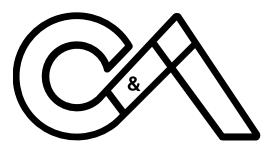


# WINTER CONSULTING CAPSTONE PROJECT

## CDBC INDIA'S ANSWER TO US DOLLAR

NAME -ARYAN PATEL  
ENROLLMENT ID- 230455



# INTRODUCTION

## CBDC

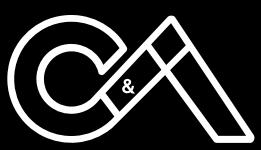
- A Central Bank Digital Currency (CBDC) is a digital form of legal tender issued and backed by a central bank.
- Unlike cryptocurrencies, it's not decentralized and has stable value.
- CBDCs are gaining traction for their potential to enhance financial inclusion, efficiency, and transparency.

## INDIA'S PIONEERING MOVE

- India, recognizing the potential of CBDCs, has taken a bold step by launching its own - the Digital Rupee
- The pilot phase, currently focused on wholesale transactions between banks and financial institutions, has already demonstrated promising results.

## INDIA'S CBDC: A POTENTIAL GAME CHANGER

- Leveraging Existing Strengths of UPI
- UPI's instant, low-cost transactions and massive user base provide a strong foundation for the Digital Rupee.
- The CBDC adds the security and stability of a central bank currency, making it even more trustworthy and reliable.



# REGULATORY FRAMEWORKS AND COMPLIANCE MEASURES

"TRUST IS EARNED WHEN ACTIONS MEET WORDS."  
-CHRIS BUTLER

## ANTI-MONEY LAUNDERING (AML) AND COMBATING THE FINANCING OF TERRORISM (CFT)

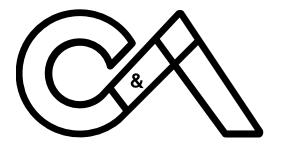
- Risk Assessment: Identify and mitigate potential money laundering and terrorist financing risks associated with Digital Rupee transactions.
- Know Your Customer (KYC) & Customer Due Diligence (CDD): Implement robust customer identification and verification processes to prevent illicit activity.
- Transaction Monitoring: Track and analyze Digital Rupee transactions for suspicious activity, flagging and reporting anomalies to authorities.
- International Collaboration: Strengthen cooperation with other countries and financial intelligence units to combat financial crime effectively.

## CYBERSECURITY & INTEROPERABILITY

- Incident Response Plans: Develop comprehensive plans to manage and recover from cyberattacks effectively.
- Collaboration with Financial Institutions: Partner with banks and other financial institutions to integrate the Digital Rupee into existing financial infrastructure smoothly.
- Cross-Border Compatibility Exploration: Explore mechanisms for interoperability with CBDCs of other countries to facilitate international transactions.

## LEGAL AND TECHNICAL FRAMEWORK

- Clear Legal Framework: Define legal guidelines for Digital Rupee issuance, transfer, holding, and usage, ensuring compliance with relevant laws and regulations.
- Technical Standards and Specifications: Set technical standards for Digital Rupee implementation, covering aspects like digital wallets, payment interfaces, and security protocols.
- Oversight and Enforcement: Establish mechanisms for oversight and enforcement of Digital Rupee regulations, ensuring compliance by all stakeholders.

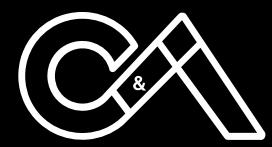


# ADVANTAGES OF CBDC AND UPI OVER SWIFT

"WAITING FOR A BANK TRANSFER THESE DAYS IS LIKE  
WATCHING PAINT DRY - IN SLO-MO."

