

Incentive scheme for digital payments in Interim Budget 2024

March 2024





Foreword

Dear readers,

It is my pleasure to bring to you the latest edition of our Payments newsletter. In this edition, we take a look at the incentive scheme for the promotion of RuPay debit cards and low value BHIM UPI transactions (person to merchant [P2M]).

I hope you will find this to be an insightful read.

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Digital payments industry in India is growing at a very fast pace. The number of retail payment transactions on the National Payments Corporation of India (NPCI) platform for the period of April 2023 to February 2024 has crossed 139 billion transactions amounting to INR 3,59,408 billion with a compound annual growth rate (CAGR) of over 31% as compared to FY 22–23.¹ Of this, BHIM-UPI and RuPay card transactions contribute to 85% in volume and 51% in value of the total retail payment transactions.

Despite this tremendous growth, there still exists potential for more, especially in untapped markets. To promote digital transactions further, the Government of India (GoI) is undertaking several initiatives to increase adoption of digital payment systems in India by introducing various incentive schemes.

Incentive scheme for FY 2022–23

One of the initiatives taken by the GoI includes the incentive scheme approved by the Union Cabinet with a financial outlay of INR 2,600 crores for FY 2022–23.² Under this scheme, the GoI incentivised banks and other payment system operators and app providers for promoting RuPay debit cards and low-value P2M BHIM-UPI transactions (up to INR 2,000).

In FY 2021–22 as well, the Government had approved an incentive scheme in compliance with the budget announcement of FY 2021–22 to further boost digital transactions.

This financial outlay has been provided in order to:

- promote indigenously developed modes of digital payments – e.g. BHIM-UPI Lite or BHIM-UPI LiteX, UPI Conversational Payments and BHIM-UPI 123PAY
- promote point-of-sale (PoS) and e-commerce transactions
- reimburse the zero merchant discount rate (MDR) for Unified Payments Interface (UPI) and RuPay debit card transactions and reduce the potential adverse impact of the zero-MDR regime on the growth of the digital payments ecosystem.

Continuation of incentive scheme for FY 2023–24

In Interim Union Budget 2024, the GoI approved the proposal for the continuation of the incentive scheme for FY 2023–24 with a financial outlay of INR 3,500 crores.³



1 <https://www.npci.org.in/PDF/npci/statics/Retail-Payments-Statistics-Feb24.pdf>

2 <https://pib.gov.in/PressReleasePage.aspx?PRID=>

3 [https://egazette.gov.in/\(S\(\(jibwsz1wm4ooiuidfgqmx3\)\)\)/SearchText.aspx?id=888848](https://egazette.gov.in/(S((jibwsz1wm4ooiuidfgqmx3)))/SearchText.aspx?id=888848)



Interim Budget 2024 allocated INR 3,500 crores for the incentive scheme, with INR 3,000 crores for BHIM-UPI and INR 500 crores for RuPay debit cards.⁴ The allocation of funds marked for BHIM-UPI can be shifted to RuPay Debit Cards will be possible, but the reverse is not permitted.

Requisites and periodicity of claim reimbursement

The reimbursement of claims will be done as follows:

- For the first three quarters (April 2023 to December 2023), 100% of the claim amount will be disbursed.
- For the last quarter (January 2024 to March 2024), 90% of claims for RuPay debit cards and 80% of claims for BHIM-UPI will be disbursed, and the remaining amount will be disbursed on fulfilment of the following clauses by the acquirer bank:

- For RuPay debit card:

Show at least 5% growth in January–March 2024 as compared to January–March 2023 in the number of RuPay debit cards transactions (PoS and e-commerce transactions) as the issuer.

