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RBI – Retail Digital Rupee

Published On: 02-12-2022

In News: The RBI will begin the first phase of the pilot for the retail Digital Rupee with a select number of banks. A closed user group (CUG) consisting of participating customers and merchants in Mumbai, New Delhi, Bengaluru and Bhubaneswar would be able to use the currency.

What is Digital Rupee?

The Digital Rupee (e?) or eINR or E-Rupee is a tokenised digital version of the Indian Rupee, to be issued by the Reserve Bank of India (RBI) as a central bank digital currency (CBDC). The Digital Rupee was proposed in January 2017 and will be launched in the 2022-23 financial year. The plan is to incorporate distributed ledger into Digital Rupee. Like banknotes it will be uniquely identifiable and regulated by Central Bank. Liability lies with RBI. Plans include online and offline accessibility. RBI will launch Digital Rupee for Wholesale (e?-W) catering to financial institutions for interbank settlements and Digital Rupee for Retail (e?-R) for consumer and business transactions. CBDC will remove ?4,984.80 crore security printing cost borne by the general public, businesses, banks, and RBI on physical currency.

What change will it make in the Liquidity?

Currently, There are two types of Central bank money. One is Physical cash and other is Reserves maintained by commercial banks with the central bank. These reserves are in a digital form and are used by banks to manage interbank payments. Thus, a CBDC won't change much at the commercial bank level, as their cash reserves with the RBI are already in digital form. Retail CBDCs will essentially be digital currency issued by the central bank, which will exist alongside physical cash.

What is Closed User Group in this regard?

The Reserve Bank of India (RBI) announced a trial for retail digital rupee (e ?-R) beginning 1 December 2022, with four banks in as many cities participating in the pilot programme, a month after testing the wholesale central bank digital currency (CBDC). RBI has identified eight banks for gradual participation in the pilot, the first phase will begin with four: State Bank of India, ICICI Bank, Yes Bank and IDFC First Bank. The remaining four—Bank of Baroda, Union Bank of India, HDFC Bank and Kotak Mahindra Bank—will subsequently join the trial.

Why Central Banks want to have their own digital currency?

- Preventing centralisation of digital payment infrastructure: Digital transactions have increased over time. In various countries, a bulk of this new digital payment infrastructure is being managed by a few private companies. For instance, in China, 94% of mobile transactions are supported by Tencent or Alibaba. This creates an increased overall risk in the financial system, with the entire digital payment infrastructure being dependent on a few private companies.
- To prevent problems like: monopolies, high entry barriers, potential misuse of data, safety and security of technology.
- Thus, there is a need for central banks to create a new digital payment infrastructure through CBDCs. In the event of serious shocks to the systems of the banks or card companies, a CBDC could be an alternative form of payment.

- The threat of a monopoly might not exist in India because of the mass popularity of UPI, owned by NPCI (National Payments Coporation of India) which is further owned majorly by Public Sector Banks (PSBs).

What are all the advantages?

The e ?-R would be in the form of a digital token that represents legal tender. It would be issued in the same denominations that paper currency and coins are currently issued.

The advantage of CBDC over existing digital payment systems is that payments through digital currency would be final, without requiring interbank settlement.

Users can transact with e ?-R through a digital wallet offered by participating banks and stored on mobile phones. According to RBI, digital rupee transactions can be both person-to-person and person-to-merchant. It said that payments to merchants could be made using quick response (QR) codes displayed at merchant locations.

The e ?-R would offer features of physical cash like trust, safety and settlement finality. As in the case of cash, it will not earn any interest and can be converted to other forms of money, like deposits with banks.

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