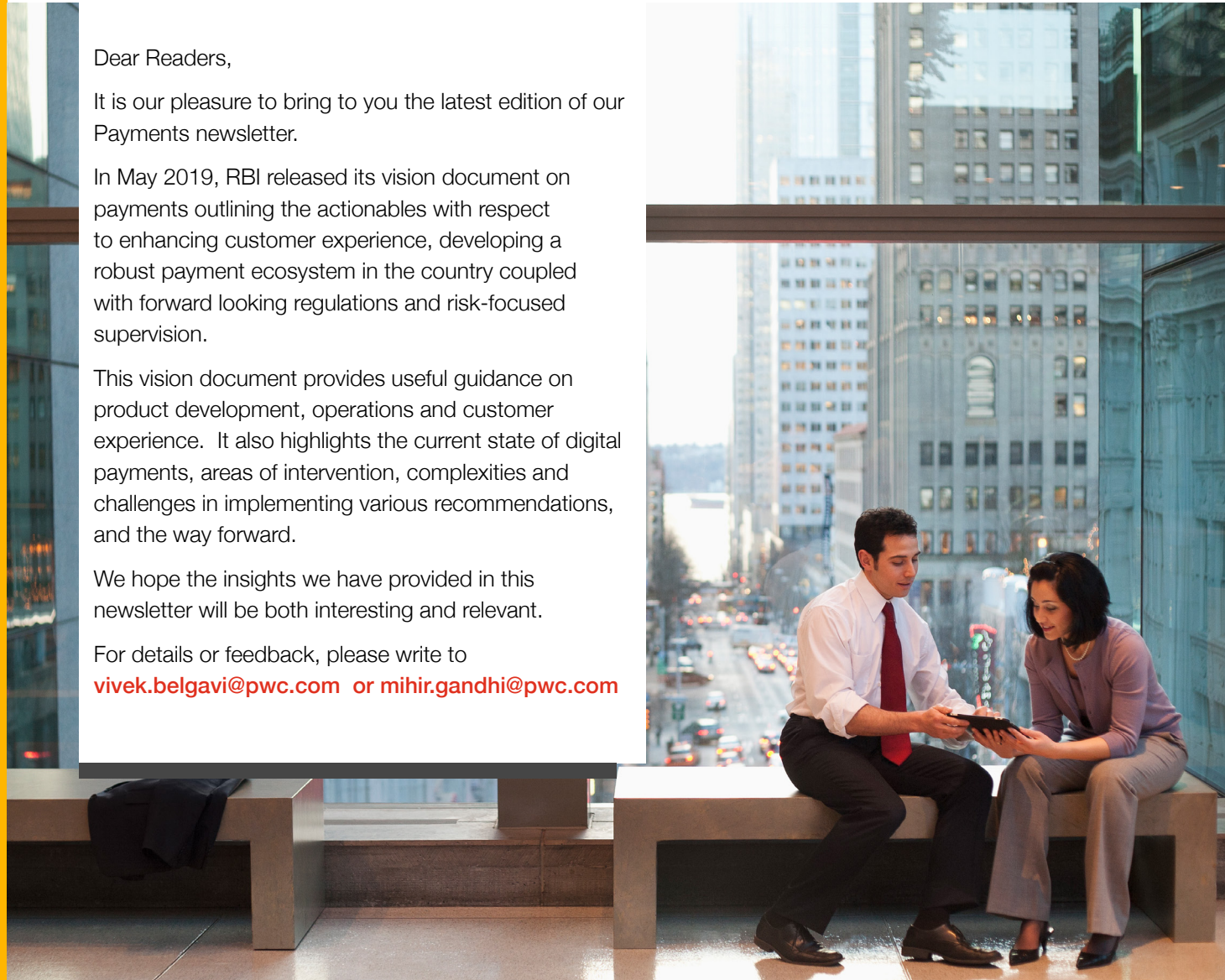
It is our pleasure to bring to you the latest edition of our Payments newsletter.

In May 2019, RBI released its vision document on payments outlining the actionables with respect to enhancing customer experience, developing a robust payment ecosystem in the country coupled with forward looking regulations and risk-focused supervision.

