

Payments Newsletter

Developing Insights on Bharat Bill Payment System (BBPS)

June 2016

pwc



F **Foreword**

Dear Readers,

It is my pleasure to bring to you the ninth edition of our Payments newsletter, where we unravel the soon to be launched and highly anticipated Bharat Bill Payments System, while analyzing its impact on the various stakeholders in the Payments Ecosystem.

In addition to our views, we have analyzed future options for the growth of BBPS and integrated links to relevant articles from leading publications into the newsletter.

I hope you will find this to be an insightful and good read.

For details or feedback, please write to vivek.belgavi@in.pwc.com or mihir.gandhi@in.pwc.com



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I Introduction

The Indian bill payment market has witnessed unprecedented growth in recent years on account of rising adoption of online methods of bill payments fueled by the introduction of new technologies, rising internet and smartphone penetration, geographical penetration and the entry of new players. It has been estimated that over INR 21000 Bn (value of bills) are being generated today with the market projected to grow close to 2 times that amount by 2021

With a majority of the population lacking access to the formal banking system, it comes as no surprise that a staggering 75% - 80% of these transactions are still carried out via non-digital payment methods, i.e., cash or cheques.

Bill payments has been one of the prime domains to receive immense attention as part of the Digital India initiative. The Bharat Bill Payments System (BBPS) envisaged by the RBI, hopes to create customer stickiness by transforming the system to be convenient and easily accessible. It also aims to alter the current system to be more structured, interoperable and reliable for businesses to operate within. The National Payments Corporation of India (NPCI), currently in charge of the operationalization of BBPS, envisages creating a ubiquitous digital payments platform that is integrated, interoperable, and scalable, acting as a secure and convenient channel for bill payments. Its larger objective is to provide an accessible bill payments system to the large segments of underbanked/unbanked population spread across the country, and in doing that, facilitate the RBI's vision of a 'less-cash' economy by bringing about a higher degree of financial inclusion.

Bill Payments – the present state

At present, the bill payments space is broadly divided into two channels, the physical channel involving payments made with cash, cheque, cards and wallets through store fronts or biller owned collection points (BOCPs), and the online channel, which involves payments via websites, net banking and 3rd party apps. The online channel is further

segregated into two distinct segments, payment aggregators, and front end customer facing entities. The former segment consists of both bank and non-bank entities that facilitate payment aggregation services, while the latter includes banks and third party players like wallet companies and digital marketplaces.