## ADVANTAGES OF CBCD AND UPI OVER SWIFT

- **Speed and Efficiency :** CBDC and UPI shatter the time barrier for transactions, enabling near-instant settlements that take mere seconds, in stark contrast to SWIFT's multi-day process. This breakthrough eliminates the need for intermediaries and their associated fees, allowing funds to transfer directly between accounts for a faster, more efficient experience.
- **Reduced Intermediaries :** CBDC and UPI revolutionize the payment landscape by circumventing the intricate network of correspondent banks that SWIFT relies on. This direct peer-to-peer approach simplifies transactions, reduces fees, and enhances transparency, leading to a more efficient and cost-effective experience for users.
- **Financial Inclusion :** Traditionally, financial systems like SWIFT catered to a limited scope, leaving the unbanked and underbanked behind. However, India's innovative UPI system pioneered mobile-based payments, bringing millions into the fold. CBDC builds upon this success, promising even greater financial inclusion by offering a secure and accessible digital currency, regardless of formal banking status.
- **Transparency and Control:** SWIFT's opaqueness fosters vulnerabilities to fraud and money laundering, while CBDC's central bank oversight enhances transparency and traceability, potentially curbing illicit activity. Furthermore, this oversight empowers targeted fiscal and monetary interventions, allowing for responsive policies tailored to specific needs.
- **Innovation Potential:** CBDC: Opens doors to possibilities like programmable money, where certain conditions can be attached to a transaction. This could, for example, automate charity donations upon purchase of certain goods.



# IMPACT ON DIPLOMATIC AND ECONOMIC RELATIONS

"₹: A GAMBLE FOR A NEW FINANCIAL ORDER."

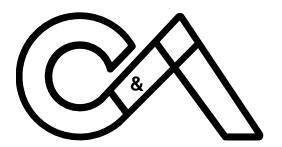
## DIGITAL RUPEE: A DIPLOMATIC AND ECONOMIC GAME CHANGER

### Pros:

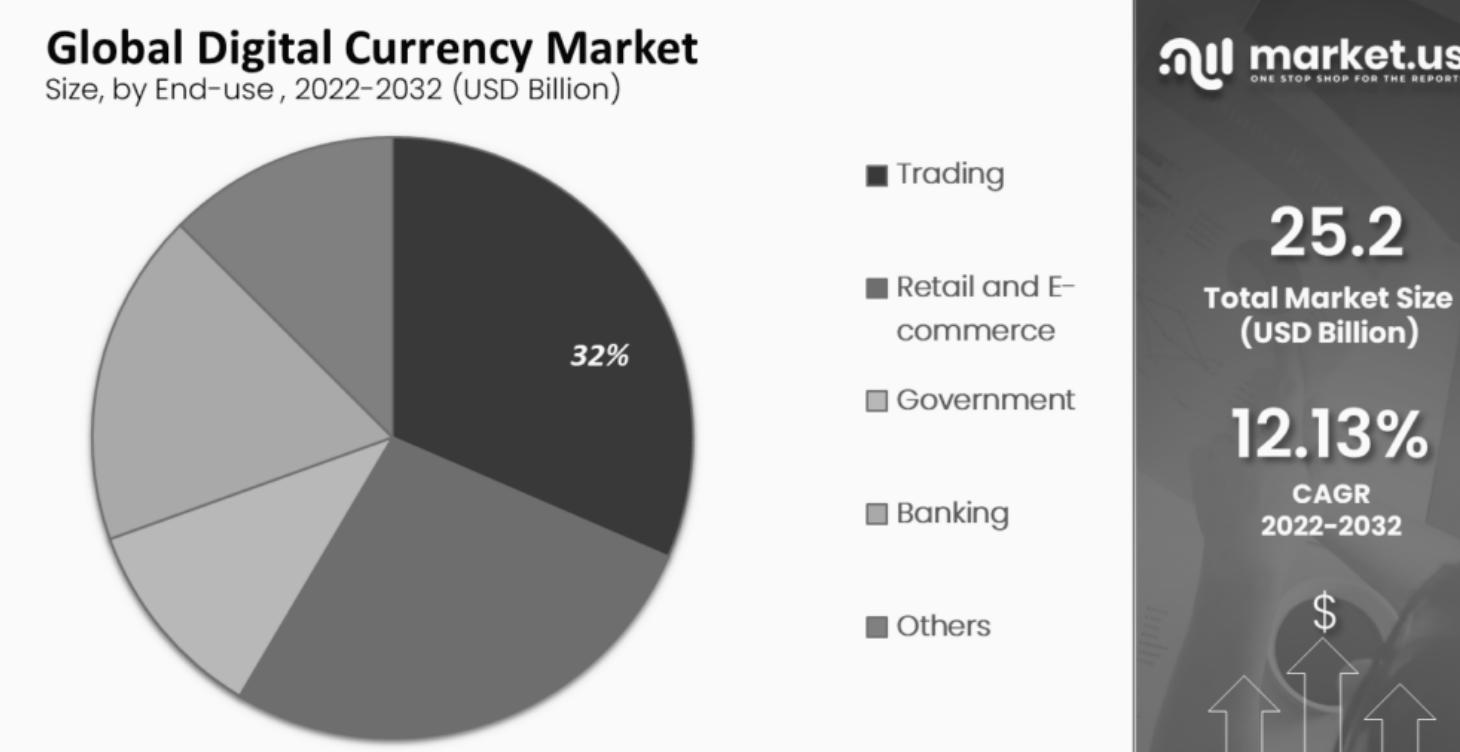
- **Strategic Ties:** Strengthens partnerships with key nations like Russia and China via rupee-based trade, offering an alternative to the US dollar system.
- **Regional Trade Hub:** Boosts financial integration within South Asia and beyond, fostering closer economic ties.
- **Financial Sovereignty:** Enhances India's control over monetary policy and economic stability.
- **Tech Innovation:** Positions India as a leader in financial technology, attracting investments and partnerships.