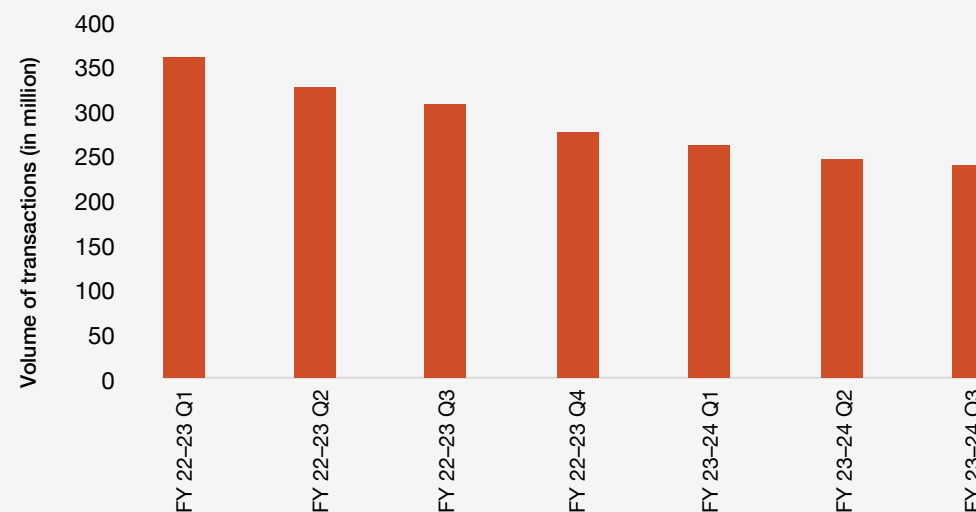
- For BHIM-UPI

- Enable the features of BHIM-UPI Lite and BHIM-UPI LiteX as a remitter and show at least 5% of BHIM-UPI P2M transactions on BHIM-UPI Lite or BHIM-UPI LiteX during the last quarter.
- Enable UPI conversational payments in app and BHIM-UPI 123Pay as a payer payment service provider (PSP).

Implications for banks

- **Promoting RuPay debit card transactions:** The transaction volume of RuPay cards (debit and credit) has seen a decline in the last two years.

Transaction volume of RuPay cards



Source: NPCI

The transaction volume of RuPay cards at PoS and e-commerce for January and February 2024 was 174 million and 274.77 million for the same period in 2023.⁵ This means that in order to be eligible to get the 10% balance reimbursement for RuPay debit card transactions, the volume of transactions in March 2024 should be almost double as compared to the monthly average transactions that have happened during the year.

⁴ [https://egazette.gov.in/\(S\(ijbwsz1wm4ooiuidgfgqmx3\)\)/SearchText.aspx?id=888848](https://egazette.gov.in/(S(ijbwsz1wm4ooiuidgfgqmx3))/SearchText.aspx?id=888848)

⁵ NPCI retail payments statistics



This indicates that banks need to take adequate measures to improve RuPay debit card transactions by ensuring that there is a good issuance and acceptance infrastructure for the cards.

- **Acting as both acquirer and issuer of RuPay debit cards:** The acquirer bank is required to show 5% growth in transactions as the 'issuer'. This means that the bank should act both as an acquirer and issuer to be able to claim the 10% reimbursement of the claim amount.
- **Enabling BHIM-UPI LITE and BHIM-UPI LiteX:** UPI LITE enables low value transactions below INR 500 without utilising the remitter bank's core banking systems in real time⁶, whereas UPI LiteX enables low-value offline transactions.⁷ UPI LITE and LiteX wallet are the same – except LiteX adds the offline payment functionality to UPI LITE.

As of March 2024, only 17 banks are live members of UPI LiteX. To be able to get a reimbursement of 20% of the claim amount for the last quarter of FY 23–24,⁸ banks need to enable BHIM-UPI LITE and BHIM-UPI LiteX by making necessary investments and promoting the use of these apps.

- **Enabling UPI conversational payments in app and BHIM-UPI 123Pay:** UPI 123PAY is an instant payment system for feature phone users. As of March 2024, only 11 banks have provided UPI 123PAY solution.⁹

Banks need to act as payer PSP and enable UPI conversational payments 'Hello! UPI' in app and BHIM-UPI 123Pay. This may require banks to make additional investments to develop or make changes to their UPI applications.