This vision document provides useful guidance on product development, operations and customer experience. It also highlights the current state of digital payments, areas of intervention, complexities and challenges in implementing various recommendations, and the way forward.

We hope the insights we have provided in this newsletter will be both interesting and relevant.

For details or feedback, please write to [vivek.belgavi@pwc.com](mailto:vivek.belgavi@pwc.com) or [mihir.gandhi@pwc.com](mailto:mihir.gandhi@pwc.com)







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## Introduction

The Indian payments industry has witnessed remarkable growth, innovation and regulatory support over the last few years. The evolution of the digital payments ecosystem in India has been particularly noteworthy. A comparative study done by one payments firm across 25 countries placed the Indian faster payments system at the apex, surpassing those of developed economies viz. the UK, Japan and China.

Various stakeholders such as banks, public transport operators, OEMs, payment system operators including card networks, PPI issuers, financial market infrastructure providers have played an important role in developing the digital payments space in India.

Issuers have engaged with Technology Service providers (TSPs) to launch innovative products. Wallet is one such example. Banks and some of the e-commerce players like Amazon, Flipkart, Ola have collaborated to develop a stronger product proposition for customer retention. Card networks are constantly working to develop newer, convenient and safer payment mechanisms. Banks are collaborating with OEMs & card networks to launch innovative products such as card tokenisation and API-based lending.

Guidelines issued by RBI for issuance of chip-based cards along with PIN have made PoS transactions safer. Banks are upgrading ATMs to read chip-based cards instead of a magnetic stripe which will overcome the threat of card skimming and cloning incidents at ATMs. Merchant Discounting Rates have been gradually rationalised to reduce transaction cost for the merchants. Levy of charges on customers for NEFT and RTGS has been discontinued which will help in promotion of large value transactions through electronic modes.

The government has also increased its focus on developing a “less cash society”. The Smart City programme has provided impetus to digital payments. Various municipal corporations are adopting Bharat Bill Payment Services (BBPS) for bill payments. Government direction on National Common Mobility Card (NCMC) and National Electronic Toll Collection (NETC) has helped initiate digitising low value, high volume cash transactions in the transport sector.



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To realise the Government's vision of a "less cash" society, it is imperative to create an inclusive system design, maximising stakeholder participation. With this in mind, RBI in May 2019 released a vision document on Payment & Settlement Systems in India for 2019-2021, actionable by various stakeholders for further enhancing the digital payments architecture in India.

RBI has asked financial institutions, payment system operators and other participants to envision and support the creation of an enhanced payment ecosystem with the following parameters in mind<sup>1</sup>:



**Features such as geo-tagging of payment system touch points**



**Enhanced contactless and tokenisation technology**



**Adoption of emerging tech viz. Blockchain**



**Setting up of ombudsman for digital payments**



**Innovation in feature phone and USSD-based payments services**



**National settlement services for card schemes**



<sup>1</sup> Reserve Bank of India, Payment and Settlement Systems in India: Vision – 2019-2021





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Enabling interventions from time to time has helped in the adoption of digital payments. There has been an increase in usage of debit cards and UPI over the last 2 years. Deployment of PoS terminals too has seen a YoY growth of 20%. PoS transactions have witnessed YoY growth of 28% in terms of both count and value as on March 2019<sup>2</sup>.

However, rural India with a 16% share of total digital transactions in the country is likely to witness better adoption<sup>3</sup>.

With growth in digital transactions, associated risks are also seeing an upward trend. Any event such as data breach, customer fraud, malware attacks prove detrimental to customer confidence.

Evolution of faster payment infrastructure has helped in:

Faster payment infrastructure	
1	Improved and accurate payments
2	Faster and cheaper cross border payments
3	Faster transit and micro payments with contactless technology
4	Faster merchant micro payments with QR



<sup>2</sup> Reserve Bank of India, Bank-wise ATM/POS/Card Statistics

<sup>3</sup> <https://www.financialexpress.com/opinion/digital-payment-surprising-trends-emerge-from-rural-india/1303964/>

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## Areas of intervention

RBI has identified 5 broad areas which need to be addressed by the participants to improve the payments ecosystem:

- 1 **Enhancing the experience of customers**
- 2 **Empowering payment system operators and service providers**
- 3 **Enabling the eco-system and focusing on infrastructure**
- 4 **Putting in place a forward-looking regulation**
- 5 **Support of risk-focused supervision**

Various stakeholders need to take into consideration the following factors to help achieve the objectives outlined in the RBI vision document:



### **Enhancing customer experience**

is at the centre of the vision and all allied infrastructure development. Transaction declines or delays have an adverse impact on customer experience that may result in transaction drops altogether. On the other hand, declines due to reasons such as incorrect PIN, CVV and insufficient balance should trigger a prompt notification to help the customer complete the transaction. Multiple checks in e-commerce check-out flow such as OTP, Captcha increase hopes and efforts should be made to speed up the checkout process.





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## Reduction in transaction cost

for participants in the ecosystem may serve as a catalyst to bring more number of merchants on to the digital payments platform. Transaction processing fees, generally levied on financial institutions and in some cases, passed on to the customers, increases per transaction cost that impacts adoption of digital payments at various touchpoints. Migration to fixed minimum transaction-based pricing allows for recovery of minimum cost and will bode well for increasing low-margin high volume transactions<sup>4</sup>.



## Improvement in payment infrastructure

across the country is necessary as the existing infrastructure is skewed in favour of metro and urban areas, and yet it is important to penetrate at the micro level viz. small merchants & traders and to rural areas. UPI has bridged this gap to a certain extent. But going forward, efforts are required to increase the coverage of the target segments, along with increasing the transaction value of the existing set of customers.



## Omni-channel risk management framework

in India has been in a rather nascent state with the framework implemented by only a few large banks and limited to cards portfolio. The risk arising out of adoption of digital payments relies on the inter-operability of digital platforms and processes. To address this risk, all financial institutions require a mechanism for transaction monitoring across all digital payment platforms. Any fallout will impact this ecosystem adversely. Analysis and implementation of an Enterprise Fraud Management system coupled with product specific fraud and risk management tools are the needs of the hour.



## Enabling regulations

supporting upcoming technologies and platforms will enable the players to innovate and experiment with new products and services in the digital payments space. Regulations laying down basic ground rules at the outset will have far-reaching impact in developing a secure, robust and convenient-to-use digital ecosystem. It will allow participants to design their products and processes in compliance with the regulations before proceeding with market launch.

<sup>4</sup> Reserve Bank of India, Payment and Settlement Systems in India: Vision – 2019-2021





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The Indian payment industry has evolved through operational and business optimisations. Following are few highlights of the changes:

Focus area and recommendations	
1	Reduction in cheque based payment, making it 2% of the retail payments
2	4-fold growth in digital transaction fuelled by 100% growth in UPI and IMPS
3	Increase in point of sales (PoS) vs ATM ratio for card transactions
4	Increase in card acceptance infra by 6 times on offline and online mode along with 6 million PoS terminals
5	Reduction in technical decline by 10% annually and business decline by 5% annually, improvement in TAT

With actionables defined in the vision document, some the plausible approaches that could help further digital payments in the country are outlined below:

### Customer grievance redressal and dispute management

With availability of multiple payment methods and instruments, it is time that TAT for customer grievance redressal and dispute management is standardised. Leveraging the experience of global card networks and industry best practices for standardising the approach towards grievance redressal will be the right way forward.

24/7 dedicated helpline to attend to customer grievances with local language support on digital payments will allow users to communicate their queries comfortably and obtain an appropriate resolution in the shortest possible time.





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## Setting up of self -regulatory organisation

RBI has recommended to set up a non-government self-regulatory organisation to bridge the gap between the industry and regulator. Industry associations representing financial institutions, Fintechs, OEMs, TSPs, card networks and other payment system operators could possibly act as liaison agencies with multiple regulators. The industry could also study the formation and functioning of IBA, an umbrella body for Indian banks, to form the proposed body for the payment industry along similar lines.



## Setting up National Settlement Services

National Settlement Services will be a positive move to ensure a standard transaction settlement procedure among banks. Extending the existing mechanism used by NPCI for transaction settlement with global card networks operating in India needs to be explored by regulators and industry participants. Existing settlement accounts maintained by the participants with RBI may be used in the proposed National Settlement Services.



