

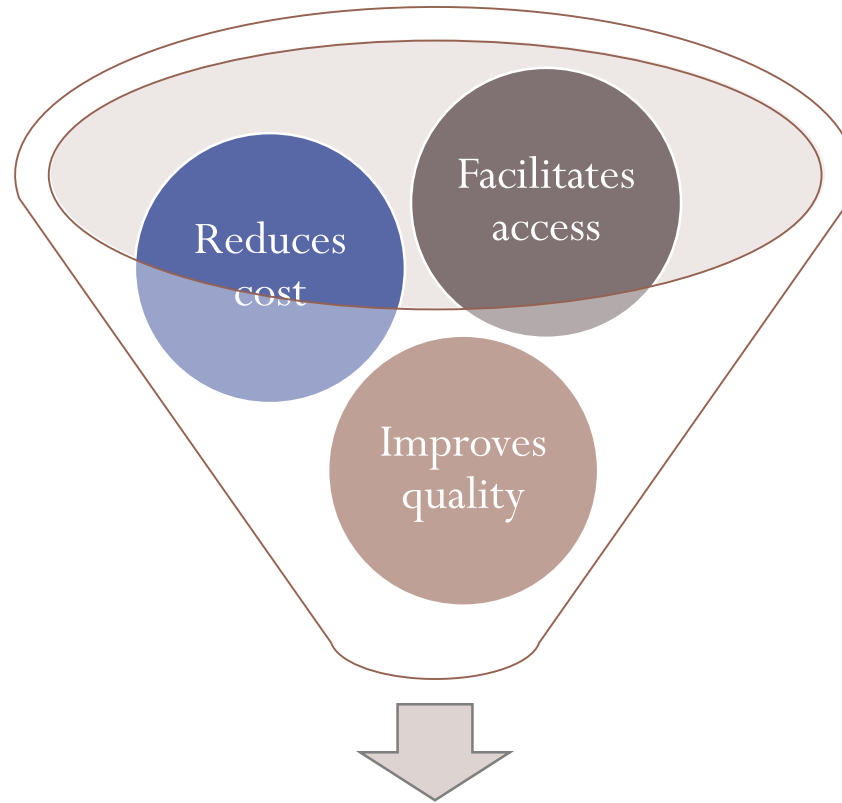
Consumer Welfare and Competition in Digital Payments

