

RBI New Rule – Impact Analysis

‘Access for Non-Banks to Centralised Payment Systems’



RBI New Rule– Access for Non-banks to Centralised Payment Systems.

New Commerce initiative to get a boost

Event highlights

- The Reserve Bank of India (RBI) allowed authorised non-bank payment system providers (PSPs) to participate in centralised payment systems (CPS), such as real-time gross settlement (RTGS) and national electronic fund transfer (NEFT), as direct members.
- In the first phase, authorised non-bank PSPs, viz. PPI Issuers, Card Networks and White Label ATM Operators shall be eligible to participate in CPS as direct members
- This access is only for NEFT & RTGS transactions and no other payment modes.

Strategic Importance

- The RBI is considering allowing non-bank entities to access the CPS, as the system has previously only been available to banks, with a few exceptions such as specialised entities such as clearing firms and select development financial institutions.
- Non-banks' direct access to CPS reduces overall risk in the payment ecosystem.
- The cost of routing payments through banks can be reduced for non-banks. The risk of fund transfer failure or delay can be reduced if the transactions are initiated directly by non-banks.
- Direct access to CPS may also allow them to leverage technology to provide consumers with customised options. They can use their data integration and analysis skills to support their innovations and solutions.
- Because non-banks compete in the same market segment as banks, direct access can encourage competition, reducing the need for intermediaries.
- Since the settlement is done in central bank money, the uncertainty in the finality of the payments and the settlement risk are considerably reduced.
- Expanding the accessibility and participation promotes the ecosystem's diversity and resilience.
- Non-banks with direct access to CPS may be adequate to safeguard customer information and fund flows, that may not be achievable when employing banks to provide payment services.

Impact:

- The effect of the RBI's decision will be that the non-bank institutions' reliance on banks would be reduced, and digital payments will gain traction.
- We are seeing an increase in the volume of NEFT and RTGS transactions. Volumes have grown at a CAGR of 21% between 2019 and 2021. Only banks were responsible for this growth. With the participation of the PSPs, these volumes may increase further in the following months.
- Non-banks will compete directly with banks in terms of transaction volume.
- The Reserve Bank is looking to increase access to the payment system in order to speed up digital payments. This may give a boost to the digital payment format.
- The RBI is potentially laying the groundwork for fintech companies such as Infibeam Avenues, Paytm and PhonePe to process RTGS and NEFT transactions.
- As commissions from PSPs, banks charge an interchange fee/ acquirer fee. With direct access, the commission to the bank will be reduced automatically, lowering the bank's fee income.

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