

GOING DIGITAL

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

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The payments ecosystem in India has seen a flurry of activity in the recent past. Post demonetisation, the shift towards digital payments has been particularly striking. Yet, acceptance, from an infrastructure perspective, continues to be low. For instance, while debit card issuance has touched a billion, there are only about 3.5 million POS devices and two lakh ATMs that accept cards. Against this backdrop, a committee headed by Nandan Nilekani has recommended several suggestions to broaden the acceptance infrastructure and deepen digital financial inclusion.

On the issue of acceptance, the committee notes that “high cost structures, including merchant fees, as well as limited financial service offering impede merchants from accepting digital payments”. To address this, it has recommended reducing the interchange on card payments by 15 basis points hoping this will “increase the incentive for acquirers to sign-up merchants”. Then there’s also the suggestion of setting up of a committee to review merchant discount rate and interchange on a regular basis. Now, merchant acquisition is central to expanding the payment ecosystem. But, rather than focusing more on the card-based ecosystem, perhaps greater emphasis could have been placed on the [Aadhaar](#)-enabled payment systems, which is likely to have greater appeal, especially in the rural hinterland. There are also suggestions which call for ensuring no user charges for digital payments, and providing businesses tax incentives “calibrated on the proportion of digital payments in their receipts”. These are eminently sensible recommendations. But implementation is likely to prove challenging. Take, for instance, the government’s decision to waive of fees on transactions less than Rs 2,000. Theoretically, a sound proportion. But, the roll-out was not as smooth as was expected.

The committee has also suggested that non-banks be encouraged to participate in payment systems. But, this is where questions over the existing payments architecture crop up. As the inter-ministerial committee had pointed out earlier, there is need to distinguish between the RBI’s role “as an infrastructure institution providing settlement function from its role as regulator of the payments system”. As the panel has said, the role of the regulator needs to evolve from being “largely bank centric”. Non-banks are at an inherent disadvantage in the current payment ecosystem. Perhaps, as the Nilekani committee notes, bringing in “non-banks as associate members to build acceptance infrastructure”, and allowing them access to settlement systems, might help create a level-playing field.

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