

Digital Payments

July 4, 2019

Recently the High-Level Committee (**Chair: Nandan Nilekani**) on Deepening of Digital Payments submitted its report to the RBI.

The terms of reference of the Committee included:

1. Reviewing the existing status of digital payments in India
2. Identifying gaps and recommending measures to bridge them
3. Assessing the current levels of digital payments in financial inclusion, and
4. Suggesting a medium-term strategy for deepening of digital payments.

Key recommendations of the Committee include;

- **Targets:** The Committee has set the following **targets to be achieved in 3 years:**
 1. **Ten-fold increase in per capita digital transactions** (from current 22.4 to 220 per annum).
 2. **Doubling the value of digital transactions** as a proportion of GDP (from 769% currently to 1500%), and
 3. **Tripling the number of digital payment users** (from estimated 10 crores currently to 30 crores).
- **Specific payment mechanisms:** Currently, merchants pay a Merchant Discount Rate (MDR) to banks for accepting payments from customers through debit (or credit) cards. The Committee recommended that the **MDR should be subsidized by the government** and interchange fee on card payments should be reduced by 15 basis points to incentivize digital payments.
- It also recommended that RBI set up a committee to review the MDR on a periodic basis.
- **Direct Benefit Transfer (DBT):** Government departments

and banks must provide a dedicated grievance redressal mechanism particularly in vernacular language, for processing connectivity and authentication errors in DBT transfer. Further, validation services such as **Public Financial Management System and National Payments Corporation of India** should be used to reduce the **incidence of transaction failure** because of wrong account or Aadhaar details.

- **Government payments:** The Committee recommended that all government departments must ensure that all pay-outs are through digital means, including payments for goods and services procured, Direct Benefit Transfer, salaries and pensions.
- **Financial Inclusion:** The Committee recommended that the RBI should develop a quantitative Financial Inclusion Index to compare different areas in financial inclusion. The index should include parameters such as:
 1. The fraction of the population that has a bank account.
 2. The Fraction of women-owned accounts, and
 3. The fraction of accounts which have enabled mobile banking.
- It recommends that Regional Rural Banks should be brought under the digital payment ecosystem to further inclusion.
- The Committee also recommended that a **digital payment subcommittee** should be set up at the state level to map financial institutions and identify gaps.
- **Enabling and incentivizing digital payments:** The Committee recommended that existing rules need to be modified to recognize valid documents that are digitally signed by the customer to simplify KYC process. Users should be allowed to withdraw small amounts of cash at POS devices at a low, ad valorem cost.
- GST of an amount up to Rs 10,000 can be received in cash currently, which should be brought down. Further, to increase customer confidence, technical and business

declines in digital payments must be reduced by 25% each year