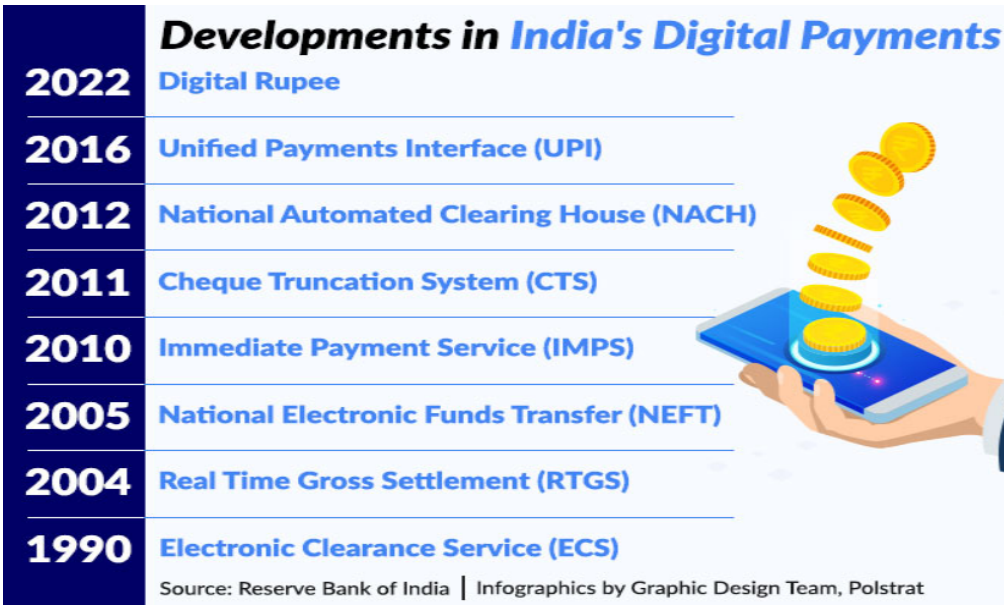
Fintech Companies in Central Bank Digital Currency (CBDC)

Why in news?

Recently, some fintech companies showed interests to join the India's central bank's digital currency project.

What is E-Rupee / Central Bank Digital Currency?

- It is a digital currency issued by the RBI.
- **Need** – It was thought of as an alternative to cryptocurrencies which progressively lose their value.
- **Launch** - It was launched on a pilot basis in 2022.
- **Aim** - It is aimed at creating an additional option for using money.
- **Types** – CBDC Retail and CBDC Wholesale.
- **Features** – It is available *entirely in electronic form* and does not leave a computer network.
- It is a *legal tender like banknotes* that can be used for making transactions.
- It could be used for both *person-to-person and person-to-merchant* transactions.
- **Different from bank deposits** – Unlike bank deposits, digital rupee in users' wallets does not attract interest payments from bank.
- Deposits held in banks can be converted into digital rupees and vice versa for ease of use.
- Importance – It would bring greater transparency to transactions and lower the costs associated with the production of traditional fiat currencies.



To know more about CBDC, click here

What are the trends of e-rupee in India?

- **Initial uptake** – At the time of launch, witnessed growing adoption, with transactions using the digital currency rising to over 1 million a day late last year.
- **Gradual decline** - since the initial uptake, its use has declined sharply to about 100,000-200,000 a day.
- **Reasons for decline** - RBI has *stopped offering incentives* to users and banks that participated in the pilot.
- *Limited features and user base* compared to a full-scale launch restrict widespread adoption.
- CBDC transaction is *not enabled in UPI*, which is the most popular digital transaction method.
- Future prospects - RBI is planning to *enable the CBDC transactions offline* without the need of internet and plans to *introduce programmability in CBDC retail* payments

Benefits of Programmability of CBDC
• It enables the CBDC to be used *for specified purposes*. • It will permit users like, for instance, government agencies, to ensure that payments are made for defined benefits. • Corporates will be able to programme specified expenditures like business travel for their employees • Validity period or geographical areas within which CBDC may be used can also be programmed.

Why are fintech companies joining the e-rupee project?

- Initially, the RBI allowed only banks to offer e-rupee via their mobile apps but recently it has announced that payment firms could also offer e-rupee transactions once approved.
- **Need of RBI** – It has been looking *to increase the adoption base* for the digital rupee, and rollout on popular fintech platforms could be the push it needs.

Fintech companies *are the companies that offer financial services or applications that rely heavily on technology. They use technology to change how consumers interact with the financial industry.*

- **Fintech's interest in e-rupee** – Fintech companies like PhonePe, Amazon Pay, Cred, and Mobikwik are looking to join by allowing their users to transact in e-rupee via Unified Payments Interface (UPI).

Fintech companies such as GooglePay, PhonePe, Amazon Pay, MobiKwik, and Cred currently account for over 85% of digital payments via UPI.

- **Impact of Fintech in CBDC** - It will enables payment transactions between users *beyond the registered banks* in the country.
- It *incentivizes private research* on central bank digital currency.

- It opens up *new platform for startups* to rise in financial services sector and can facilitate the invention of new financial products such as insurances, credit services to suit specific needs.
- It enables the Indian fintech companies to provide international services.
- It *enhances financial inclusion* by making financial services more accessible and promotes the digital economy of the country.

What lies ahead?

- Launch the full-scale version of the digital currency as it is still in pilot basis.
- Include more stake holders and users in the CBDC ecosystem.
- Find more use cases for e–Rupee across the sectors.
- Release the additional features such as off line use, programmability.
- Allow offline capability to enable these transactions in areas with poor or limited Internet connectivity.
- Educate users about using CBDC and its benefits.
- Promote further research on digital currency ecosystem with upcoming technologies.
- Provide incentives to people and companies increase the adoption of e-Rupee.

References

1. The Hindu | CBDC Fintech companies
2. The Hindu Business Line | Future prospects for CBDC

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