### Cons:

- **Convertibility and Stability:** Building trust in the ₹'s long-term viability and ease of exchange will be crucial.
- **Competition and Geopolitics:** Established currencies pose challenges, and navigating geopolitical tensions is key.
- **Domestic Infrastructure:** Investing in infrastructure and rural accessibility is essential for widespread adoption.



# RUPEE IN INTERNATIONAL TRADE



## RUPEE IN INTERNATIONAL TRADE: A JOURNEY FROM MARGIN TO MAINSTREAM?

### Limited Acceptance: A Mountain to Climb

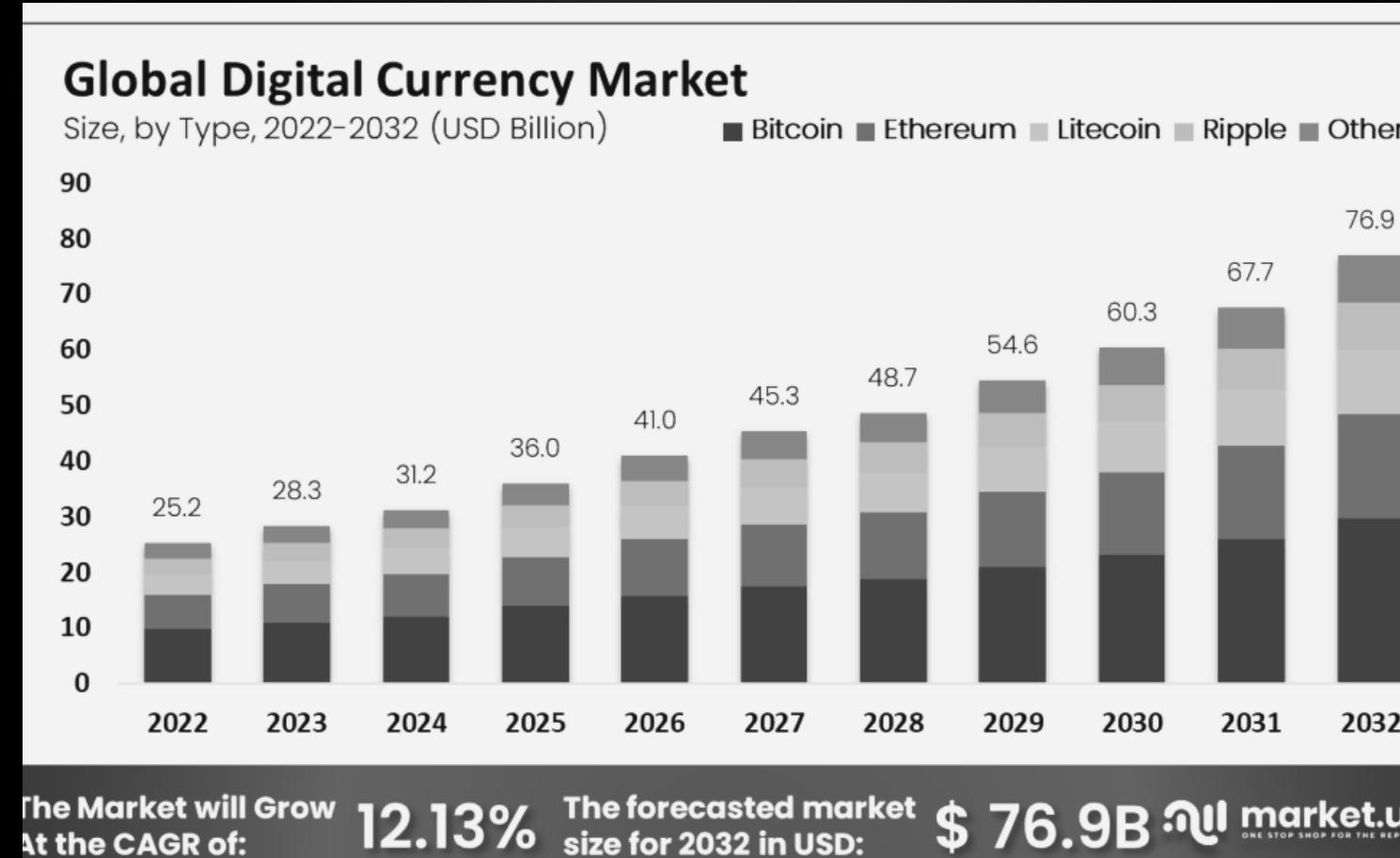
- **Dwarfed by Giants:** The rupee's presence pales compared to major currencies like the dollar, euro, and yen. Its share in global forex markets is minuscule, like a lone climber at the base of a towering mountain range.
- **Contractual Roadblocks:** Dependence on dollar-denominated contracts acts like a treacherous path, locking transactions into the greenback's orbit. Breaking free and paving the way for wider rupee adoption requires robust alternatives and confidence-building measures.
- **Liquidity's Rocky Terrain:** Shallow and illiquid rupee markets resemble an uneven, rocky terrain, discouraging large players and investors. Deeper financial infrastructure, including derivatives and bond issuance, is crucial to build a smooth, well-maintained highway for efficient rupee trading.

### Trade Basket Arrangements: Stepping Stones on the Path

- **Glimmers of Hope:** Bilateral swap agreements with Sri Lanka, Bhutan, and Nepal offer strategic footholds, enabling some trade settlements in rupees. These are encouraging first steps, like sturdy bridges across narrow gorges, providing access to specific regions and markets.
