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India's Central Bank To Enable Internet Banking Interoperability

The Reserve Bank of India (RBI) expects to launch an interoperable payment system for internet banking by the end of the year, enabling faster settlements for merchants.

The central bank has approved NPCI Bharat BillPay (NBBL), an RBI initiative to provide interoperable bill payments services, to implement the system for quicker settlement of funds for merchants, RBI Governor Shaktikanta Das said in a speech at a Digital Payments Awareness Week event in Mumbai.

Supporting internet banking interoperability forms part of the RBI's Payments Vision 2025, which has the theme "E-Payments for Everyone, Everywhere, Every Time (4Es)" and aims to provide every user with secure, fast, convenient and affordable electronic payment options.

India is at the forefront of digital payments internationally with its Unified Payments Interface (UPI) instant mobile payments system.

Digital retail payments in India have grown from 1.62bn transactions in the 2012-2013 financial year to more than 147.2bn transactions in the 2023-2024 year up to February, representing a 90-fold increase over 12 years, Das said. The RBI's Digital Payment Index has seen a four-fold rise in the last five years and India now accounts for around half the world's digital transactions.

"There is, however, considerable scope for expanding the use of digital payments in India," Das said.

Last March, the RBI launched its "Har Payment Digital" campaign to support and encourage the adoption of digital payments by creating awareness around their safety and security.

Between March 1, 2023, and January 31, 2024, UPI added 66.5m new users and the RBI's Payments Infrastructure Development Fund (PIDF) has deployed more than 12m digital payment touch points. Enabling interoperability in internet banking is another aspect of the campaign.

Internet banking is a preferred channel in India for payments such as income tax, insurance premiums, mutual fund payments and e-commerce. However, it remains a bottleneck as transactions processed through payment aggregators are not interoperable.

Banks are required to separately integrate with each aggregator. As a result, if a customer wants to make a payment from their bank account to a certain merchant, the merchant's payment aggregator and the customer's bank must have an arrangement.

Given that there are more than 30 authorised online payment aggregators, it is challenging for each bank to integrate with them all. The lack of a common payment system and clear rules for these transactions causes delays in merchants receiving payments, as well as posing settlement risks, Das said.

Introducing an interoperable system aims to streamline online payments and increase user confidence. Customers will be able to pay merchants directly from their online bank accounts regardless of whether their bank is integrated with the merchants' payment aggregator.

Merchants may also benefit from a reduction in the merchant discount rate of 1-3 percent that they pay to payment processors for each bank transfer or card transaction.

Das called on the industry, payment system operators, users and others to "make every person in India a user of digital payments".

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