Aadhar-enabled Payments System: Big banks' market-loss fear slows Narendra Modi's AePS push

By: Shobhana Subramanian | Mumbai | Published: May 31, 2018 6:18 AM

The UIDAI has pointed out that issuer banks are not setting up micro-ATMs in proportion to their customer base and, consequently, "they have an interest in reducing interchange rates". (IE)

Despite a big push by the Prime Minister's Office (PMO) for greater use of the Aadhaar-enabled Payments System (AePS), the apprehension on the part of larger banks that they might lose market share is slowing the process. A set of revised interchange charges, which was to be rolled out on June 1, might be held back, sources said. The National Payments Corporation of India (NPCI) and stakeholders had decided on the changes, taking into account recommendations from the PMO/Unique Identity Authority of India (UIDAI), nearly four months ago, on February 20.

However, the AePS steering committee met again on May 24 and some large banks are understood to have asked for a review of the interchange charges. The current volume of ATM off-us transactions (where a customer uses another bank's infrastructure) is around 43.5 crore per month with 2.39 lakh ATMs. In contrast, AePS transactions numbered only 2.98 crore per month in April 2018 with 1.26 lakh business correspondent agent points.

CONFUSION
- Revised interchange charges to have been rolled out on June 1, may be held back
- Proposed charges those prevalent pre-April 2017 as recommended by UIDAI in Nov 2017
- Charges for nearly 1 year were cut to half the original interchange with no minimum limit

AePS is important to further direct benefit transfer (DBT) delivery, for the last mile, especially in semi-urban and rural India. Experts watching the digital payments landscape point out that larger banks are reluctant to allow the micro-ATMs of smaller new-age banks, small finance banks and payments banks to proliferate in the semi-urban and rural areas for fear they would lose market share.

The UIDAI has pointed out that issuer banks are not setting up micro-ATMs in proportion to their customer base and, consequently, "they have an interest in reducing interchange rates". In a report the UIDAI noted: "So the situation is that they are not setting micro-ATMs themselves on the one hand and on the other hand they have virtually stopped Acquirer banks also from setting up more micro-ATM/AePS by this decision."

Also, while banks felt the AePS was a mature system, the UIDAI pointed out that transaction volumes had crossed 10 million a month only from May 2017 and since the first off-us AePS transactions started only in August-September, 2014 — with the launch of the Pradhan Mantri Jan-Dhan Yojana — the system hasn't been around for five years. Interchange fees are borne by issuing banks — the bank with owns the customer — to the acquirer bank or the bank that installs the acceptance infrastructure or micro-ATMs. The proposed charges are those that were prevalent pre-April 2017 as recommended by UIDAI in November 2017.

In between the charges for nearly 12 months were reduced to half the original interchange with no minimum threshold. The interchange charge proposed for financial transactions — cash withdrawal, cash deposit or a fund transfer — is 1% of the transaction amount, with the minimum at Rs 5 and the maximum of Rs 15. Earlier it was 0.5% of the transaction amount with no minimum. Moreover, there was no charge for a transaction amount smaller than Rs 100. For a similar service on ATMs, every financial transaction attracts a flat fee of Rs 15.

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