- **Expanding Horizons:** To truly conquer the global summit, the rupee needs more than isolated bridges. Exploring similar arrangements with key trading partners like Russia, Iran, and the UAE can build a sprawling network of trade routes, broadening its reach and impact.
- **Mutual Momentum:** Such partnerships offer win-win scenarios. Countries facing dollar limitations find a convenient alternative in the rupee, while India secures imports vital to its economy. This synergy can snowball, propelling the rupee's internationalization forward.



# RUPEE IN INTERNATIONAL TRADE



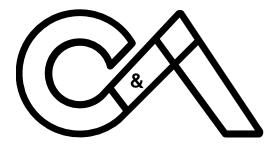
## RUPEE IN INTERNATIONAL TRADE: A JOURNEY FROM MARGIN TO MAINSTREAM?

### Focus on Specific Sectors: Trailblazers of Rupee Adoption

- **Pharmaceutical Powerhouse:** Indian pharmaceuticals, renowned for their affordability and quality, are driving rupee usage in this sector. Exporters benefit from receiving payments directly in rupees, simplifying accounting and potentially boosting profits. This natural preference creates a positive feedback loop, further encouraging rupee acceptance among global pharmaceutical buyers.
- **Beyond Medicine:** Commodities like tea, spices, and agricultural products also see higher rupee settlement, owing to India's strong export position in these areas. This sector-specific focus provides valuable proof-of-concept, demonstrating the rupee's viability in international trade even beyond pharmaceuticals.

