

Shyamala Gopinath: Inauguration of Inter-Bank Mobile Payment Service

Remarks by Ms Shyamala Gopinath, Deputy Governor of the Reserve Bank of India, at the inauguration of Inter-Bank Mobile Payment Service (IMPS) of the National Payment Corporation of India (NPCI), Mumbai, 22 November 2010.

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1. Mr Hota, Mr Balachandran, my colleague Mr Padmanabhan, other executives of NPCI, fellow bankers, other dignitaries and my media friends present here. I am honoured to be here and I thank the NPCI for inviting me to inaugurate the Interbank Mobile Payment Services (IMPS), which has the potential to change the retail payment landscape in India provided all the stakeholders get it right.
2. The success of mobile penetration in India is now widely recognized. This huge success has encouraged it being increasingly leveraged to address other frontier issues of inclusive growth process. Exchange of money, one of the most fundamental economic functions in any economy, is one of such frontline issues. I can do no better than refer to the observations from a recent book¹ coauthored by Mr. Sam Pitroda, one of the key architects of telecom revolution in India: *M-commerce is poised for a revolution, commencing in China and India. It may initially focus on mobile banking and later, with integration of applications for consumer convenience, extend to other services.*
3. Intuitively, the mobile phone, being more ubiquitous in nature offers a greater opportunity for effective delivery of financial services and furthering the cause of financial inclusion in a significant way. With the evolution through Information & Communication Infrastructure, knowledge based initiatives, right to information and education, delivery of public services and employment and entrepreneurship mobile money has the potential to facilitate inclusive growth.
4. Reserve Bank has acknowledged the importance of mobile banking channel as a critical element to achieving inclusive growth in India and has been taking several important steps, the recent being enabling the mobile companies to partner with banks as business correspondents. The twin challenge in our country would be to succeed in reducing the use of cash while encouraging the spread and use of mobile wallet to reap the full benefits of this ubiquitous product.
5. The three stakeholders viz. the telecom operators, banks and merchants have realized the value proposition and the only sustainable business model is where these stakeholders work together to deliver true value to customers and effectively share the costs saved and new revenues generated. Hence it is imperative that all the three while being cognizant of their strengths, do not lose sight of their weakness and find ways to integrate their offerings without losing their individuality.
6. As far as banks are concerned, the real challenge would be to reorient their business models to exploit the synergies provided by this model while addressing the key concerns.
 - Leveraging on new technology
 - Extend the existing risk management practices to various delivery channels
 - Acquire all these transactions over the existing settlement networks

¹ Pitroda, Sam and Desai, Mehul: "The March of Mobile Money".

- Aggregate various services as part of their existing cross-selling and co-branding initiatives
- Fraud prevention and security standards; safeguards against money laundering, KYC issues
- Ability to leverage their existing reporting, auditing, and campaign management at back end

Mobile phones for financial services – across the globe

7. World over there has been increased use of mobile phones for extending financial services to the excluded populations. Two models are mainly evident (i) bank led model and (ii) Non-bank led model.
8. The bank led model involves extending all banking facilities including money transfer facility to bank customers through the mobile channel. This pure bank led model essentially incorporates the whole gamut of financial services like acceptance of deposits, extending loans and also providing money transfer facility. The agents are employed by the banks and are therefore directly responsible for their activities.
9. The non-bank led model which are mainly provided by MSPs. A virtual electronic prepaid wallet on the mobile phone is provided to the customers. Customers can use the amount in the virtual account for remittance/payments for goods and services (M-Pesa, Kenya). The number of such models across the globe is very few. In this model the focus is on providing remittance facility. These models provide a virtual prepaid account held with the MSP, which can be used by the customer for person-to-person remittance and payments.
10. In India, it has been decided to adopt the bank-led model.

