

‘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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