Money transfer outside banking system

Why in news?

Recently RBI proposed to enable payment system operators regulated by the central bank to take direct membership in RTGS and NEFT.

What are the benefits of this move?

- People can transfer money to another person without depending directly on a bank through RTGS, NEFT and centralised payment systems (CPSs) of RBI.
- This is expected to minimise settlement risk in the financial system and non-banks can expand their foothold in the traditional area of banking.
- However entities will not be eligible for any liquidity facility from RBI to facilitate settlement of their transactions in these CPSs & the facility is subjected to an overall limit of Rs 2 lakh.

What are the implications?

- This move of opening the payment system to non-banks would increase digital payments and transactions significantly.
- It will prepare a digital trail of all individuals doing digital transactions on channels outside the banking system, which could help the overall financial system.
- Until now, an individual's credit profile was available primarily with the banks.
- With this, individual's credit profile can also be tracked while taking a loan from FinTech Company, investing through it or spending through it.
- Moreover youngsters who use FinTech platforms to borrow and spend have no or less financial assets and this move will allow them to have a digital trail and build a credit profile.

Who can now undertake online transfers?

- The RBI will now allow non-bank entities — Prepaid Payment Instrument (PPI) issuers, Card Networks, White Label ATM, TReDS platforms — to become members of CPS.
- Mobile wallets like Google Pay, Mobikwik, PayU, Ola Money, PhonePe and Amazon Pay can provide NEFT and RTGS facilities to their customers.

- But this transfer will be allowed only to KYC compliant entities.
- Currently, cash withdrawal is allowed only for full-KYC PPIs issued by banks and this facility is available through ATMs and PoS terminals.
- Holders of such PPIs are less incentivised to carry cash and consequently more likely to perform digital transactions.
- With the RBI now allowing non-banks to withdraw cash (subject to the limit of Rs 2 lakh), dependence on banks is likely to come down.

What does the hike in cash limit mean?

- The RBI has decided to increase the limit of outstanding balance in PPIs of non-banks from the current level of Rs 1 lakh to Rs 2 lakh.
- This will facilitate and incentivise online transfer and cash withdrawal from non-banks and enable them to go for full KYC compliance and interoperability.
- Interoperability of the PPI wallet will expand the market size and will be beneficial to the end consumers.
- RBI has also relaxed the norms for the membership of Central Payment Systems, which was earlier available to only banks and a few other institutions.
- This will open new opportunities for PPI issuers and will take financial inclusion deeper in the country.

Are non-banks a threat to banks?

- The opening up of fund transfer and cash withdrawal through non-banks is certainly a sign of a changing banking horizon.
- Traditional brick-and-mortar banking is slowly disappearing with non-banks entering the space.
- The FinTech market in India was valued at Rs 1.9 lakh crore in 2019 and is expected to reach Rs 6.2 lakh crore by 2025.
- It is therefore important that commercial banks adapt to the technological changes and work in tandem with these entities.
- This ensures that commercial banks are part of the ecosystem and does not compete with FinTech companies for business.

Source: The Indian Express