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Market Watch

Meltdown at Yes Bank has digital payment companies running for cover

BY [ASHWIN MANIKANDAN](#), ET BUREAU | UPDATED: MAR 07, 2020, 08.49 AM IST

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Mumbai: Curbs on [Yes Bank](#)'s operations have hit [digital payments](#), with nearly all payment platforms of [National Payments Corporation of India](#) (NPCI) reporting disruptions on Friday.

A giant exercise is currently underway where payment companies are migrating from the Yes Bank application programming interface (API), or channel used for instant settlement of payments, to the APIs of other partner banks, people in the know said.

Several merchant acquirers and service providers — most notably [PhonePe](#) and [BharatPe](#) — have also undertaken an exercise to replace small-store QR stickers powered by Yes Bank, replacing them with stickers from other banks. Current accounts of merchants opened with Yes Bank for point of sale deployment companies would also be required to be shifted to banking accounts of other channels.

“The entire process will likely take weeks,” said an industry insider on condition of anonymity. “The priority of the ecosystem is to ensure that core systems are up and running and to provide the customers and merchants, whose funds have been stuck due to freezing of Yes Bank accounts, with an adequate redressal mechanism.”

The Reserve Bank of India (RBI) on Wednesday [oversaw](#) the Yes Bank board and imposed a moratorium for a month as its financials deteriorated.

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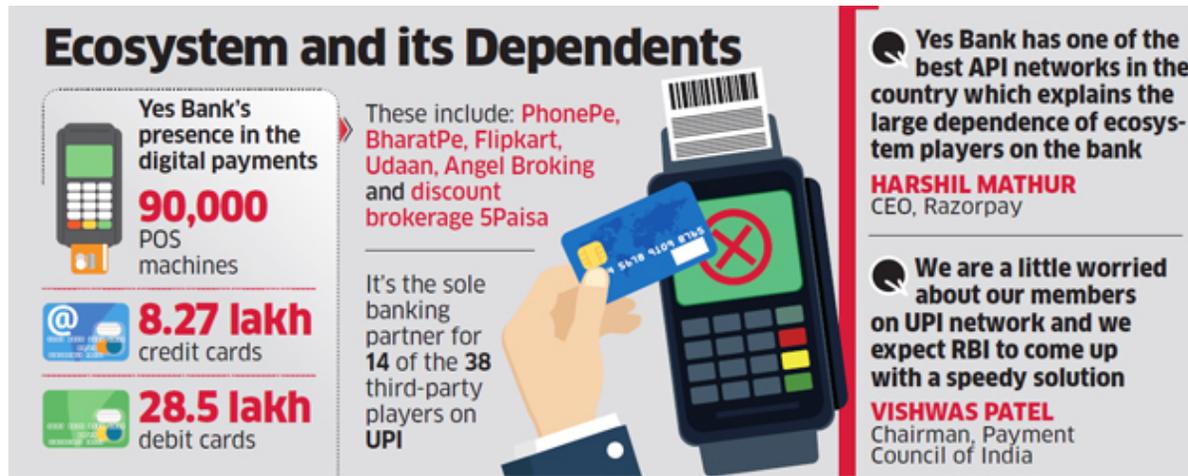
Yes Bank

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The regulatory action follows an extended period of inability of the bank management to raise funds that would have helped provide against loan losses.

After the central bank announcement, several banks and payment gateways stopped processing transactions routed through the channels of the stressed lender. Cards issued by Yes Bank have also been reportedly become dysfunctional whereas merchants with Yes Bank current accounts have also been frozen out of accepting payments.

The bank has deployed more than 90,000 point of sale machines, 8.27 lakh credit cards and 28.5 lakh debit cards, as per latest RBI data.



Concerns emanated on other fronts as well. NPCI's popular payments interface UPI was the worst hit due to the RBI restrictions. Yes Bank, at more than 40% of all transactions on the platforms, not only processes the most volumes on UPI but also has the highest number of tie-ups with third-party players on the platform.

Several leading UPI players saw their operations crippled due to the withdrawal restrictions placed on Yes Bank by the regulators. Most notably, services of Walmart backed PhonePe was down temporarily as CEO and founder Sameer Nigam took to Twitter to explain the cause of outage as moratorium placed "on our partner bank (Yes Bank)" by the RBI. Partial services were restored on the application later in the day.

"Yes Bank has one of the best API networks in the country which explains the large dependence of ecosystem players on the bank," Harshil Mathur, CEO of Razorpay, told ET. "While our services have not been directly impacted, the broader ecosystem will be hit due to the interconnectedness of the participants. Currently, every payment company is working together to ensure normalcy is restored soon."

The formerly Rana Kapoor-owned lender is the sole banking partner for 14 of the 38 third-party players on the UPI network including PhonePe, BharatPe, Flipkart, Udaan among others; the most by any bank on the NPCI operated platform.

Other companies across the fintech ecosystem such as discount brokerage company 5Paisa capital, merchant platform Flipkart and merchant acquirer PayNearby all experienced temporary outages of services on Thursday and Friday.

Letters written to RBI remained unanswered. An NPCI spokesperson said that all efforts to restore the systems are underway.

“We are a little worried about our members on UPI network and we expect RBI to come up with a speedy solution,” Vishwas Patel, chairman of Payment Council of India told ET. “The panic and distrust could have easily been avoided. The overall impact from many fronts has created some systemic risks. However, we expect RBI to give out clarity that all payment networks and settlement which were on Yes Bank will go on as usual.”

Industry sources told ET that there were concerns in the payments industry that failure to pay merchant partners due to money stuck at nodal settlement accounts of Yes Bank may cause reputational risks to the overall payments system.

About 350 such intermediary accounts used for daily settlements, with average balances between Rs 50 crore and Rs 100 crore, have also been stuck, a source told ET.

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