IGIDR-PayPal roundtable on Competition in Payments Industry

Amol Kulkarni

14 June 2017

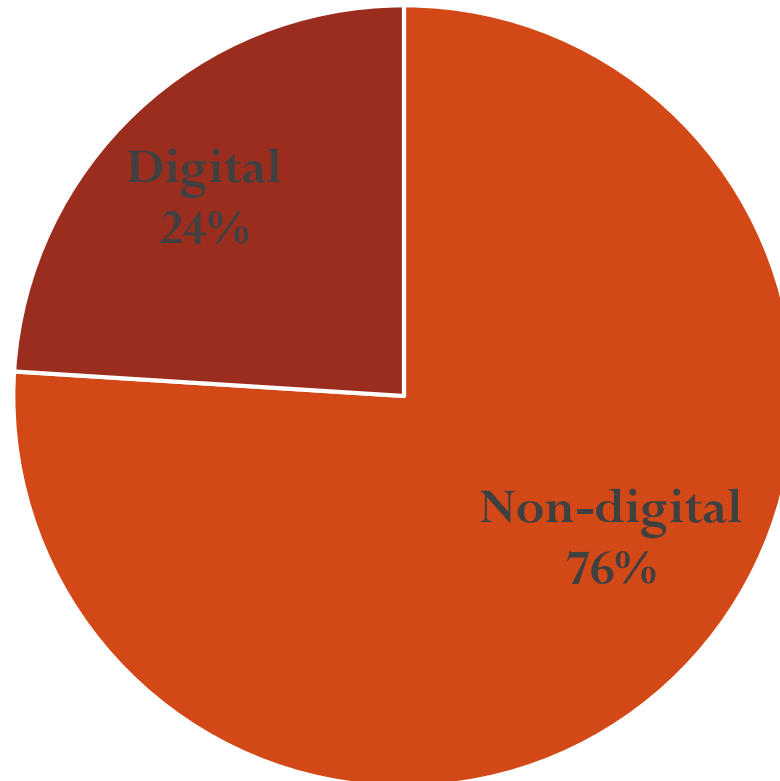
Benefits of competition



Enhances consumer welfare