6 <https://www.npci.org.in/what-we-do/upi-lite/product-overview>

7 <https://www.npci.org.in/what-we-do/upi-lite/upi-lite-x/product-overview>

8 <https://www.npci.org.in/what-we-do/upi-lite/upi-lite-x/live-members>

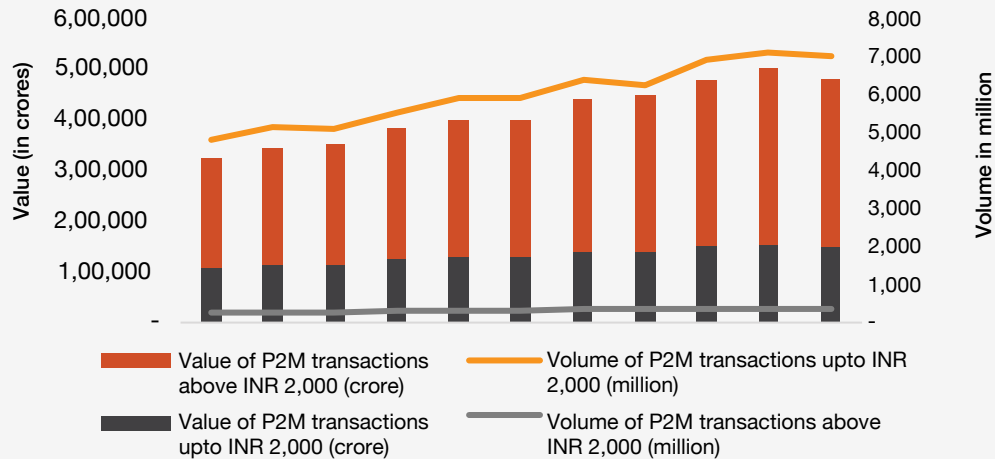
9 <https://www.npci.org.in/what-we-do/upi-123pay/live-members>

I. Additional fund allocation for UPI transactions

Current cost of processing UPI P2M transactions

For the period of April 2023 to February 2024, the value of UPI P2M transactions was INR 45 trillion with the average ticket size of approximately INR 650. The chart below presents the month-on-month trend of UPI P2M transactions.¹⁰

UPI P2M transactions



In order to process these transactions, stakeholders (including payer's bank, beneficiary's bank and UPI app provider, and NPCI) typically incur a cost of nearly 0.25% of transaction value for processing a UPI P2M transaction.¹¹ This means that the stakeholders incurred a cost of about INR 12,000 crores for UPI P2M transactions for FY 23–24 (assuming a flat average MDR rate of 0.25%). However, due to zero MDR, the stakeholders are not able to recover the costs, and the same needs to be reimbursed to them through such incentives.

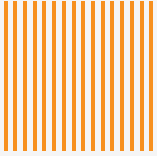
Expectations

After incurring a cost of approximately INR 12,000 crores to process the P2M transactions for FY 23–24, stakeholders are being incentivised with INR 3,000 crores only. This indicates that there is still a shortfall of INR 1,000 crores as the cost incurred INR 4,000 crores in case of P2M transactions (up to INR 2,000). It is therefore expected that an additional allocation of at least INR 1,000 crores is made for UPI P2M transactions (below INR 2,000).

Further, transactions above INR 2,000 need to be considered for providing incentives as the cost of processing these transactions is almost INR 8,000 crores, and currently, there is no incentive provided for the same. This means that overall, INR 9,000 crores should be additionally allocated for all UPI P2M transactions.

¹⁰ <https://www.npci.org.in/what-we-do/upi/upi-ecosystem-statistics>

¹¹ <https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/DPSSDISCUSSIONPAPER5E016622B2D3444A9F294D07234059AA.PDF>



II. Additional fund allocation for RuPay debit card transactions

As of November 2023, approximately 339 million RuPay debit cards were issued by banks.¹² The average ticket size of debit card transactions in India is INR 2,300.¹³ Considering the share of RuPay debit cards to total debit cards at approximately 36%, the monthly value of transactions using RuPay debit cards comes to about INR 21,000 crore. If the incentive rate of 0.4%, which is applicable for non-industry programmes, is applied to the transaction value, the incentive comes to INR 1,000 crores.

Note: The computation is done at a flat rate using assumptions in the absence of available data.

Expectations

Considering the computation above, it is expected that the Government will allocate additional funds of about INR 500 crores for transactions using RuPay debit cards at PoS and through e-commerce.

As discussed, the acquiring banks which are eligible to get the incentives are required to make investments for providing services such as BHIM-UPI LITE, BHIM-UPI LiteX and conversational payments, and promote digital payments by increasing physical touchpoints. Therefore, it is expected that the Government will provide related incentives to these banks for promotion of digital payments in the unorganised sectors, including street vendors, sector-specific schemes, contactless payment solutions and digital payment solutions using feature phones. These incentives may be provided through financial and/or technical interventions.



¹² <https://www.statista.com/statistics/981256/rupay-cards-issued-under-pmjdy-by-sector-india/>

¹³ <https://www.rbi.org.in/scripts/atmview.aspx?atmid=136>

Currently, the GoI is introducing multiple initiatives to promote digital payments in the country. Several incentives are also being provided by the Government in the form of allocation of funds and technological support. Such interventions along with the announcements made in Interim Budget 2024 are expected to help accelerate digital payment adoption and encourage growth in terms of innovations.



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