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NILEKANI-LED COMMITTEE RECOMMENDS MAKING ALL DIGITAL TRANSACTIONS TO GOVT FREE

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

Mumbai: RBI appointed panel headed by Nandan Nilekani for strengthening digital payments ecosystem has set a target for the government and regulators to achieve a ten-fold volume growth in digital payments over the next three years through customer-friendly pricing mechanisms and broadening access infrastructure.

In their recommendation report published by the RBI on Monday, the committee listed a comprehensive set of regulatory interventions that will be needed to achieve New Delhi's goal of a less-cash economy where the focus would be "pivoting the ecosystem from issuance to acceptance."

Initiatives such as removing transaction charges on digital payments made to government, inducing a competitive Merchant Discount Rates (MDR) pricing structure and easing KYC costs to banks are amongst the key recommendations put forward by the committee.

"The committee noted the recent growth in volume of digital payments by a factor of 10 over five years and has set a target for additional growth of 10x in three years," according to the Nilekani report. "This growth will be driven by a shift from high value, low volume, high cost transactions to low value, high volume, low cost transactions. Over a longer period, this will eventually lead to a decline in cash requirements."

The five-member high-level panel headed by Aadhar architect and former Infosys chairman Nilekani was constituted earlier this year by the central bank tasked to submit a comprehensive report holding consultations with all the major stakeholders to strengthen the digital payments industry which has seen a ten-fold growth in the last five years.

The report has made policy recommendations to all major regulators such as RBI, SEBI, IRDAI and DoT with the objective to reduce cash based payments. Additionally, the committee has put the onus on government to be at the forefront of the transition by taking steps such as removing transaction charges on all digital payments made by customers to the government.

"The committee recommends that the Government, being the single largest participant in payments, take the lead on all aspects of digitization of payments… just as the Government budgets for accepting payments in cash, it is recommended that it also budget for accepting digital transactions, ensuring that no convenience fee is charged on C2G payments," according to the report.

Further the committee has also asked RBI to set an interchange rate for transaction between customers and leave the MDR on competitive market pricing which would reduce the transaction cost for customers.

"…the regulator should adjust the interchange rate and let the market compete on MDR ultimately growing the acceptance ecosystem rather than inhibiting it."

Special impetus on digitising mass volume channels such as recurring bill payments, toll and ticket payments at public facilities and digital onboarding of khirana store merchants has also been recommended by the panel in order to achieve the targeted growth.

The panel has also asked the government to set up special risk mitigation and complaint registering digital portals. A special data monitoring mechanism to garner granular district level data on consumer trends and payment behaviour has also been suggested by the committee for targeted intervention to improve the existing infrastructure.

“We support macro recommendations to shift focus from issuance to merchant acquisition, simplified KYC for wallets and other instruments and allowing sharing of KYC with PMLA amendment across regulated entities, overall risk based light touch regulation,” said Naveen Surya chairman emeritus, Payment Council of India. “Target of 10x growth in three years is achievable if all these recommendations are implemented in time bound fashion.”

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