## Increase in acceptance infrastructure

To create an inclusive digital payment ecosystem, it is necessary that new participants offering solutions for easy customer on-boarding and usage are allowed to enter the ecosystem. Co-operative and regional rural banks that maintain a significant foothold to provide financial services in semi-urban and rural India coupled with innovative and cost-effective solutions from Fintechs and OEMs can play an important role in digitising payments in the country. Their participation in Centralised Payment Systems through sub-memberships will further deepen adoption of digital payments.

Banks and non-bank participants should look to leverage Bharat Quick Response (QR) & UPI QR along with mPoS to include small merchants in the payment ecosystem.

Acquirers also need to upgrade their PoS infrastructure to support various payment form factors such as Near Field Communication (NFC), card tokenisation, QR, and wallets. Deployment of Android Point of Sales (PoS) will be a necessary step in that direction.

Acceptance Development Fund, as proposed by RBI, will help develop a digital payment ecosystem in Tier 3 to 6 centres,



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## Acceptance Development Fund

It is proposed to create an Acceptance Development Fund for maintaining and acquiring infrastructure in semi-urban and rural areas. This is a capital intensive activity and setting up of the Fund, in line with Universal Service Obligation Fund as in the telecommunication sector, to subsidise acquiring business in untapped markets will provide the necessary impetus.

Acceptance Development Fund may be utilised to:

- Set-up acquiring infrastructure in Tier 3 to 6 centres
- Maintain the deployed infrastructure
- Offset loss of MDR
- Deploy new-age acquiring devices

Envisaged impact from the above are:

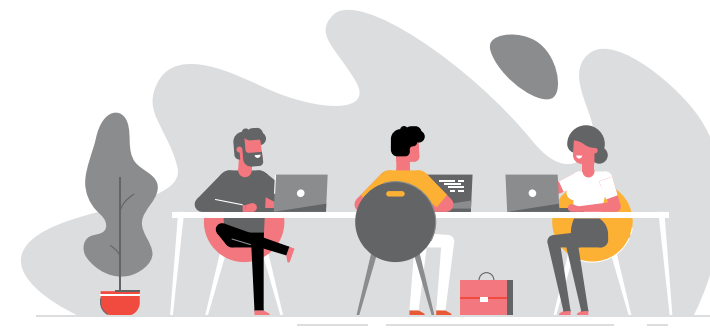
1. Increase in digital transactions
2. Reduce cost of cash handling for banks
3. Reduce transaction cost for merchants
4. Increase in RoI for acquirers



## Adoption of new technologies including DLT

Emerging technologies such as Distributed Ledger Technology (DLT) and Artificial Intelligence (AI) are still in nascent stages of implementation. Leveraging DLT for operational efficiencies in Payment Systems will need collaboration between financial institutions and fintech players. Further, framework for sandbox for payment systems will enable fintech players to experiment with their solutions before proceeding with mass market implementation.

Adoption of Machine Learning and AI along with enterprise-wide omni-channel fraud risk management in identifying threats and taking measures to mitigate risks will make the payment system safe and secure.





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## RBI's statement on Development & Regulatory Policies – Payment & Settlement Systems

On 7 August, 2019, RBI released a statement on Development & Regulatory Policies with 3 key announcements on Payment & Settlement Systems:

- 24/7 NEFT facility from December 2019
- “On-Tap” authorisation for BBPOUs, TREDS & White Label ATMs
- Expansion of Biller Categories (except Prepaid Recharge) for Bharat Bill Payment System

These initiatives will allow new entrants in the digital payments space, enabling wider customer participation thereby deepening the Indian digital payment space.





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## BUDGET 2019 – Key highlights

Union Budget 2019 has provided the initial support required to achieve the objectives as outlined in RBI's vision document:

- A. TDS of 2% on cash withdrawal exceeding INR. 1 crore from a bank account in a year
- B. Zero MDR on merchants, with turnover exceeding INR 50 crore
- C. Large merchants to offer multiple low-cost payment options to customers

These steps will encourage both customers and businesses to convert their cash transactions to digital payments. Banks and acquirers should take this opportunity to provide additional services to merchants like data analytics to improve transaction authorisation rates, transaction reconciliation, and design marketing campaigns around digital payments.