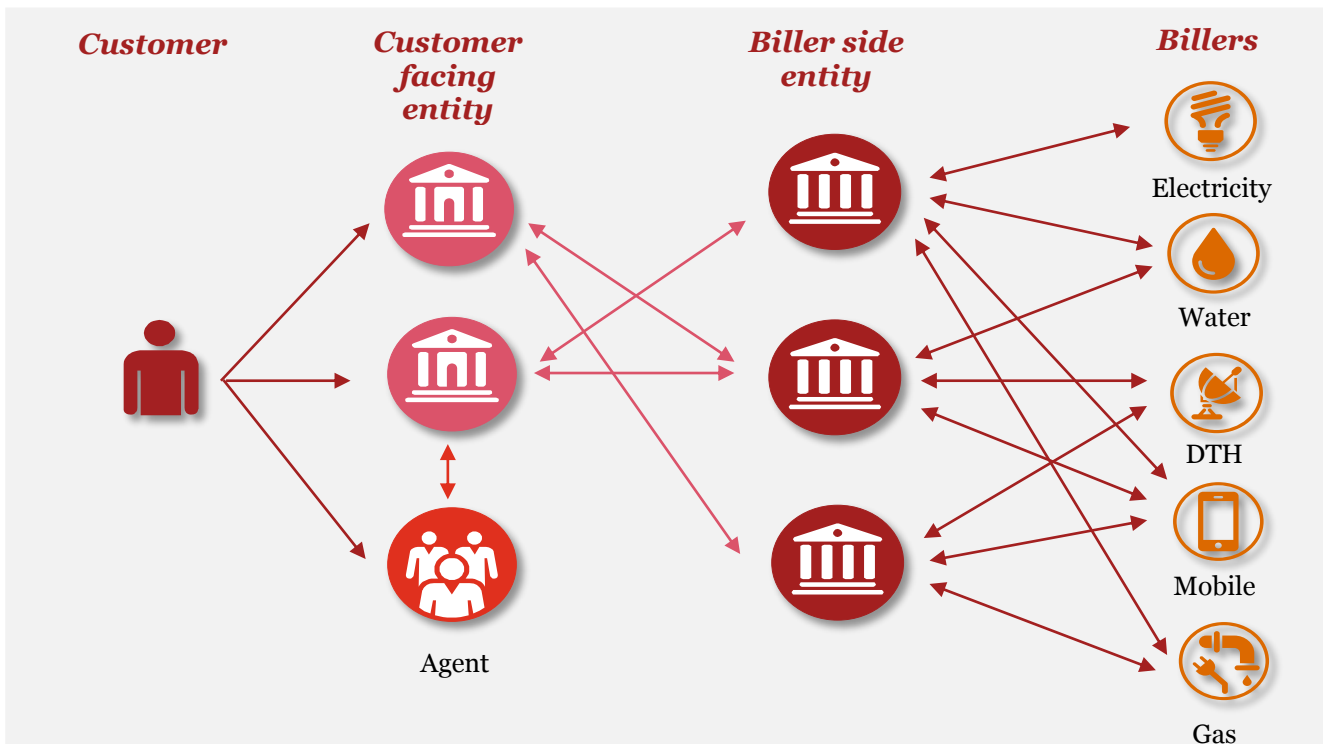
The system of bill payments in its current state has some inefficiencies. First, each aggregator must form individual tie-ups with billers to offer bill payment services. These individual tie-ups often involve intricate negotiations on fees and are accompanied with aggregators adhering to diverse messaging formats and MIS reporting standards. With limited interoperability, the system is discrete, leading to complexities and increasing costs including the cost of securing a bank guarantee and costs associated with the hire of sales personnel. Second, this lack of interoperability does not fully facilitate the customer's need to pay a variety of bills across different verticals. Third, consumers

The BBPS will act as an independent brand and is expected to increase the confidence level of the customers with respect to transaction convenience, security, reliability and accessibility

preference for cash or cheque, due to lack of knowledge or access to digital methods of payment, has developed a preference for payments at BOCPs or at agent locations. This means that billers often have to establish and supervise their own collection points, which is a costly proposition. To make it more economically viable, these points are set up in populated urban centers, which in turn makes accessing these points difficult for people in rural/remote areas.