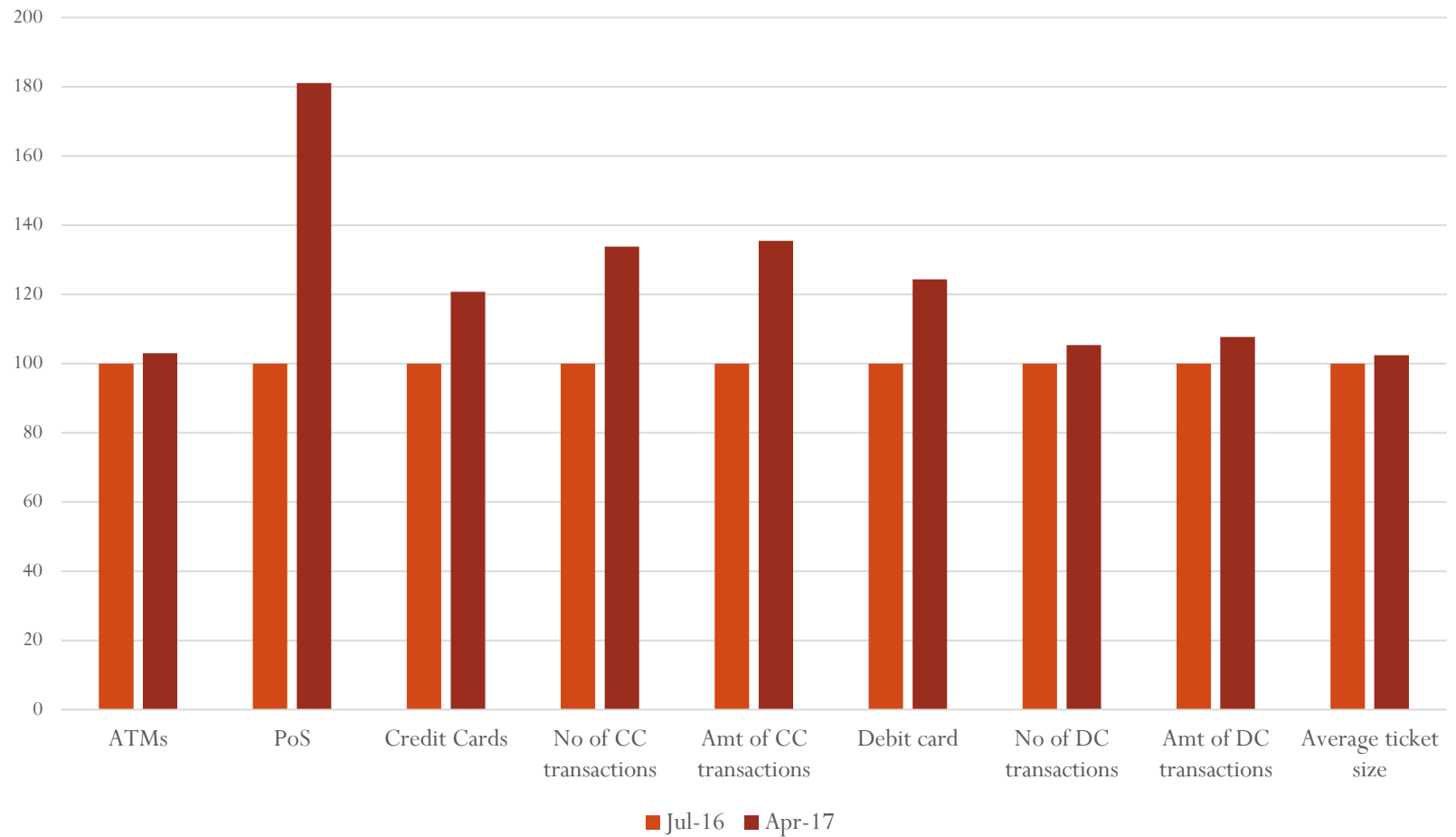
ACCESS TO DIGITAL PAYMENTS

Substantial ground to cover

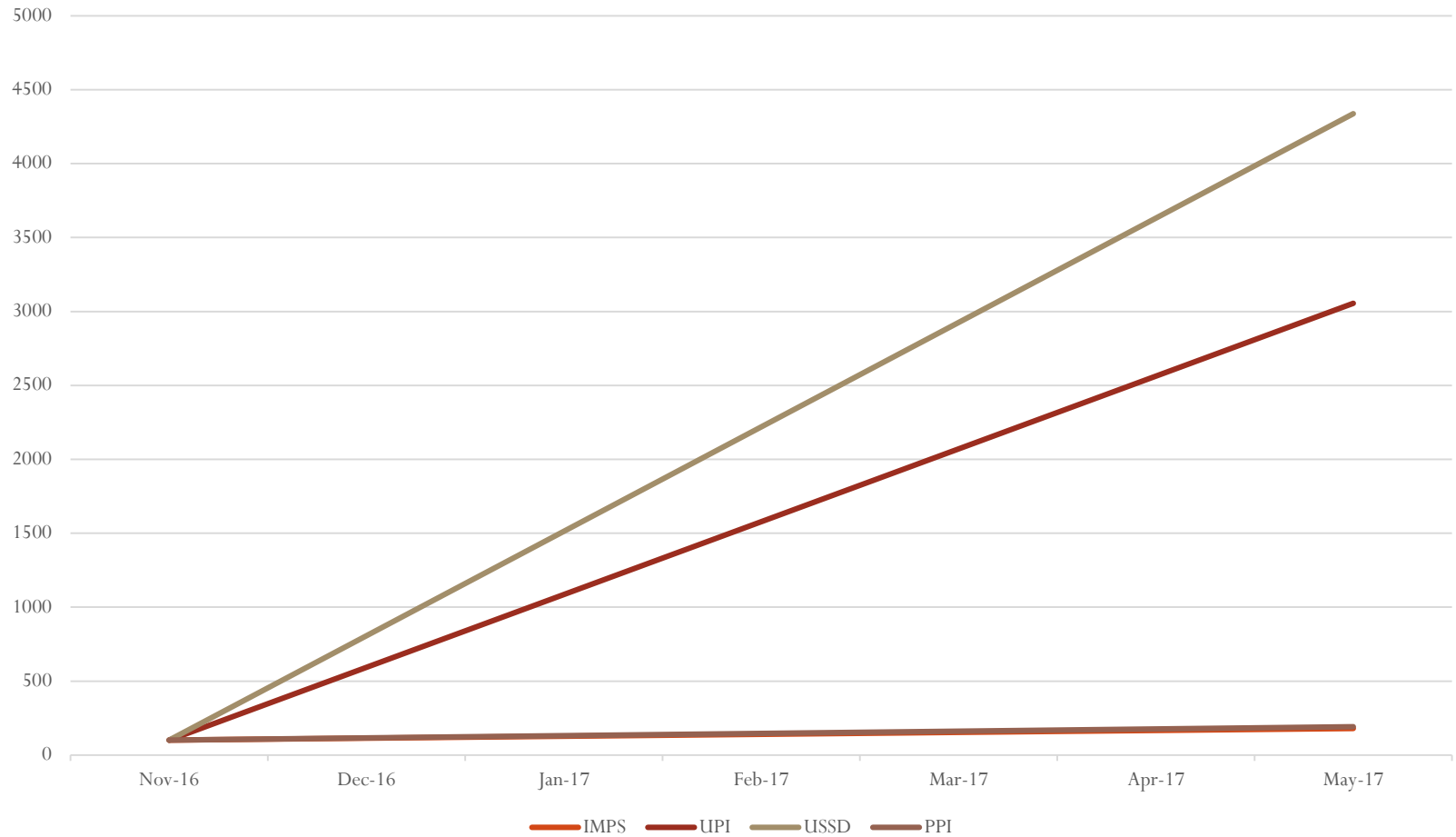


Source: [BCG estimates \(2016\)](#)

