INTERVIEW

Shri Soma Sankara Prasad

Managing Director and Chief Executive Officer, UCO Bank, Kolkata

Shri Soma Sankara Prasad assumed the office of Managing Director & CEO of UCO Bank on 01.01.2022. Prior to this, he was holding the position of Deputy Managing Director and Group Compliance Officer at State Bank of India. Shri Prasad holds Master of Commerce degree and in his career spanning 35 years, he has held important assignments in various capacities in Treasury operations, Retail, Corporate Credit, Insurance and International Banking. Shri Prasad has had two stints abroad. He headed the Singapore Operations of State Bank of India, as Country Head from November 2014- April 2019. He was Manager (Credit and Operations) at Paris Branch of State Bank of India from September 2002 – November 2006. He has also worked as Regional Manager at SBI Hyderabad, as Chief Financial Officer at SBI General Insurance Co. Ltd. and as MD & CEO at SBI Pension Funds Pvt Ltd. Shri Prasad has also attended several training programs in various areas at reputed institutions, both in India and abroad.

Q1. What is Central Bank Digital Currency?

Ans. A CBDC can be defined as a form of money that is denominated in fiat currency (central bank money-RBI), in an electronic form, and which is a liability on the central bank's balance sheet similar to cash and central bank deposits. it could be considered as "smart cash" with unique attributes enabled by its digital form.

The Bank for International Settlements (BIS) defines a CBDC as a purely digital banknote that could be used by individuals to pay businesses, shops or each other (called a "Retail CBDC"), or between financial institutions to settle trades in financial markets (called a "Wholesale CBDC").

Q2. What is the difference between a CBDC and Cash?

Ans. Cash has a physical presence, whereas a CBDC is available exclusively in digital format. The digital nature of a CBDC unlocks potential benefits related to usability for

consumers and merchants, safety and security, and traceability of transactions without infringing on privacy rights.

Q3. Why can't we just focus on mobile money, is it same as CBDC?

Ans. CBDC facilitates lower transaction fee, cross-border payments, and efficient monitoring tool that can help the central bank to improve their monetary policy (such as financial inclusion, reduce financial crimes, privacy issues).

Q4. Can CBDC be used offline?

Ans. Yes, some of the approaches used are by setting time limit or size limit. Devices used must also be included as consideration.

Example: UPI123Pay

To decrease cash-based transactions in India, the RBI introduced UPI. For a sizable percentage of the population who lacked smartphones, UPI was unavailable. The RBI introduced UPI123Pay to solve this issue. Customers will be able to use their feature phones for almost all transactions using UPI123Pay, with the exception of scan and pay.

How it UPI123Pay works: **Five Steps**:

1. Link his bank account with UPI123Pay.
2. Create a UPI pin using their debit/credit card.
3. Call the IVR number, and choose the service, such as money transfer, LPG bill, or electricity bill.
4. The user must first choose the service before adding the recipient's phone number in order to send money. The sum and PIN will then be combined.
5. The user has two options to pay a merchant. The first is to use the app, and the second is to pay via a missed phone call.

Q5. What countries are leading the CBDC race?

Ans. China and Sweden are in the pilot project stage. Singapore has completed the research stage.

Q6. Why the sudden interest this year?

Ans. The surge of private cryptocurrencies makes central banks feel the need to innovate to provide safer alternatives to ensure financial system stability.

Q7. What is the difference between a CBDC and Crypto Assets such as Bitcoin?

Ans. Crypto assets are privately issued (i.e., by a non-central bank) and have a decentralised and disintermediated value proposition (i.e., crypto assets offer a direct, peer-to-peer transactional capability that does not require a financial intermediary, such as a bank). Crypto assets are not a liability on any institution's balance sheet and unlike a CBDC, they are not backed by any government or centralised authority. Because they are not on any one's balance sheet as an obligation to the holder (i.e., the holder has no claim on the issuer as there is no central issuer), the user is potentially exposed to risk. Crypto assets such as Bitcoin are susceptible to large price fluctuations, generally making them less predictable and therefore less suitable as a stable medium of exchange.

In short, if a CBDC is guaranteed by the issuing central bank, it would be as safe as cash and would have minimal or no counterparty risk.

Q8. If most money exists in digital form, what is the difference between CBDC and money in your bank account?

Ans. When money is held in a commercial bank account in a digital form, it represents an amount owed to you by that bank; in other words, it is a claim that you have against the bank. It can typically be withdrawn in its physical form, but only if the bank is solvent. A CBDC, on the other hand, is backed by the central bank and is a liability on the central bank balance sheet, similar to cash. A CBDC with legal tender status would not be a commercial bank's liability, so you would not have to rely on a particular bank's solvency to be able to maintain your balance.

Q9. What are the key design principles of a CBDC?

Ans. The core principles applicable to the design features of a CBDC in India are as follows:

- It must be a generally accepted medium of exchange/means of transacting, accepted and trusted by consumers and businesses as legal tender, and complementary to cash.
- It must be available to and usable by everyone in Indian economy and the financial system.
- Its value must be pegged at a one-to-one parity with the Indian ₹.
- It will be a liability on RBI's balance sheet and will remain so throughout the distribution chain (similar to cash).
- It should have the attributes of a generally accepted medium of exchange: it must be divisible, durable, fungible (exchangeable) and portable, and the supply should be limited.
- Its value must be transferable immediately and irrevocably.

In addition to these core principles, the following attributes of a CBDC should be addressed in its design:

- Its ability to be exchanged for cash from a commercial bank;
- Its use alongside other means of payment in the financial ecosystem (e.g., debit cards or electronic fund transfers);
- Its strong safety and security measures to protect against counterfeiting and fraud;
- Its ability to allow for improved regulatory reporting and anti-money laundering/combatting the financing of terrorism measures, while still protecting the privacy of the user; and
- Its usability in the absence of connectivity to a network as a contingency measure, albeit with some limits on the value and/or number of transactions.

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