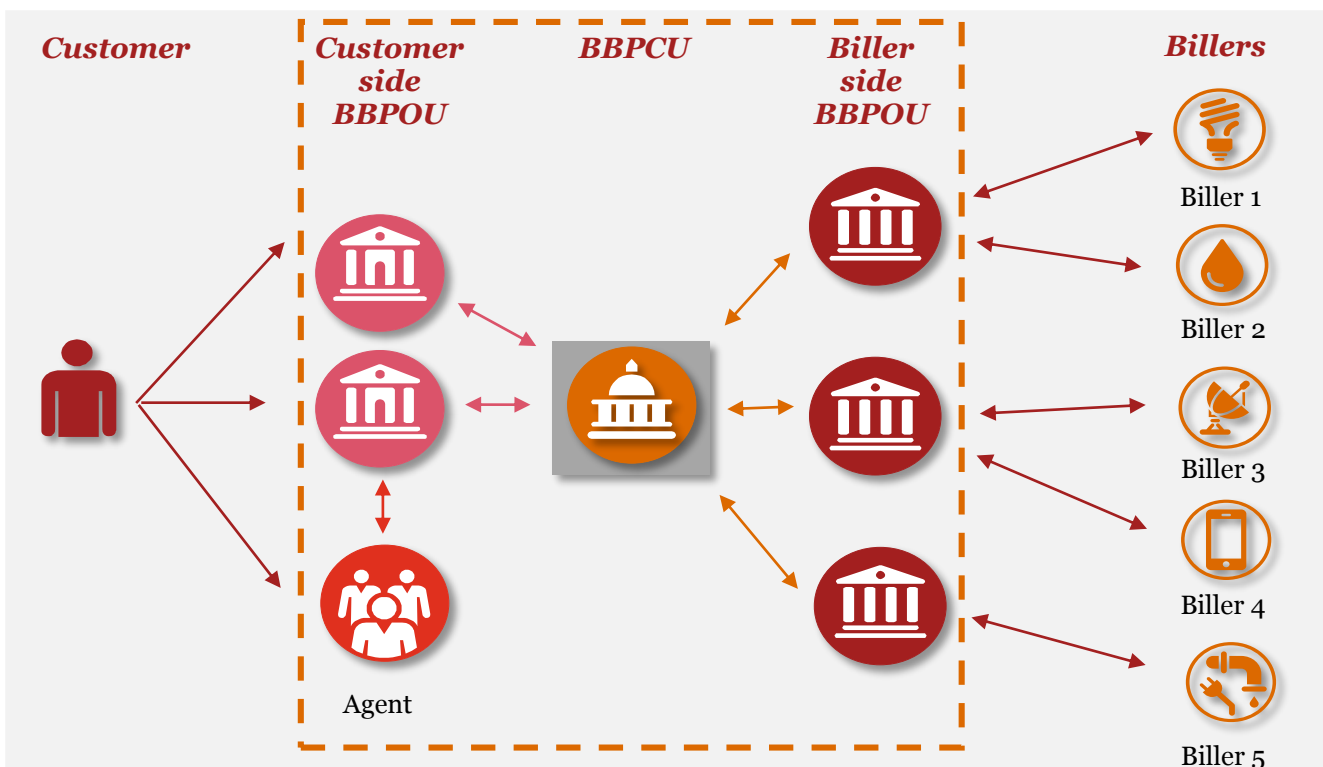
With the launch of BBPS, NPCI hopes to correct these inefficiencies, and implement a system that, with minimal disruption from the current system, proves to be beneficial to all the stakeholders in the larger payments ecosystem. The following representation shows a comparison of the current state of bill payments in India to the envisioned future state.

Current Bill Payments System



Bharat Bill Payments System

- BBPCU will act as an intermediary, connecting every Customer OU to every Biller OU, eliminating the need for direct connects.
- The concept of Preferred OU - one aggregator responsible for processing all off-us payments related to a particular biller - will also eliminate the need for Billers to connect with multiple aggregators. A biller can have up to 3 Backup Biller BBPOUs.



The introduction of BBPS will help bring about a higher degree of efficiency by streamlining the bill payment ecosystem

B *BBPS- The future state of Bill Payments*

Understanding BBPS...

BBPS is an integrated electronic bill payment system which aims to bring all bill payments under one umbrella, providing the convenience of ‘anytime anywhere’ bill payments to its customers.

The new system will be fully interoperable and facilitate collection of repetitive (monthly, bi-monthly, quarterly etc.) payments for multiple utility services, including, telecom – prepaid and postpaid both, water, gas, direct-to-home and electricity.

BBPS facilitates multiple payment modes including various online payment services. In case of those that lack access to digital means of payment, BBPS will also be accessible through physical service points such as owned/agent outlets with a mandate to accept cash and one electronic mode of payment. The system would also provide customers with an instant confirmation of payment made, thereby enhancing customer experience while instilling in them a sense of trust for the system.

...and how it works

BBPS will follow a 2 tiered structure made up of two distinct units, the first being the ‘Bharat Bill Payment Central Unit’ (BBPCU), a role taken on by NPCI, and the second, the ‘Bharat Bill Payment operating Units’ (BBPOU). The participants in the system would include the above mentioned authorised entities, as well as their agents, payment gateways, banks, billers, service providers, and other entities, including authorized prepaid payment instrument issuers, as required under the BBPS.

The BBPCU would act as the central unit that connects Biller side OUs (aggregators that tie up with multiple service providers) and the Customer side OUs (aggregators or banks that provide their customer base with an avenue for bill payments).

Thus, all the billers in the biller OU ecosystem would be accessible to all the customers in the customer OU ecosystem through the central BBPCU, thereby eliminating the need to have direct tie-ups with each biller

BBPCU will be the single authorized entity operating the BBPS. The BBPCU will set necessary operational, technical and business standards for the entire system and its participants and also undertake clearing, settlement and customer grievance resolution activities

BBPOUs will be the authorized operational units i.e., the various players that act as a collection entity for multiple billers.