Uneven growth in digital payments



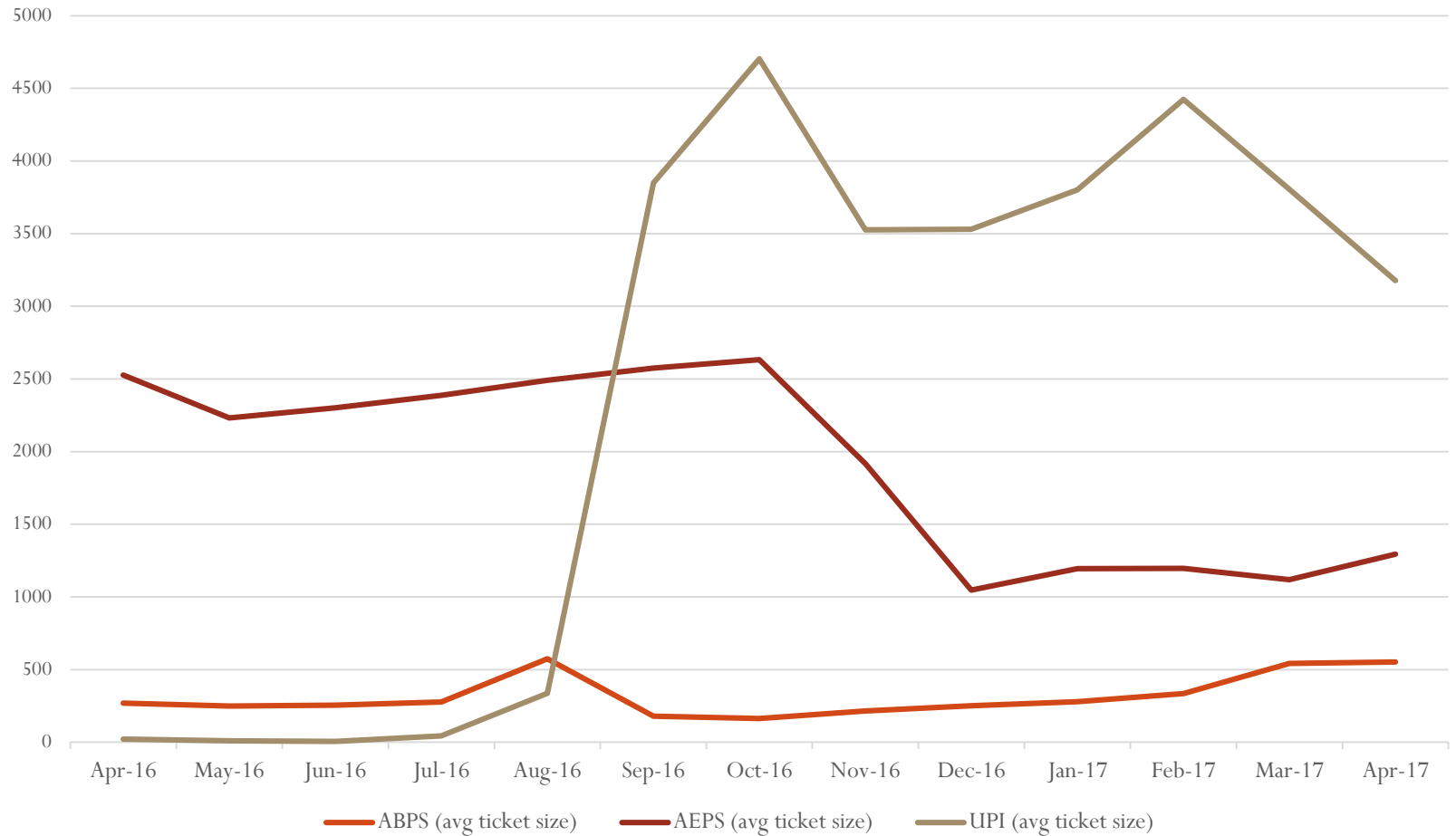
USSD leads the way



Source: [RBI](#)

