

## RBI's retail e-Rupee

### Why in news?

*The Reserve Bank of India has recently launched the e-Rupee for retail users.*

### What is e-Rupee?

- It is an **electronic version of cash** in the form of a digital token.
- It is the Central Bank Digital Currency (CBDC) issued by the Reserve Bank of India (RBI).
- It will be primarily meant for retail transactions.



### Retail Digital Rupee

- CBDC is the legal tender issued by a central bank in a digital form.
  - It is the same as a fiat currency and is exchangeable one-to-one with the fiat currency. Only its form is different.
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- Earlier in November 2022, the RBI launched the digital rupee for the wholesale segment to settle secondary market transactions in government securities.
  - Wholesale CBDC is designed for restricted access to select financial institutions.
  - On the other hand, Retail e-rupee can be potentially used by all — the private sector, non-financial consumers and businesses and provide access to safe money for payment and settlements.
  - CBDC will appear as 'liability' (currency in circulation) on the RBI's balance sheet.

### How it works?

- It is a fungible legal tender, for which holders need not have a bank account.
- E-rupee will be issued in the same denominations as paper currency and coins, and will be distributed through the intermediaries, that is banks.
- Transactions will be through a digital wallet offered by the participating banks, and stored on mobile phones and devices.

- Transactions can be both person to person (P2P) and person to merchant (P2M).
- A user will be able to withdraw digital tokens from banks in the same way she can currently withdraw physical cash.
- She will be able to keep her digital tokens in the wallet, and spend them online or in person, or transfer them via an app.

### Who can use the retail CBDC?

- The first phase of the CBDC will cover Mumbai, New Delhi, Bengaluru and Bhubaneswar.
- Participating banks include State Bank of India, ICICI Bank, Yes Bank, and IDFC First Bank.
- Subsequently, the service will be extended to other cities and banks.
- **Offline Transactions** - There is no indication yet from the RBI that the e-rupee will function in the offline mode.
- A risk of 'double-spending' exists in offline mode — because it will be technically possible to use a CBDC unit more than once without updating the common ledger of CBDC.

### How e-rupee is different from the cryptocurrency?

- CBDC is backed by the RBI whereas crypto currencies are private virtual currencies like Bitcoins that have no issuer.
- In fact, the RBI wants the government to ban cryptocurrencies in India.
- Private virtual currencies are not commodities or claims on commodities as they have no intrinsic value.
- The inherent design of cryptocurrencies is to bypass the established intermediation that ensures integrity and stability of the monetary and financial ecosystem.

### How e-rupee is different from UPI transacted digital money?

- **Intermediaries** - For money transfer in UPI payment system, one needs to make a request and forward it to the account holder's bank.
- The bank then decides to deduct the balance and transfer it to the beneficiary account.
- So, there's a chain of intermediaries who enable this transaction.
- However, e-rupee did not need any intermediaries at all and it requires transfer of digital money from one's wallet to another wallet.
- **Transaction limit** - UPI-based apps like Google Pay and Paytm have a daily and per-transaction spending limit.
- But the RBI has not fixed any limit on holding digital rupees in wallets.
- Digital rupee transactions above Rs 2 lakh are likely to be reported for tax matters.

### What are the benefits of e-rupee?

CBDC has the potential to provide significant benefits such as:

- **Physical cash** - It reduces the dependency on cash.
- **Seigniorage** - Higher seigniorage due to lower cost of printing, transporting, storing and distributing.

- (seigniorage - The difference between the face value of money and the cost to produce it)
- **Settlement Risks** - Payments are final, and thus reduce settlement risk in the financial system.
- **Interbank Settlement** - When CBDC is transacted instead of bank balances, the need for interbank settlement disappears.
- **Universal payment systems** - CBDC can also enable a more real-time and cost-effective globalization of payment systems.
- **Risks of crypto currency** - The risks associated with the private cryptocurrencies like Bitcoin, Ether, etc. such as money laundering, terror financing, tax evasion can be overcome by the RBI regulated CBDC.

### Other benefits

- Fostering financial inclusion
- Bringing resilience, efficiency and innovation in the payments system.
- Boost innovation in cross-border payments space

### WHY DO WE NEED THE DIGITAL RUPEE?



- To reduce operational costs in managing physical cash and bring efficiency in payments systems



- To boost innovation in cross-border payments



- To quell concerns over money laundering, terror financing, tax evasion with private cryptocurrencies like Bitcoin, Ether, etc.

### Reference

1. [The Indian Express | e-Rupee: India's first official digital currency](#)
2. [The Indian Express | What is digital rupee?](#)
3. [The Indian Express | How the e-rupee will work?](#)



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