

# NPCI caps market share for UPI apps

March 26, 2021

**In news : Recently, NPCI has capped market share for UPI apps at 30 percent of overall payment volumes**

## Background

India's premier payment body, NPCI, had issued a circular on capping market volume in November of 2020 introducing the rules which had followed months of deliberation

## Key updates

- To bring parity in India's digital payments ecosystem and prevent market dominance by any single player, the National Payments Corporation of India has issued detailed guidelines capping permissible volume that any Unified Payments Interface (UPI) app can process at 30% of the overall market.
- The move is among the first by a regulatory agency in India to likely prevent Big Tech firms from market monopolisation in the fast-growing digital payments sector
- **Three-level threshold:** All UPI payment apps will be subject to a three-level threshold monitoring by NPCI with certain exemptions starting January, 2021 on a three-month rolling basis
- **Alert system:** A UPI app that has breached 25% of market share will receive an "alert" from NPCI which they'll have to "acknowledge"; on exceeding 27% market cap. Post which the app must provide "evidence" to NPCI on its plans to bring down volume; and finally on the breach of permissible 30% cap, the app must stop new onboarding and provide an undertaking to NPCI.
- Exemptions: Exemptions up to six months may be provided

by the non-profit umbrella body for retail payments in India, on a “case-by-case” basis to prevent customer disruptions.

- Action plan: Even after such exemptions the cited UPI app must provide a plan to NPCI on its action to bring down volumes within five days of the breach notification.
- Responsibilities of Banks and PSPs: The compliance to the rules must be ensured by Payment Service Providers (PSPs) or the banks facilitating UPI transactions on behalf of the apps under UPI’s multi-bank model.

### **Why new caps?**

- NPCI said that the design principle used in this is to control the volume cap by means of user on-boarding on the TPAP’s payment platform (“TPAP UPI App”) TPAPs are third party application providers.
- NPCI also added that this is done in such a way to ensure that the users on-boarded already are not impacted and that their transaction will not decline, to the extent possible.
- Further there will be a provision to exempt the players to some extent when the Volume cap is reached, so that it does not create sudden disruption in the market

### **Implementation of the new rules & its effects**

- Walmart’s PhonePe and Google Pay each had a market share of over 40% in Q4 of 2020.
- Under the new rules, these incumbents would have to “moderate” new customer on-boarding and artificially bring down their volumes by the end of 2022.
- For other UPI apps such as Paytm, Amazon Pay and Facebook’s WhatsApp Pay, these rules will kick in from the ongoing quarter.
- The apps have been asked to send a message to customers in the event NPCI asks to stop new on-boarding due to

market cap breach.