

Seminal year for move towards cashless payments

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After demonetization, digital payments and electronic transactions have got the much-needed government push. The banking industry has been working on it for the past 2-3 years. The National Payments Corporation of India has worked towards using technology to enable online transactions. Nandan Nilekani, former chairman of the Unique Identification Authority of India (UIDAI), and co-founder of Infosys, spoke to *Mint* on what to expect in the next 12 months in the payments and electronic transactions, data connectivity and cyber security landscapes in the country.

The government and the overall payments industry have been looking at digital payments. What do you expect in the next 12 months?

This year, we should be closing at 8-9 billion digital transactions. The goal for next year, as the finance minister said in his Budget speech, is 25 billion transactions. If you have to go from 9 billion to 25 billion transactions, you require many things. Obviously, the government should encourage the use of digital and cashless payments. Similarly, it should make cashless payments to people—which is what Direct Benefit Transfer (DBT) does. DBT directly credits money into someone's bank account. Today, we have 400 million Aadhaar-linked bank accounts. Both government-to-person and person-to-government should become cashless. But equally important, we should make person-to-person and person-to-merchant cashless. That is why Unified Payments Interface (UPI) is so important. One of the positive impacts of the cashless strategy is that UPI works on any phone. Earlier, UPI worked only on smartphones. Now that it has been

extended on Unstructured Supplementary Service Data (USSD), anyone of the 600 million phone users in India can do a UPI transaction as soon as she links her bank account.

The next big thing that will happen in the next few months is that more and more merchants will accept UPI. I see merchant acceptance becoming a big driver. With Aadhaar Pay coming in, even those who don't have a phone can pay with Aadhaar number.

There are other big systems coming up. Bharat Bill Payment System will digitize bills and Fast Tag electronic toll system will digitize toll collection. I see this year as a seminal year in the move towards cashless and digital payments.

How will the government solve last mile issues, such as concerns about awareness?

We will need more market participants to enrol merchants to



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accept UPI and Bharat Interface for Money (BHIM) payments. I see that happening with the new payment banks and lot of non-bank operators coming in. There will be pure-play merchant acquisition networks, which will ride on top of UPI, BHIM and so on.

This model is fundamentally different from the debit card model, where a bank has to go to the merchant, and it is a long process—the merchant has to open a current account, pass some credit risk requirements and there is a fee also of 1%. With UPI, I expect it to be far cheaper and any merchant can self-sign-up in some sense. But the whole nature of the sign-up and transaction costs in the UPI world will be fundamentally different from a debit card world.

It is a perfect positive storm.

One, there are new entities in the game—they are the challengers who are challenging the incumbents. Large entities like Paytm, Airtel, Reliance and Vodafone, and lot of small banks are coming on the competition side. On the technology side, you have the rise of UPI, BHIM and Aadhaar Pay. Equally important is the big change in the political front, which is that digital strategy for digital or cashless payments has become the front and centre of the government's strategy and demonetization. You have political energy behind this, you have market energy behind this and you have technology in place. Consumers, I think, will embrace it if they find it convenient, safe and cheap.

To use electronic payments, one needs bandwidth, and data connectivity is still low. What is the government, and the other stakeholders, doing about this?

On the mobility side, people like Jio have come in and shaken up

the whole data business and they have ramped up 100 million customers in 6 months. Clearly, the incumbents have responded by offering attractive deals. This is going to drive the mobile side. The government itself is accelerating the Bharat Broadband Network and NOFN (National Optical Fibre Network). So that should help on the rural side. Recently, the Telecom Regulatory Authority of India (Trai) announced how it is going to create a public Wi-Fi interoperable approach—small entrepreneurs can set it up and make it easy to operate. So I think multiple initiatives—mobile operators providing data, the government pushing fibre as well as Trai proposing Wi-Fi and internet on the cable network—will help.

One thing we should realize is that the data requirements for financial transactions is very low. I don't know why we are worried about broadband. You need broadband to watch Netflix. Digital financial transactions need a few bytes. What you need is reliable connectivity.

When it comes to digital transactions, security is a big concern. Recently, there were reports of data security breach in Aadhaar. How difficult it is to handle cyber security?

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The whole issue of Aadhaar is a mis-information campaign. What happened was some business correspondents stored biometric and played it, which is illegal under the Aadhaar Act. It was not a breach of the Aadhaar system; it was not a hack; it was not data theft. It is just a biometric replay done illegally by somebody. That person has been caught thanks to the advanced analytics at the Aadhaar system and I am sure that due action will be taken. It is a very secure system—far more secure than debit cards. If you look at what happened on debit cards, that thing (the security breach) was going on for months before it was caught. Here it was caught within a matter of 24 hours. The point is that it is a far more secure system. In 7 years nobody has said that my biometric has been stolen. So I don't know why people are making such a fuss about it.

In fact, for the past one-and-a-half years, UIDAI has been working on something called registered devices, so that every device has a unique signature. I am convinced that it is far more secure than any other system. It is important that we go to new platforms such as UPI and so on, which are far more secure. They do device-level encryption, they use the latest standards of encryption and every packet on the network is digitally signed. Lot of the latest thinking on security has gone into the design of both Aadhaar and UPI.

How will India Stack help adoption of digital payment and for financial services?

Aadhaar authentication is being used in so many places, including Aadhaar Pay. I can do Aadhaar authentication to remove money from a micro ATM. I can do Aadhaar authentication to do a cashless transaction at a merchant. That is one part of India Stack.

Second, eKYC is very popular. In fact, the Jio story of enrolling 1

million customers a day was enabled because they could do eKYC in 2-3 minutes. Similarly, the new payments banks—Airtel Payments Bank and Paytm are all using eKYC. This is fundamental for customer onboarding. It reduces time and cost. That has a fundamental and strategic impact on the market. With eSign—which is digital signature—I can now sign a large number of documents and send them. For example, if I make an online application for a loan, I can sign the loan agreement using my Aadhaar and send it to the bank—that makes the loan application paperless. The UPI enables it to be cashless.

Then the digital locker system, which is now getting widely rolled out, enables storage of all my financial records. And of course, electronic consent architecture allows me to share my data to get a loan or a better premium.

The point is that this paperless, cashless, presence-less infrastructure which is unique in the world is fundamental to the rapid adoption in financial services because it reduces cost, time and improves accessibility. While we are seeing it in banking, it is just a matter of time before the same thing applies to mutual funds, insurance policies, pension and so on. If you look at all the financial services, they will all use India Stack, and to make sure a billion people have cheaper, better, faster access to financial services.

Clearly there are benefits of using electronic platforms. But what are the challenges and pitfalls?

We have to make it convenient with one click. Cash is so convenient—I can just remove cash from my pocket, give it to the merchant and walk away. You have to make it as convenient as that. You have to make it as cheap as possible. When I give a Rs100 note to a merchant, he knows it is worth Rs100. But if I make a Rs100 payment to a merchant, and if he has to give Rs1 to someone to process it, he would rather take cash. You have to make it cheap and, of course, secure. That is one of the impediments in rapid adoption, apart from, of course, the evangelization of the whole thing. But equally important is showing people the benefits; showing them that data is secure and private; and showing people that having a digital footprint enables them to use the data to get a benefit. Nobody has understood this fundamental benefit. In Western countries, the data is accumulated by a few companies who make money by selling you ads. In India, every individual has access to his own data for his own future.

Empowering a billion people with their own data—this is a fundamental inversion of how data is used. None of them have understood this. If I am a merchant and I start taking digital payments, I can share my digital payment history with a lender and he can give me a loan, a small business loan. Data becomes valuable as a way for me to get a cheaper loan.