

New Umbrella Entity

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In news— The Reserve Bank of India (RBI) has put on hold licensing of the New Umbrella Entity (NUE) network, a fintech institution planned as a rival to National Payments Corporation of India (NPCI).

Key updates-

- Six groupings, which included Facebook, Google, Amazon, Flipkart and others, had applied for NUE licences.
- An NUE licence was expected to help the participating entity gain greater autonomy in processing digital payments in India.
- The licence would help establish a firm presence in the financial services ecosystem through value-added lending and insurance services.

About NUE-

- **NUEs were supposed to set up and operate a new retail digital payment system** and manage clearing and settlement systems that could be an alternative to the bank-promoted NPCI.
- The NUE license shall be granted by RBI according to the power of authorization of payment operations conferred under Section 4 of the Payment & Settlement Systems Act ('PSSA'), 2007.
- The NUE shall be a Company authorised by Reserve Bank of India (RBI) under Section 4 of the PSS Act, 2007. It shall be governed by the provisions of the PSS Act.
- These NUEs would be primarily responsible in developing new payment systems, standards and technologies, clearing and settlement mechanisms, while monitoring, addressing and preventing relevant risks and frauds.
- It would diversify easy payment options beside boosting transaction volumes with tremendous expansion of e-

commerce.

- Thus, NUE could also become instrumental in furthering financial inclusion and promotion of fintech.
- **The RBI had in 2020 issued guidelines for corporates to create for-profit NUEs with an aim to foster competition and “de-risk” India’s burgeoning digital payments ecosystem**, where much of the settlement burden has fallen on the non-profit NPCI over recent years.
- **As per the rules, no single promoter could have over 40% stake**, which had to be lowered to less than 25% in five years of operation.
- The entity also needs a paid-up capital of Rs 500 crore to get RBI approval.
- As per RBI guidelines, to set up new pan-India umbrella entity / entities focussing on retail payment systems. Such an entity shall be a Company incorporated in India under the Companies Act, 2013.

About NPCI-

- NPCI was established by the RBI and the Indian Banks’ Association in 2008 modelled on the non-profit payments and settlement entity run by the Swedish central bank that’s owned and operated by banks.
- It runs the Unified Payments Interface (UPI) and other payment systems.
- It has developed the country’s key payment railroads, including UPI, the Immediate Payments System (IMPS), RuPay and the National Financial Switch (NFS).
- It’s also credited with powering the Direct Benefit Transfer architecture that supports the government’s Jan Dhan Yojana.