

# Retail e-rupee pilot launch tomorrow

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Following the successful launch of its wholesale pilot for central bank digital currency, the Reserve Bank of India (RBI) said on Tuesday that it will commence with its retail CBDC pilot project from December 1.

The retail pilot project, which will cover select locations in closed user groups, will be in the form of a digital token that represents legal tender, the RBI said.

“It will be issued in the same denominations that paper currency and coins are currently issued. It will be distributed through intermediaries, i.e., banks. Users will be able to transact with e₹-R through a digital wallet offered by the participating banks and stored on mobile phones/devices,” the central bank said. “The e₹-R would offer features of physical cash like trust, safety and settlement finality,” the RBI said.

The transactions using the retail CBDC can be both person-to-person as well as person-to-merchant and payments can be made using QR codes showed at merchant locations. However, as is the case with cash, the retail CBDC will not earn any interest, the RBI said, adding that it can be converted into other forms of money such as bank deposits.

“The token-based mechanism as announced by RBI for retail is more suited for the common retail customers both for individual customer transactions with selected merchants and also for one individual with another individual, initially to be used within the selected closed group,” Jyoti Prakash Gadia, managing director at Resurgent India, said.

“The four top cities have been rightly chosen for the pilot launch keeping in view the sufficient availability of customers well-versed in digital transactions usage in these cities,” he said.

In its initial stage, the pilot will cover four cities — Mumbai, New Delhi, Bengaluru and Bhubaneswar. The pilot shall be subsequently extended to Ahmedabad, Gangtok, Guwahati, Hyderabad, Indore, Kochi, Lucknow, Patna, and Shimla.

The RBI has identified eight banks for phase-wise participation in the retail CBDC pilot and the first phase shall commence with four lenders — State Bank of India, ICICI Bank, YES Bank, and IDFC First Bank. Four others — Bank of Baroda, Union Bank of India, HDFC Bank and Kotak Mahindra Bank — shall join the pilot later, the RBI said.

“The scope of pilot may be expanded gradually to include more banks, users and locations as needed,” the RBI said. According to the central bank, the pilot will test the strength of the entire process of digital rupee creation, distribution and retail usage in real time. The various features and applications of the e-rupee token and its architecture shall be tested in future pilots and will take learnings from the experience with this one, the RBI said.

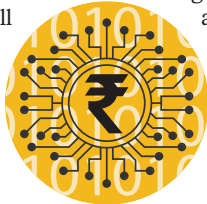
“Since it provides a regulated alternative to cryptocurrencies in the market, the CBDC will lead to a more robust and reliable payments, lowering the dependency on cash,” Jaya Vaidhyanathan, CEO, BCT Digital said. “The underpinning technology will make transaction costs low. Being interoperable with other payment systems, it will complement existing techniques like UPI, thus completing the mobile payments ecosystem,” she said.

On November 1, the RBI had launched the pilot for trading in the secondary market for government bonds using its CBDC — or the wholesale ‘e-rupee’.

According to data provided by the Clearing Corporation of India Ltd (CCIL), the CBDC bond trades in the first week averaged at ₹287.5 crore on a daily basis. In the following week, the bond trades using the CBDC climbed to about ₹500 crore. Since then, however, the volumes have tapered off, with trades averaging around ₹220 crore over the last couple of days, CCIL data showed.

Daily trade volumes in the regular market for government bonds are typically around ₹20,000-30,000 crore.

The central bank views the use of the digital rupee as a step towards making the inter-bank market more efficient. The sovereign bond market is the pricing benchmark for a vast variety of credit products in the economy.



**Transactions using retail CBDC can be both person-to-person and person-to-merchant**

## ‘CBDC more anonymous than traditional e-transactions’

IDFC First Bank is one of the four banks that will participate in the first phase of the central bank digital currency (CBDC)'s retail pilot that will start on December 1. **V VAIDYANATHAN**, MD & CEO, IDFC First Bank, explains the advantage of CBDC retail and the difference between other digital payments in an interview with **Manojit Saha**. Edited Excerpts:

### How does the digital rupee work for the retail segment?

The distribution model for digital currency is identical to the arrangement for paper currency — the bank indents digital currency from the central bank, and the customer in turn purchases from us. The denominations are the same that are in circulation — say ₹10, ₹100, ₹200, ₹500, etc. Even 50 paise and 1 rupee coins are being issued digitally.

### Where can the digital currency be used?

For UPI, you need to have a UPI id or a QR. Similarly, to store or transact in digital currency, you will need to be part of the digital currency ecosystem like a digital rupee wallet. For transferring to, say a merchant, you need a digital rupee QR code.

### How is digital currency different from any other digital payment like UPI?

CBDC is more anonymous than traditional digital transactions. In CBDC, the core banking will have a one-time debit for currency purchase, but all subsequent transactions, which move from wallet to wallet. More importantly, it is much more convenient than cash and safer. A physical wallet that you carry can hold only a limited amount of cash. Plus, cash is also bulky and inconvenient. On the other hand, digital currency is lighter.

### India already has a successful UPI adoption. What value addition will CBDC do over UPI equivalent?

India is a growing economy and our ecosystem is evolving fast. NEFT, RTGS, IMPS have evolved over the years. Each of these were innovations of that moment. So, every new introduction thus far is an improvement over the past. Similarly, CBDC can be a mega thing with various policy unlocks. In fact, the learnings from UPI will help India fine tune the adoption

and the tech infrastructure faster.

### What is the benefit to the user over cash?

Digital currency is more secure. You can misplace cash, but your digital currency is held by your bank as a custodian on your behalf. It is also more convenient as it does not consume physical wallet space.

### What is the roll-out plan?

Customers from selected pilot cities will be invited by their respective banks shortly.

### Will the customer earn any interest on the digital rupee?

Like we don't earn any interest held in normal cash in our pockets, similarly, there will be no interest on digital wallet balance. Think that instead of cash in your pocket, it is in your e-wallet.

### What will be required to make it successful?

The CBDC will require building an ecosystem with critical mass, QR systems, education, etc, and will require critical mass. CBDC is being attempted by many countries. The Indian public is well-versed with the concept of digital payments.

### How will it benefit the financial system?

It saves the cost of printing currency, and adds to financial inclusion. Over time, with policy unlocks, CBDC can be operated without an underlying bank account, so one can hold and transact digital currency, just like you can hold cash in your hand without having a bank account.

In the pilot phase, what the customer will experience in the Digital Rupee is a very small pie of the entire strategic block which the RBI has conceptualised.



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