

# Committee Report Summary

## Deepening of Digital Payments

High Level Committee (Chair: Nandan Nilekani) on Deepening of Digital Payments submitted its report to the RBI on May 17, 2019. The Committee was setup with the vision of encouraging digitisation of payments and enhancing financial inclusion through digitisation.

The terms of reference of the Committee included: (i) reviewing the existing status of digital payments in India, (ii) identifying gaps and recommending measures to bridge them, (iii) assessing the current levels of digital payments in financial inclusion and (iv) suggesting a medium-term strategy for deepening of digital payments. Key recommendations of the Committee include:

- **Targets for digital payments:** The Committee highlighted the growing trend of digital payments in the country. The number of digital payments per capita has risen 10 fold from 2.4 in March'14 to 22.4 in March'19. However, India is still behind many other nations in digital payments per capita (96.7 for China and 148.5 for Brazil). In this context, the Committee has set the following targets to be achieved in 3 years: (i) ten-fold increase in per capita digital transactions (from 22.4 currently to 220), (ii) doubling the value of digital transactions as a % of GDP (from 769% currently to 1500%), and (iii) tripling the number of digital payment users (from estimated 10 crore currently to 30 crore).
- **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 subsidised by the government and interchange fee on card payments should be reduced by 15 basis points to incentivise digital payments. It also recommended that RBI setup a committee to review the MDR on a periodic basis. Further, it noted that high value payment systems are currently not available round the clock, which should be addressed.
- To improve the acceptance of digital payments, the Committee recommended removal of import duties from point-of-sale (POS) devices and waiving GST on Immediate Payment Service (for transaction charges upto Rs 5000). Further, it recommended that use of high-volume, low-cost usage cards such as the National Common Mobility Card, be permitted at POS devices.
- **Government payments:** The Committee recommended that the 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. A e-wallets can be issued for crediting small value payments, refunds, rebates or loyalty bonus for digital transactions. Further, citizens and businesses should have choices of digital pay instruments for government payments.
- **Direct Benefit Transfer (DBT):** The Committee observed certain challenges with the DBT mechanism. These include lack of returns management i.e. DBT not being successfully credited to beneficiary, processing errors, connectivity and authentication failures in Aadhaar payment. Further, lack of a dedicated grievance redressal mechanism and lack of awareness remain major impediments.
- It recommended government agencies should ensure the use of validation services such as Public Financial Management System and National Payments Corporation of India to reduce the incidence of transaction failure because of wrong account / Aadhaar details. Further, government departments and banks must provide a dedicated grievance redressal mechanism, particularly in vernacular language to process connectivity and authentication errors in DBT.
- **Financial Inclusion:** The Committee recommended measures to promote financial inclusion in the country. RBI should develop a Financial Inclusion Index to compare different areas. The index should include parameters such as: (i) fraction of population that has a bank account, (ii) fraction of women owned accounts, and (iii) fraction of accounts which have enabled mobile banking. Regional Rural Banks should be brought under digital payment ecosystem to further inclusion. The Committee also recommended that a digital payment subcommittee should be setup at state level to map financial institutions and identify gaps.
- **Enabling and incentivising digital payments:** The Committee recommended that existing rules need to be modified to recognise 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 amount upto 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.

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