

R Gandhi: Payment systems - next orbit

Speech by Mr R Gandhi, Deputy Governor of the Reserve Bank of India, at the launch of the Bharat QR Code, Mumbai, 20 February 2017.

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Good Morning everybody

I am very happy to be launching the Bharat QR Code.

The QR code development for card payments in India has happened at the most appropriate time; we are on the threshold of a digital payments 'moment' and 'movement'.

This is a momentous occasion for the payments industry in India with the launch of this global first of its kind, low cost, interoperable, mobile based acceptance solution. I would like to congratulate the payment networks for their enthusiastic collaboration to develop this solution. An innovative interoperable solution, the Bharat QR, that is easy to scale, and provides a seamless customer experience, and above all is safe and secure, essential to accelerating India's transition to a less-cash society. I am glad that India is setting yet another standard in the payment arena for others to adopt.

Since cards began to be used in the country in early 1980s, the industry has set up about 1.5 million Point Of Sale (POS) terminals. However, in comparison to the 800 million cards that have been issued as of now, the number of POS terminals in the country has not been really adequate. Among other factors, the high capex and Opex associated with traditional POS terminals, have been the major deterrents to the expansion of POS infrastructure.

Gradually, with increasing mobile density in the country, many developments in the payments space have taken place using this channel, including m-POS on the merchant side. Now, QR code based systems leverage mobile usage on the consumer side as well. Being asset-light, they become easy to deploy. So, it is but natural that the two developments should come together to offer an efficient, secure and convenient experience for card payments.

What makes this development more momentous is that the card payment industry in the country has come together, of course at our direction, to make this process interoperable so that the users get the same experience of card payments – that is, interoperability.

No doubt, the visibility to QR code and its consequent widespread usage came from non-payments area first, followed by non-banks in payments area. These are mostly used by users within the same ecosystem and are not built on interoperable standards. However, we strongly felt that the time has arrived to consider some level of harmonisation in the use of QR-codes. Bharat QR Code has shown that it is possible!

Let me once again congratulate the industry and the team in the Reserve Bank for making this possible in such a coordinated and timely manner. I wish all success to the industry and suggest that this opportunity should be leveraged to spread digital payments acceptance infrastructure in the country quickly.

I would like to take this opportunity to discuss some contemporary thoughts on payment systems for it to go into its next orbit.

The Reserve Bank has been taking a studied stance with reference to bringing in changes to and in the payment systems. Periodically, it constituted various committees like the Rangarajan Committee I & II, Saraf Committee, Patil Committee, Burman Working Group, etc. to guide use of ICT for the benefit of banking in general and particularly the payment systems Further, from

1998 onwards, the Reserve Bank has been continuously bringing out a Payment System Vision document for every three years, enlisting the road map for implementation. The latest one is for the period 2015 –18. Improvement in the safety, security, soundness, efficiency and effectiveness of the payment systems has been the focus all along, besides expansion in use of various payment modes and ushering in various payment products and services. Reserve Bank has played the crucial roles of an operator, developer, catalyst and facilitator, regulator and supervisor, as the occasion demanded.

While concluding an address ([on Payment System – An Evolution, or a Revolution](#)) to the students of Banaras Hindu University in October 2016, I had said “India has been enjoying a very healthy evolution of payment systems over the past thirty years. In looking back, we can easily admit that it had been a revolution, without so realising. This has been the result of the measured road maps periodically adopted by the Reserve Bank, in the initial years as a developer, and in later years as a catalyst and facilitator. Today our systems are not only comparable to any system anywhere in the world, our systems also do set standards and good practices for the world to follow. We remain vigilant for ensuring safety and soundness of the payment systems and are committed to customer safety and convenience”.

In these six months, there have been heightened discussions on taking payment systems to further levels. Case in point is the Watal Committee deliberations and their recommendations. Also aiding this special attention has been the recent Demonetisation of the Specified Bank Notes of the high denomination of ₹ 500 and ₹ 1000 since November 9, 2016 and the consequent recognition of the need for speedy conversion to and adoption of digital payments.

In August 2016, the Government of India constituted a Committee under the Chairmanship of Shri Ratan Watal, Principal Adviser, NITI Ayog, to review the payment systems in the country and recommend appropriate measures for encouraging digital payments. The Committee studied the regulatory and legislative structure and recommended that the Payment and Settlement Systems Act 2007 should be amended to provide for improved regulatory governance, competition and innovation, consumer protection, open access, data protection and security, and graded penalties for offences.

One of the key recommendations is to form a Payment Regulatory Board under the PSS Act. The Committee said that the payments function should be independent of the central banking function of the Reserve Bank. This can be achieved by making the Board for Payment and Settlement Systems (BPSS) more independent by introducing members from outside RBI. This new independent board is referred to as the Payment Regulatory Board (PRB). Government of India has accepted this recommendation and has followed it up with promoting an amendment to the PSS Act 2007 by including it as a part of the Finance Bill 2017.