### BRICS and the Rupee: A Shared Climb Towards De-Dollarization

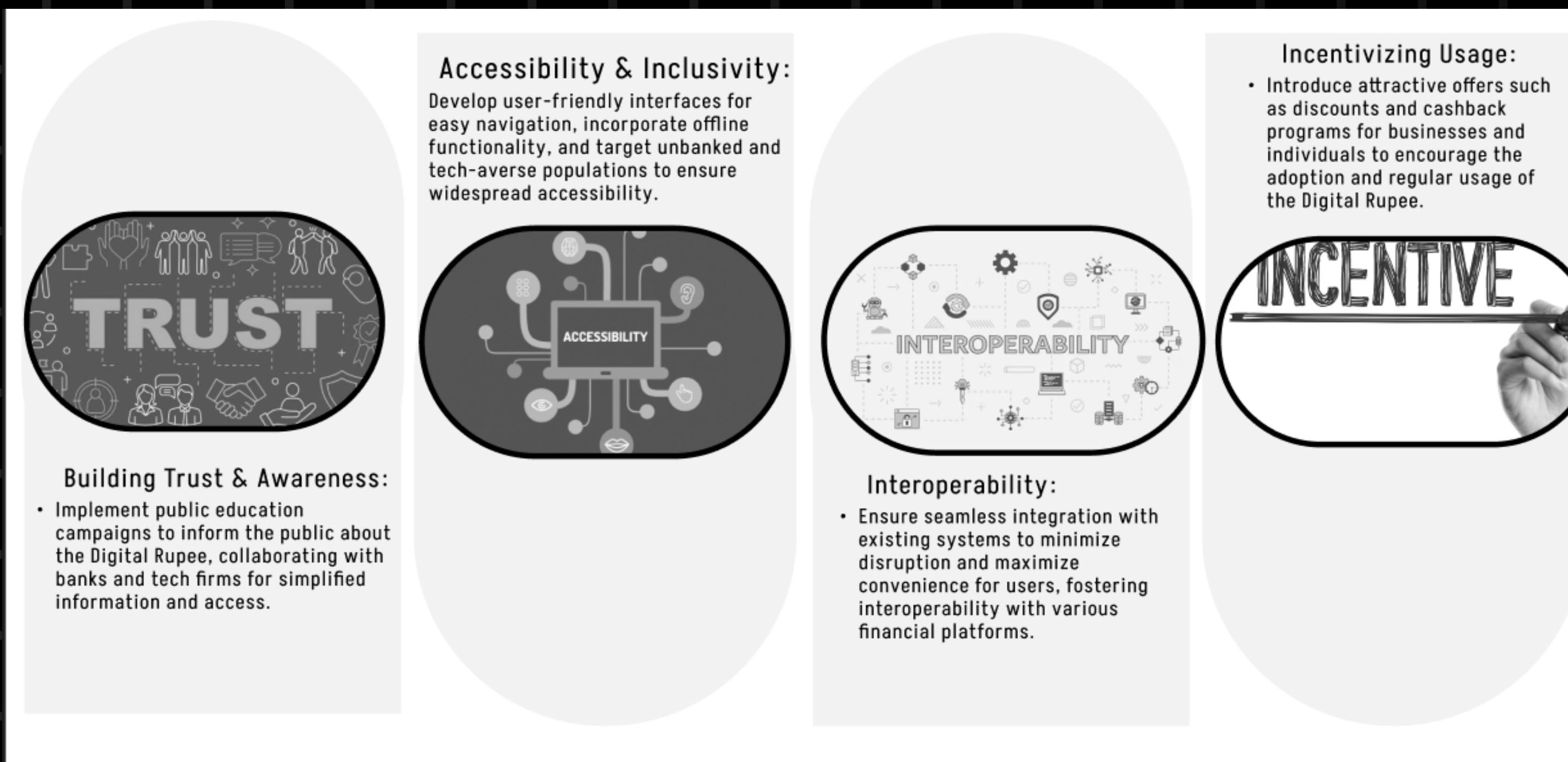
- **Building Blocks:** The New Development Bank (NDB), established by BRICS, issuing bonds in renminbi and rubles signifies the commitment to multicurrency trade. This paves the way for the rupee to join the party, offering BRICS nations a wider range of options for settling their trade within the alliance.
- **Challenges on the Path:** Concerns about the rupee's convertibility and the need for harmonized trade regulations within BRICS present hurdles to overcome. Addressing these concerns through joint efforts and policy initiatives is crucial for unlocking the full potential of rupee-based trade within BRICS.
- **Future Footholds:** Successful pilot projects and demonstration initiatives showcasing the efficiency and benefits of rupee settlement could pave the way for wider adoption within BRICS. Collaboration on trade infrastructure development and financial market integration can further strengthen the rupee's position in this strategic alliance.