The nature of transactions in the tiered model of the centralised bill payments system can be classified into ON-US transactions (when the biller and payment aggregator or bank belong to the same BBPOU) and OFF-US

transactions (when the biller and the payment aggregator or bank belong to different BBPOUs). For the former type of transactions, the BBPCU plays no role in the clearing and settlement activities. The end-to-end process, from collection of payment from customer by the agent, settling of funds between agent and BBPOU and final payment to the billers’ account is to be handled by the respective BBPOUs.

However, NPCI as the BBPCU will play a critical role when it comes to OFF –US transactions, where they will handle the process of clearing and net settlement between the different BBPOUs. The BBPCU will use the transaction data routed to it from the BBPOU to arrive at the net settlement amount for each BBPOU and convey the same to each respective entity. Non-bank BBPOUs will require a Sponsor bank to settle accounts in RTGS.

E Expectations from BBPS

The bill payment space in its current avatar is minimally regulated. Even with inefficiencies looming large, there has been no coordinated industry-driven initiative, to develop a system which would bring about comfort of payment to users and cost and functional efficiency to the billers.

The BBPS is expected to be one such initiative that aims at creating a system that will set the standard

for bill payments in the country and boost customer confidence and experience by providing a cost effective alternative to the existing system.

In order to gain competitive advantage in the bill payment space, NPCI will have to address the expectation of the key stakeholders and introduce product differentiators to attract a higher share of the market.

- The offering of online bill payment solution should help to increase collections
- Settlement timelines should reduce from the current timelines
- Standardized processes for MIS/reporting. Consolidated reports; reduction in intensive manual processes
- Low entry barriers for small billers or ones confined to small geographies. Therefore, increased revenue through increased collection
- Reduced cost of handling collections (cash / cheque) and also no hassles of managing this
- Should be protected against any risks associated with delayed or no payments/ long collection cycles
- Able to leverage on the bill payment solution for cross selling and increasing customer stickiness
- Able to integrate bill payment solution with customer on-boarding, CRM and other programs for improving customer relationship
- Single report for transactions across billers
- Achieve cost effectiveness from offering BBPS
- Greater digital transactions
- Reduced efforts in tying up with and greater access to a number of billers, biller categories and customers
- Improved customer experience through BBPS

Customer

- Access to multiple biller categories through one portal
- A robust and quick customer grievance mechanism
- Combination of security, convenience and reduced costs for online bill payment.
- Integrated loyalty rewards from the bill payment solution

Biller

Aggregator

Banks

- Sustained revenue flows and ability to achieve economies of scale.
- Appropriate distribution of fees and commissions
- Reduced efforts in tying up with multiple billers and negotiation on fees
- Increase in volumes and revenue if they are the preferred biller OU

T The Future of BBPS

BBPS is set to be fully operational in the coming months and the RBI is granting a number of BBPOU licenses to applicants deemed fit to operate in the new ecosystem. The first round saw the approval come through for a total of 33 BBPS operating units. These include wallet companies like Oxigen and Paytm and aggregators like Bill Desk and TechProcess, along with banks such as SBI, ICICI, HDFC Bank, Axis Bank, Kotak and Ratnakar Bank. NPCI is also looking to conduct a pilot study with a select few entities, to demonstrate the BBPOU payment system.

Key Challenges for BBPS...

1 One of the challenges that BBPS could face is finding an alternative to cash payments at agent locations. Currently, non-cash payments made at physical locations are not economically viable for agents, which often pushes them to promote non-digital modes of payments, i.e. cash. This, in addition to the cash-friendly mindset ingrained into the transacting culture of the consumer, acts as a major road block in the larger objective of transforming India into a less-cash system. A possible solution could come through BBPS integrating with another system recently launched by NPCI. The Unified Payments Interface (UPI) is a unique interoperable payment system that uses mobile phone as the primary device for making payments across banks, businesses, merchants and customers. However, how NPCI can merge these two platforms to make the solution that is widely accepted and economically viable to all parties involved is yet to be seen.