For records, I may mention that the BPSS as it stands today does have eminent independent members with knowledge, experience and expertise in payment systems and information technology and operations. Hence, it is welcome to make this arrangement de jure in PRB.

Another recommendation is that the law should be amended to explicitly cast responsibility on the regulator to promote competition and innovation in payment industry. The Committee says that the primary objectives of the PRB must include promotion of competition and innovation in the payments market. Though we do understand the spirit behind this recommendation, we differ the way in which it is sought to be achieved. For competition, there is a separate statue and authority associated. Enshrining it within PSS Act can lead to overlapping jurisdictions which can best be avoided. Likewise, if promoting innovation is to be hard coded in the Act, defining what would constitute “an innovation” would be difficult.

Yet another recommendation relates to data protection and consumer protection. We agree that data protection and consumer protection are essential. The role of the regulator and supervisor

of payment systems is to ensure the safety, security and soundness of the systems and hence consumer protection is a very relevant objective. However, the concept of data protection is relevant much beyond the payment system; it should in fact encompass any digital data. Appropriately, this should be enshrined in Information Technology Act; otherwise, again there will be overlapping jurisdictions, which is best avoided.

The Committee observes that “banking as an activity is separate from payments, which is more of a technology business”. I beg to differ. As I had said in my address at BHU, payments can be effected only in either of two ways – one you use cash to make payments and the other you transfer money in your bank account. There is no third method. Thus for the non-cash payments, the origination and ending places are banks only. Therefore, minus the banks, there is no non-cash payment instrument or system. Perhaps, what the Committee refers as ‘payments’ is actually ‘remittances’. This view is further strengthened when they say, it is “more of a technology business”. Yes, “Remittances” are today a technology business.

There is a misconception that non-bank entities are being discriminated against, as compared to banking entities. As regards the opening up of access to various systems and activities for non-bank entities, we have been opening up the space and allowing entry to non-bank entities. At origination, in between originating bank and destination bank and at the receiving end, there is no restriction for a non-bank entity to be present. Examples include the PPI issuers, BBPS operating units, TReDS, WLAs, payment aggregators, etc. There is an implied suggestion that this sector needs to be freed of licensing mechanism and once a set of criteria are fixed, any number of entities meeting those criteria should be allowed to function. We differ from this idea. Such a free entry may not be appropriate for ‘payment industry’. We must remember that the payment service provider is ‘entrusted’ with money, and therefore “fit and proper” criterion is of utmost importance and consequently, “free entry” based on tick-box exercise will be a risky phenomenon.

Some people ask why a non-bank cannot be allowed to keep “accounts”. They quote the success of mPesa, a non-bank entity in Kenya in ushering payment revolution in that country. Many mobile phone companies do feel they can offer “account” based payment service. Our answer is simple. If you maintain “an account”, then you are a bank and you need a banking licence. When you keep the money of the public in “account”, you are a financial entity taking deposits and you must be public trustworthy and so be regulated as a deposit taking financial entity.

Let me now explain what we intend to do to take the payment systems to the next orbit.

[The Vision-2018 for Payment and Settlement Systems in India](#) reiterates the commitment of the Reserve Bank of India to encourage greater use of electronic payments by all sections of society so as to achieve a “less-cash” society. The objective is to facilitate provision of a payment system for the future that combines the much-valued attributes of safety, security and universal reach with technological solutions which enable faster processing, enhanced convenience, and the extraction and use of valuable information that accompanies payments.

The broad contours of Vision-2018 revolve around the 5 Cs: • Coverage – by enabling wider access to a variety of electronic payment services • Convenience – by enhancing user experience through ease of use and of products and processes • Confidence – by promoting integrity of systems, security of operations and customer protection • Convergence – by ensuring interoperability across service providers • Cost – by making services cost effective for users as well as service providers.

Vision-2018 focuses on four strategic initiatives viz., responsive regulation, robust infrastructure, effective supervision and customer centricity. With the formation of PRB, the regulatory and supervisory structure will be strengthened. With the Unified Payments Interface (UPI), the

National Unified USSD Platform (NUUP), the Aadhar Payment Bridge, Bharat QR etc we will have robust payment infrastructure. For customer centricity, we will be focusing on ensuring soundness of payment system products and services, cyber security, effective customer grievance redressal arrangements and preventive and punitive enforcement actions for omissions and commissions by the operators.

To conclude, the Reserve Bank remains committed to play a catalytic and facilitating role for enabling innovations in payment systems arena, while performing its responsibilities as a regulator and supervisor of payment systems for ensuring their safety, security and soundness, along with customer protection.

Thank you.