However, some of the points in the budget are not clear and need further analysis and discussion on the proposed impact to the ecosystem. For eg. zero MDR for merchants exceeding INR 50 crore may not achieve the stated objective to penetrate payment systems in rural locations of India.

The RBI vision document holds a positive outlook on infrastructure and regulatory aspects of payments over the next 3 years.

From interoperability to benchmarking of payment systems – the regulator has been proactive in its commitment to promote a less cash economy. The time is ripe for payment service providers and FinTech players to leverage the enabling reforms and shift into another era of technological disruption in digital payments to make India a Payments Powerhouse.





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## Payments technology updates

RBI releases 'Vision 2021' for payment systems for 'cash-lite' society

Livemint

According to RBI, the payment landscape will see entry of more players and would experience further innovation. The focus is on creating customer awareness, setting up a 24X7 helpline. The Payment Systems Vision 2021 has 36 specific action points and 12 specific outcomes.

[\(Read More\)](#)

How RBI aims to make India a cashless society by 2021

Financial Express

As per RBI, by December 2021, the transaction count may rise over four times to INR 8,707 crore as against INR 2,069 crore in December 2018. While UPI or IMPS may see an average annual growth of more than 100 per cent, National Electronic Funds Transfer (NEFT) is likely to surge at 40 per cent up to December 2021.

[\(Read More\)](#)

RBI's 2021 Vision Document makes digital payments its main focus

Inc42

Vision 2019-21 aims at a better customer experience, fuelled by the development of an ecosystem, and supported by a risk-focused supervision. Digital payment transaction turnover vis-à-vis GDP (at market prices-current price) is expected to increase to 10.37 in 2019, 12.29 in 2020 and 14.80 in 2021.

[\(Read More\)](#)

RBI's 'Vision 2021' document on payment systems to boost digital transactions: Fintech firms

Business Today

KYC simplicity, digital KYC and KYC bureau, as well as simplification of existing policies to enable NBFCs to issue credit cards is missing from the document.

[\(Read More\)](#)





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## Thousands of digital payment frauds putting Modi's 'digital India' dream at risk?

Financial Express

With regard to ATM / debit card, credit card and internet banking transactions of over Rs 1 lakh, there were 1,367 frauds reported in FY 2016-17; 2,127 frauds in FY 2017-18; and 1,477 frauds in FY 2018-19.

[\(Read More\)](#)

## As Paytm and PhonePe rule digital payments roost; Google Pay rapidly gaining market share

Moneycontrol

Google Pay recorded more than 240 million transactions in May, while Flipkart-owned PhonePe, had around 230 million UPI payments, and Paytm had 200 million transactions.

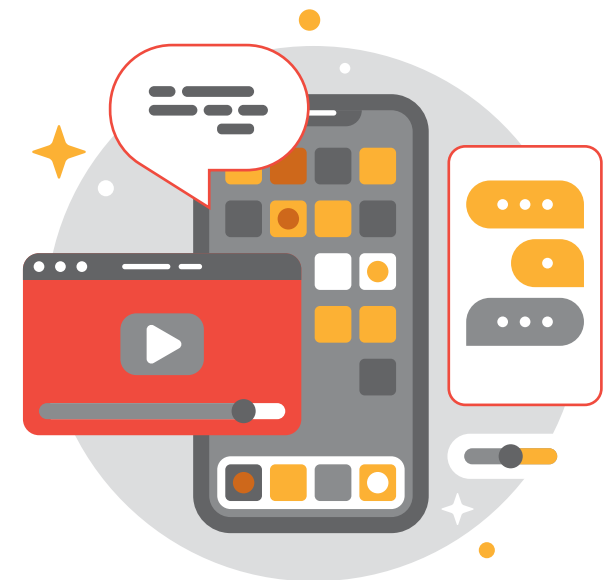
[\(Read More\)](#)

## Digital payments to rise ten-fold in three years

Forbes India

Despite banks in India issuing a cumulative of about 1 billion debit cards and 50 million credit cards to date, acceptance remains low, with only about 3.5 million point-of-sale devices, and 0.2 million ATMs.

[\(Read More\)](#)





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