

## General Studies – 2 Topic: e-governance- applications, models, successes, limitations, and potential;

### Ratan Watal panel on digital payments

#### 1) Introduction

- Government has suggested a host of fiscal incentives to promote digital transactions and a separate regulator to deal with issues concerning payment.
- The 'Committee on Digital Payments', headed by former finance secretary Ratan P Watal, said that the overall objective of the government's digital initiative is to reduce the cash to GDP ratio from about 12 per cent to 6 per cent over the next 3 years
- The vision of the Committee is to set a roadmap for digital payments to grow substantially over the next three years.
- The Report recommends inclusion of financially and socially excluded groups and assimilation of emerging technologies in the market
- safeguarding security of digital transactions and providing level playing to all stakeholders and new players who will enter this new transaction space

#### 2) Recommendations

### **WHAT THE WATAL PANEL HAS RECOMMENDED**

- The setting up of a separate, more independent payments regulator within the RBI framework.
  - Revisiting the Payment and Settlements Act to include clauses on consumer protection, data security and privacy.
  - A more prominent role for Aadhaar, including its usage for primary identification.
  - Operation of RTGS and NEFT on a 24x7 basis, allowing non-bank payment service providers to directly access the payment systems.
  - Interoperability between banks and payment service providers based on mobile number and Aadhaar.
  - Systemically important payment service providers to be regulated by RBI.
  - Creating a fund to promote digital transactions.
  - All government payments to be made digitally; waiver of transaction fees and charges.
  - Cash-handling charges to be levied by government and merchants to disincentivize use of cash.
- Envisaged a prominent role for Aadhaar—promoting Aadhaar as the primary identification for (KYC) purposes and allowing Aadhaar-based e-KYC
  - Suggested that government departments levy a cash-handling charge to discourage cash transactions.
  - there should be incentives for consumers to make payments by giving a discount or cash back
  - It had also suggested interoperability between banks and non-bank digital payment gateways / entities as well as within non-banks.
  - RBI has also been asked to upgrade the existing real-time gross settlement system (RTGS) and National Electronic Funds Transfer (NEFT) systems so that they operate on a 24/7 basis.
  - Rewards for government departments, state governments, districts and Panchayats for enabling digital payments.



- Create a fund proposed as DIPAYAN from savings generated from cash-less transactions to expand digital payments.

### **3) Can digital payments be achieved?**

- Today, this is achievable as it is possible to build secure payment solutions suited to ordinary Indians which are as convenient as sending a message
- About sixty-five percent of population have active mobile telephony.
- Ninety-nine percent have electronic identity in the form of Aadhaar
- India has a unique opportunity to leverage the Jan Dhan, Aadhaar and Mobile (JAM) trinity to rapidly enable ordinary Indians to participate in digital payments.
- Sixty-five percent of our population is below thirty-five years of age. This population could find it easier to adopt to new ways of doing payments.

### **4) Advantages**

- Digital payments can enable greater economic growth, growth in international e-commerce, and aid in social and financial inclusion.
- one of the most cited examples being the case of telecom led M-PESA payments platform in Kenya
- Digital payments can improve the State's ability to curb tax leakages, funding of criminal activities and reduce cash related costs.
- Digital payments enable customers to make certain types of transactions that are not viable in cash (such as remote payments).
- One of the most unique advantages of digital payments is that they are low cost and low priced.
- Digital payments also have the potential of becoming a gateway to other financial services such as credit facilities for small businesses and low-income households.
- Lack of easy access to formal credit means merchants fall prey to illegal ponzi schemes, chit funds and exploitative money lenders
- By enabling the creation of robust credit history, digital payments can also enable the provision of micro-credit to low-income households and small businesses.
- Boosting the emerging e-commerce sector in India, and position India as a major e-commerce market.

### **5) Challenges**

- India continues to have one of the lowest use of digital payments globally
- India has one of the lowest number of point-of-sale (POS) terminal per million people in the world
- concerns around consumer protection, competition, safety and convenience
- The roll out of robust and user friendly digital payments solutions to unelectrified areas/areas without telecommunications network coverage, remains challenge.
- Oversight of payment and settlement systems
- Providing Consumer protection for users
- Given the low literacy levels in India, ensuring safety and security of electronic transactions indeed a formidable challenge.

### **6) Need of the Hour**

- There is a need to develop connectivity infrastructure parallel to the cashless push
- More open platforms like UPI (Unified Payments Interface) that have an interoperable framework are also important

- The direct benefit transfer programmes should also be structured in a way to emphasize not on withdrawal of cash from bank accounts but on cashless transactions.
- A reduction in import duty to make POS terminals affordable for the acquiring banks.
- The Role of the State should be minimal and be driven towards creating an enabling ecosystem.
- India needs the combined effort of banks and non-banks to promote digital payments.