QUALITY OF DIGITAL PAYMENTS

Decline in ticket size



Source: [NPCI](#)

High transaction failure

- ~ 60% Off-US transactions are failing ([*Watal Committee, 2016*](#)), double of On-US transactions. Large banks declining transactions involving small banks ([*Economic Survey, 2017*](#))
- Banks declining transfers to non-banks (SBI – Paytm; ICICI Bank – PhonePe)
- NPCI letter to AePS members ([*March 2017*](#)) on daily reconciliation of transactions
- NPCI letter to UPI member banks ([*March 2017*](#)) on debit reversals and reconciliation
- ~ 40% failure of UID authentication and aadhaar enabled transfer transactions ([*Kapoor, April 2017*](#); [*Saraph, April 2017*](#))

Sub-optimal user interface

- Lack of user friendly design and difficulty in navigation (*Raman & White, March 2017*)
- Limited features – inadequate customisation (*CashlessConsumr, January 2017*)
- Sub-optimal focus on customer privacy and security (*Chandorkar, December 2016*)
- NPCI letter to Member Banks, UPI (*March 2017*) on lack of uniformity on product design limiting widespread adoption
- Limited focus on security and fraud concerns (*Dalberg, May 2017*)

COST OF DIGITAL PAYMENTS

Direct and indirect costs

- Uniform INR 30 – 55 for RTGS transactions, as prescribed ([RBI guidelines](#))
- Availability for limited time period ([RTGS](#), [ABPS](#), AEPS)
- Cross subsidisation by imposing fee on other services ([CUTS, 2017](#))
- Unreasonable charges by agents and other intermediaries for financial and non-financial aadhaar enabled services ([Microsave, 2016](#))
- Data sharing and privacy concerns ([RTGS System Regulations](#))
- High capital and prudential requirements for financial firms (for [UPI](#) and [RTGS/ NEFT](#)), resulting in limited outreach

SUB-OPTIMAL COMPETITION: PART OF THE PROBLEM

Sub-optimal competition

- Limited interoperability of customer facing agents
- Deployment of funds by non-bank PPIs in escrow with banks
- Inability of non-bank PPIs to operate open system PPIs
- Inability of non-bank PPIs to operate specific semi-closed PPIs
- Lack of direct and interoperable access to critical payment systems (NPCI) for non-banks
- No threat of competition to NPCI
- Lack of even direct access to RTGS for non-banks
- No threat of competition to operate RTGS

