

RuPay: A New Indian Payment System

Launching of a new card payment network, the RuPay, though confined for indigenous payments within India would replace the global payment networks like VISA and Master Cards in a big way. The new payment network developed by the National Payments Corporation of India (NPCI), a not-for-profit company envisioned by the Reserve Bank of India (RBI) covers all the automated teller machines (ATMs) and most of the retail and e-commerce platforms. The RuPay, which works on three channels -- ATMs, Point of Sales (POS) and online sales, is the seventh such payment gateway in the world. After the launch of the new card, VISA and MasterCard are going to get a tough rival.

As per the RBI, there were 396.6 million credit cards and 469.5 million debit cards in India, which account for transactions worth Rs 1,22,950 crore and Rs 74,340 crore respectively in FY13. The payment system business is currently dominated by VISA and MasterCard only.

With the launch of RuPay, the Indian banks will incur lower costs as all RuPay transactions will be settled within the country. Such a need for an Indian payment system arose because of high costs borne by the Indian banks for affiliation with international card associations viz. VISA and MasterCard in the absence of a domestic price setter. Secondly, the affiliation with the international card associations compels routing of even the domestic transactions, which account for more than 90 per cent of the total indigenous card transactions, through a switch located outside India. Many countries in the world already have their own payment systems on the lines of the Indian RuPay. Now, with this indigenous payment system, for clearing and settlement of each transaction, Indian banks will have to pay 40% lower fees in RuPay platform compared to other international platforms.

RuPay which has become India's own card payment network just like VISA and MasterCard now provides an alternative system for banks to provide debit card service. It is for the first time in their 30-year existence that VISA and MasterCard, the world's largest payment companies, would be facing the heat in India. For lending its weight behind the local card scheme, RuPay, the government has already asked all state-owned banks to issue RuPay debit cards to customers. Since all transactions under the RuPay card system are processed within the country and the transaction costs are also reimbursed in the domestic currency which would save a lot of foreign currency of the nation. The secretary at the finance ministry's department of financial services has already asked the CEOs of public sector banks to issue RuPay cards to all existing customers who do not have debit cards as well as to new clients. Banks have also been told to encourage merchant establishments to install point of sale terminals for RuPay cards. The RuPay card has entered into a strategic partnership with the Discover Financial Services (DFS), for enabling the acceptance of RuPay Global Cards on Discover's global payment network outside of India.

RuPay debit cards are almost similar to any other debit cards which one can use in the 1.45 lakh ATMs and 8.75 lakh POS terminals across the country. It will also be accepted on 10,000 e-commerce websites. All major public sector banks, cooperative banks, and private banks, the federal Bank including SBI, have started issuing these cards to all their customers. This card also comes with the high end technology chip named EMV (Europay, Master Card and Visa) for high end transactions. It also has an embedded micro processor circuit with information about the card holder. However, Indian banks have not been asked to refrain from issuing other cards where transactions are processed by Visa or MasterCard. But, there is a clear direction to promote the RuPay.

RuPay has also been providing a unified "Kisan Card", issued by banks across the country under the Kisan Credit Card Scheme, enabling farmers to transact business on ATMs and POS terminals. PUNGRAIN (Punjab Grains Procurement Corporation Ltd), has also been paying commission agents through the RuPay Debit Card, and developed a commission agents network called the Kisan Arhtia Information and Remittance Online Network (KAIRON) with the help of the National Payments Corporation of India. In addition to this, the Kotak Mahindra Bank, in partnership with RuPay rolled out an initiative for financial inclusion, where the dairy farmers across 75 cooperative societies of AMUL in regions of Burdwan and Hooghly of West Bengal will be able to get their payments directly into their account on the same day of sale of milk. The same model is planned to be adopted in the state of Gujarat where 1200 cooperative societies comprising over 300,000 dairy farmers are part of the programme.

It is quite usual that many countries and governments support local retail payment networks that offer the software backbone and process card transactions. Countries such as Singapore, Hongkong and Brazil have their local payment companies while China strictly disallows foreign payment firms to process domestic card transactions.

For MNC payment firms, the stakes are very high. Every year around Rs 80,000 crore worth of debit card spends happen in India, of which 5% are cross-border transactions. It's a market that's growing at close to 35% annually. Credit card transactions, growing at over 25%, are more than two times debit card spends. The finance ministry has also decided to limit Aadhaar's role in its welfare scheme payments and, instead, use ATM-enabled RuPay cards for last-mile authentication to withdraw money. It is said that while it will continue to use Aadhaar for opening accounts and to eliminate ghosts and duplicates from beneficiary rolls, the ministry has decided to give RuPay ATM cards with bank accounts being opened under a yet to-be-announced financial inclusion drive, Sampoon Vittiyea Samaveshan. Account holders in rural banks and small cooperatives can also now make online purchases with RuPay card. RuPay is India's answer to Visa and MasterCard and has been set up at the behest of the Reserve Bank of India (RBI) to bring down transaction costs and spread electronic payments. So, it would also prove to be a potent tool for financial inclusion by India, deserving all the praise.



(Prof. Bhagwati Prakash Sharma)