2 Another hurdle for BBPS could be maintaining the continuous and smooth regulation of set guidelines and ensuring the transparency in this system. Any interaction between the Biller OU and its Biller does not fall under the purview of BBPS and therefore it is the duty of the BBPOUs to sensitize the billers they aggregate to the system requirements. Educating the billers on the benefits of this systems and why they should come onboard can be a challenge. The same can be said true for Customer OUs and their respective customers.

3 The BBPS would also have to focus on widening the system especially for non-bank

players. So far, only a fraction of the players that had applied for a license have been granted in-principle approval to operate as an OU in the new system (7 out of a total of 40+ applicants). There might also be a challenge in onboarding quickly those billers like telcos, utilities which fall outside the purview of NPCI / RBI.

4 One of the key success factors would be ensuring the right pricing model to make the system viable for all participants – biller, OUs, CU, customers and technology providers. Getting all these different agencies on board without threatening the existing ecosystem is the key to successful implementation of BBPS

...and its Future

While BBPS is currently looking at operating in 5 biller categories, i.e., electricity, water, gas, DTH and Mobile payments, in the future, subject to RBI clearance, the platform is also expected to expand to include payments of school fee, university fee, municipality taxes, mutual funds, insurance premiums, etc. It could eventually look to cover payments in more than just the recurring categories, including toll and transit, P2P remittances and B2B invoicing payments.

Across the globe, centralized bill payments schemes have evolved that have captured payments across multiple categories. BPAY, the bill payments system in Australia covers payments across three broad biller categories, i.e., Private, Government and Not for Profit. SADAD, the bill payments scheme in Saudi Arabia, has expanded their reach from basic utility payments, to payments across education, government services, insurance and transportation. 1Link UBPS in Pakistan has included Education, Airlines and ISPs to their bill payments service offering. Perhaps BBPS can evolve along these lines to eventually offer payments services across a wider array of categories than its initial offering.

Bill payments are one of the key requirements of consumers. It is important that this should happen by addressing the consumer's need for better alternatives to cash. BBPS represents a new way of looking at bill payments. Having understood the emerging need for a more interoperable and reliable bills payment system, it is safe to say that BBPS has

is well positioned to initiate financial inclusion and drive it forward. The potential for bill payment to drive financial inclusion is not limited to providing alternatives to cash for payments. It can help creating stickiness for other electronic payment method by making customers habituated to alternate modes of payments. With financial inclusion being the ultimate target, bill payment needs to be a key consideration for those hoping to benefit from it —

(With inputs from Mihir Gandhi, Geetika Raheja and Namrata Kacholia)

from governments that want to develop a more efficient society to businesses looking for new sources of revenue. It is time to look at BBPS in a light that focuses on its ability to transform the payments and financial markets. India is eventually gaining a strong foothold on the digital stage. While Digital India provided a broader vision, the BBPS, initiative has brought in a fresh momentum to the entire agenda for less cash India.

Payments Technology Updates

How will Bharat Bill Payments System benefit you

The Economic Times

As a part of the Digital India initiative, NPCI is planning to make bill payments digital across the country.

[\(Read more\)](#)

Bharat Bill Payment System likely to be launched in July

The Financial Express

The Bharat Bill Payment System (BBPS), a comprehensive bill payment system that connects multiple billers who accept online payment for their products or services, is expected to be launched by the first half of July.

[\(Read more\)](#)

Oxigen, PayU India receive approval for Bharat Bill Payment System

Business Standard

Payment solutions providers Oxigen Services and PayU India on Monday received in-principle approval from the Reserve Bank of India (RBI) to set up and operate Bharat Bill Payment System (BBPS).

[\(Read more\)](#)

RBI's billing system boosts payments cos

The Times of India

In coming months, the ability to pay bills at one's convenience will be available to most Indians irrespective of whether they are digitally connected or not. This has been made possible by the launch of the Bharat Bill Payment System (BBPS)

[\(Read more\)](#)

RBI's Bharat Bill Payment System: What It Will Mean for You

Gadgets 360 – an NDTV Venture

The Reserve Bank of India (RBI) has been discussing setting up a centralised payment infrastructure for bill payments in India for months now, and a few days back, draft guidelines for this "anywhere, anytime" payment system were uploaded to the RBI website.

[\(Read more\)](#)

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