

Banks face major hurdles in PoS installation

Live Mint | 1st Dec 2016

Govt task force's proposal to install 1 million card swipe machines may require an investment of nearly Rs1,000 crore, says NPCI chief

Installing one million card swipe machines in three months as recommended by a government task force may prove to be a tough task for banks facing a shortage of machines and staff, besides operational challenges on verifying customer credentials.

The proposal by a task force led by Anil Kumar Khachi, additional secretary in the department of financial services, may require an investment of nearly Rs1,000 crore, said A.P. Hota, managing director and chief executive officer, National Payments Corp. of India (NPCI). In addition, banks may have to spend approximately Rs500 crore more on operational cost.

Typically, a point of sale (PoS) machine costs Rs8,000-12,000, which could cost less after the waiver on excise duty and special additional duty on all components used in their manufacture. But banks must still bear the operational costs, including merchant discount rate (MDR) which they cannot collect for now. MDR is a commission charged by acquiring banks to the merchant for every transaction on its card machine. A bank typically earns an MDR of 0.75% for transactions up to Rs2,000 and 1% for those above Rs2,000.

“It is still not clear who will bear the cost of these 1 million PoS machines. Already, the loss to banks on account of waiver of MDR is at Rs300 crore,” Hota said.

According to Reserve Bank of India data, there are 1.46 million PoS terminals in India, but industry estimates say only 1 million merchants accept card payments. The country's largest lender State Bank of India has already placed an order for 150,000 machines and will order 250,000 more, said Manju Aggarwal, deputy managing director. It took banks nearly five years to reach a million terminals, and the same target is now sought to be met in 90 days.

The biggest challenge is a shortage of machines. “PoS terminals are acquired from Malaysia, China and other parts of the world. The global capacity for production is only 14 million devices. We need to bear in mind that China has to up the production of these PoS terminals as it’s the Chinese new year in January 2017,” said Deepak Chandnani, Worldline India, payment processor for banks. Chandnani said it will take 4-6 weeks for the system to gear up to this challenge.

Most of the PoS machines are currently supplied by two manufacturers: France-based Ingenico and Verifone of US. As many as “42,000 terminals have been supplied post the demonetisation announcement. We will have to ramp up production to meet the demand for 600,000 PoS terminals in four months,” said an official at one of the suppliers.

Manpower deployment is another headache. “The demand for PoS terminals has gone up seven times post demonetisation. Much of the demand is from urban and metro areas. Banks and payment service providers, which run PoS business on behalf of banks, currently don’t have enough people to do sales and training of merchants,” said Deepak Bhutra, CEO of India Transact Services Ltd, a fully owned subsidiary of AGS Transact Technologies, which runs 15,000 POS machines on behalf of sponsor banks like IndusInd Bank and RBL Bank.

The official cited above said the current rate of PoS installation is 3,000 terminals a day, and to reach 1 million in 90 days, 10,000-11,000 machines need to be installed per day.

Some experts point to the challenges of verifying the credentials of these merchants in a short time. “Identifying one million merchants and underwriting their risk will be the biggest challenge for banks. As most merchants are small and medium enterprises, they have a relationship with banks in the form of a current account. How banks will go about doing KYC (know-your-customer) verification for so many customers and gauging credit risk will have to be seen,” said Ramaswamy Venkatachalam, managing director, Fidelity Information Services, a banking and payment technology provider.