Mobile payments in India

11. The significance of this channel for the development of payment instruments and as payment channel has been recognized by the Reserve Bank. Accordingly the Reserve Bank of India issued the guidelines for Mobile Banking Transactions in October 2008.
12. The guidelines permit banks to provide mobile banking transactions and mandates that all transactions have to originate from one bank account and terminate in another bank account. The guidelines also permit banks to extend this facility through their business correspondents. The mobile banking guidelines were relaxed in December, 2009 to –
 - (a) enhance the daily cap on both funds transfers and transactions involving purchase of goods and services to Rs.50,000;
 - (b) requirement of end-to-end encryption relaxed for transactions up to Rs.1000/- for small value transactions;
 - (c) facilitate funds transfer from a bank account using a mobile phone with cash payout at ATMs/BCs up to Rs 5000.
13. **Non-bank entities** have been permitted, in August 2009, to issue semi closed prepaid m-wallets up to the value of Rs 5000/- with full KYC compliance based on the representation received from Cellular Operators Association of India (COAI). The objective of keeping the limits low was to study the trend and progressively liberalize based on the experience. As on date a total of 6 non-bank entities have

been authorized to issue prepaid mobile wallets. This includes one Mobile service provider. Another application is under process.

14. Given that India is still far from being a cash less society, the cash-in/cash-out arrangements in these models play an important part for scaling up. This can happen only if banks and mobile operators/card issuers work together as partners. It is gratifying to note that the high level of Inter-Ministerial Group anchored by the Department of Information Technology, Government of India that went into the issue, after extensive discussions, have reached more or less the same conclusion. GOI has consequently appointed various committees to address issues pertaining to provision of prioritized services for mobile banking transactions and pricing of such services.
15. The recent relaxations contemplated in enabling mobile operators as BCs of banks should give a further fillip to these efforts.
16. It has to be appreciated that in India, unlike in Kenya and Philippines, there are a number of MSPs and a huge base of mobile subscribers. To have an efficient mobile based payment and remittance system would require inter-MSP payment services. This inter-operability is an important criterion for any payment product to be successful and acceptable. Facilitating this would require the setting up of a clearing and settlement arrangement for such non-bank operators. Such clearing and settlement arrangements could have systemic implications. This is where the facility being inaugurated today by the NPCI is filling an important pre requisite for the product to scale up.
17. RBI has permitted 40 banks to do mobile banking and the customer base availing of mobile banking facilities as on September 30, 2010 stands at 8.87 lakh as compared to 6.16 lakh as at the end of August 2010. During September, 2010, 4.9 lakh transactions of value Rs. 44 crores were carried out using this mode of payment both for transfer of funds and purchase of goods and services.

Concluding thoughts

18. While the growth of mobile payments has been rapid, it is far from becoming an important source of financial inclusion. This in my view calls for two important facilitations. One, partnership rather than competition among the stake holders, importantly mobile companies and banks and two, a ubiquitous switch for enabling interbank p to p and p to b payments. While we are working towards achieving the first facility, NPCI has taken the important step of enabling the second important facility.
19. The Interbank Mobile Payment Services (IMPS) provides an inter-operable infrastructure to the banks for enabling interbank real time funds transfer transactions. What may be one of its strongest points, IMPS rides on the existing NFS Interbank ATM transaction switching infrastructure and message format – and hence easy for banks to adopt. It has the potential for the wide reach across the country when all NFS member banks adopt this service and promote this service aggressively.
20. Alongside this, with the recent relaxations in the BC guidelines, I believe that all the building blocks are in place. Now it is entirely up to the various stake holders to take the product forward. More importantly, what has been facilitated by NPCI today can be construed as yet another step towards achieving its stated vision of becoming a true umbrella organisation for retail payments in this country. I hope NPCI will continue to show equal enthusiasm in commissioning and completing other important projects like the cheque truncation and the much awaited India Card.

21. I too join Mr Balachandran in congratulating the IBA, entire NPCI team and all others who have contributed to the roll out of this product. I wish the NPCI success in all their endeavors.