# BUILDING A SMOOTH BRIDGE TO THE DIGITAL RUPEE

## BRIDGING THE GAP BETWEEN VISION AND REALITY FOR THE DIGITAL RUPEE. KEY STRATEGIES:

- **Building Trust & Awareness:** Public education campaigns, partnering with banks and tech firms for simplified information and access.
- **Accessibility & Inclusivity:** User-friendly interfaces, offline functionality, targeting unbanked and tech-averse populations.
- **Interoperability:** Seamless integration with existing systems, minimizing disruption and maximizing convenience.
- **Incentivizing Usage:** Attractive offers like discounts and cashback programs for businesses and individuals.





# CONCLUSION

“INVEST OR OBSERVE”

## RUPEE IN INTERNATIONAL TRADE: A JOURNEY FROM MARGIN TO MAINSTREAM?

### Current Scenario for Digital Rupee:

- Digital Rupee is in its early stages, but India's strategies towards trust, accessibility, and incentives present a promising landscape.
- International partnerships and continuous innovation hold potential for significant future growth.

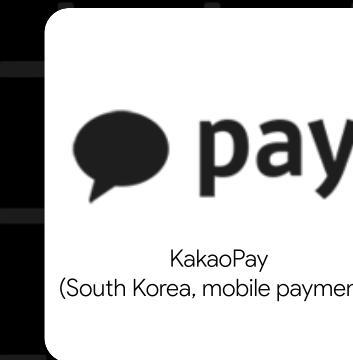
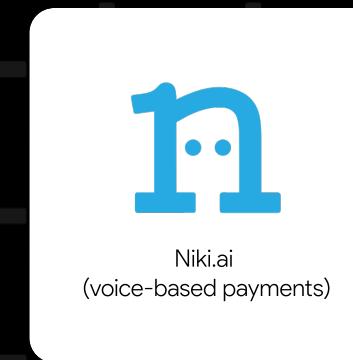
### Investment Potential:

- Pros: Early mover advantage in a potentially transformative technology.
- Cons: Uncertainties about adoption rates, regulatory frameworks, and competition from established solutions.

### Points Of Consideration:

- **Consider strategic partnerships:** Collaborate with Fintech companies building complementary solutions around the Digital Rupee.
- **Monitor and engage:** Closely track the developments and engage with industry players to assess future investment opportunities.
- **Focus on niche solutions:** Invest in Fintech companies addressing specific challenges within the Digital Rupee ecosystem, e.g., security, offline functionality, or merchant integration.

- Companies facilitating accessibility and inclusivity:



- Companies addressing trust and awareness:



- Companies focusing on interoperability and integration:



- Companies building security and privacy solutions for the Digital Rupee:



## Sources :

- World Bank Policy Research Report: <https://www.weforum.org/agenda/2023/01/davos23-central-bank-digital-currency-redesigning-money/>
- Reserve Bank of India (RBI) CBDC Page: [https://www.rbi.org.in/Scripts/BS\\_PressReleaseDisplay.aspx?prid=54773](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=54773)
- CBDC India Forum: <https://blog.forumias.com/answered-highlight-the-benefits-and-risks-of-issuing-a-cbdc-in-india-with-reference-to-the-rbis-concept-note/> (discusses about the advantages and disadvantages of CBDC )