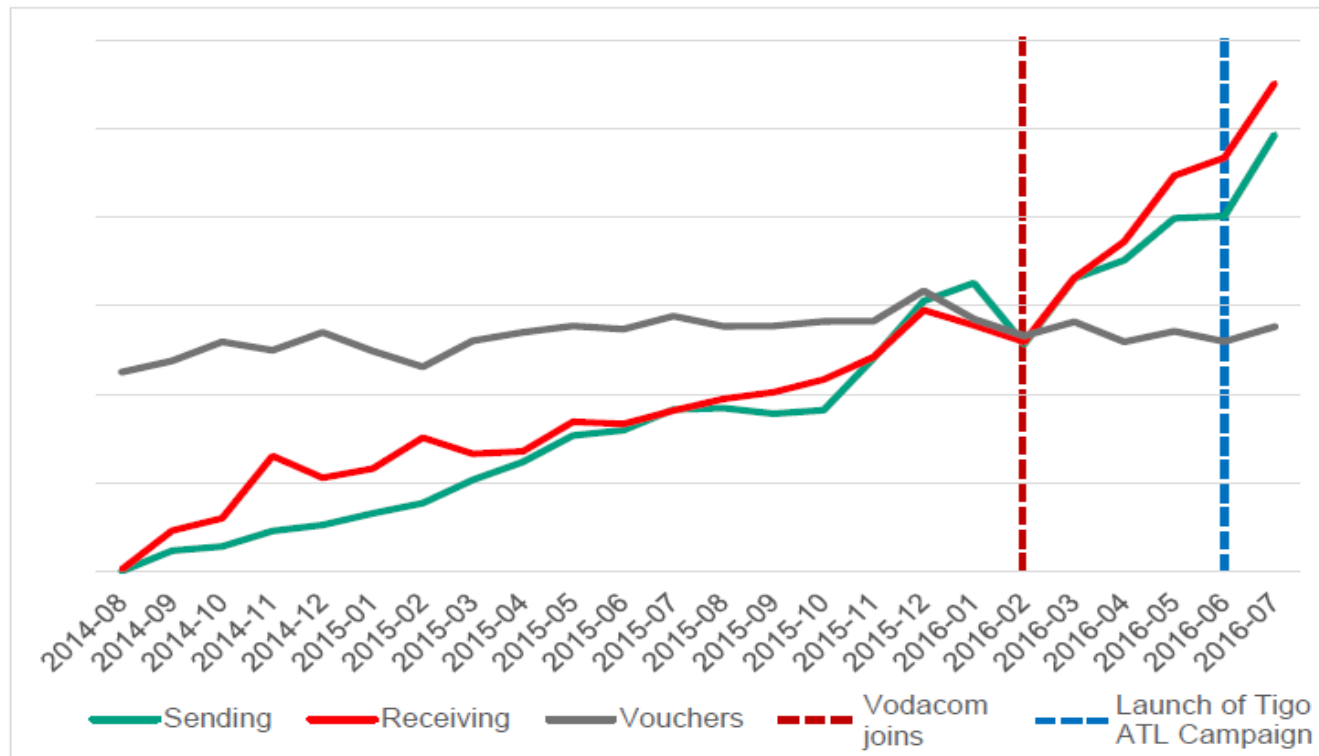
Source: [CUTS, December 2016](#) and [CUTS, April 2017](#)

INTERNATIONAL EXPERIENCE

Account interoperability

- **Tanzania** (*GSMA, 2016*):

Figure 2: Tigo interoperable transaction growth by volume (Aug 2014 to Jul 2016)



Note: The red dotted line refers to the month Vodacom joined the domestic interoperability solution. The blue dotted line refers to the month Tigo Pesa launched ATL campaigns.

Agent interoperability

- **Pakistan** (*[Nautiyal, 2016](#)*):
 - Agent interoperability is prevalent.
 - Allowed full account-to-account interoperability between operators and schemes in March 2014, by allowing participation of mobile money operators in the 1Ink switch.
 - The value of Interbank Funds Transfer (mobile money-to-bank transfers and vice versa) more than tripled between October 2014 and September 2015, from PKR 2.4bn to PKR 7.8bn
- **Kenya**: Competition Authority of Kenya forced Safaricom to remove exclusive arrangements and allow access to its agent network by rival firms. (*[Kulkarni, 2015](#)*)

Platform interoperability

- **Mexico SPEI** ([*Almazan, 2015*](#)):
 - Inter-bank payment system for de-facto clearing and settlement for low value transactions, including mobile money.
 - Reduced transaction fees, longer operating hours and increase in options for consumers.
- **Peru BIM:** Fully interoperable mobile money platform. No need for bank account or internet. Expected to be on-ramp opportunity. ([*CFI, 2016*](#))
- **UK:** Facilitate non-bank access to RTGS ([*BoE, 2017*](#))
- **Canada:** Open and risk based access to core settlement system ([*Payments Canada, 2017*](#))

Way ahead

- Undertake comprehensive review of applicable regulatory architecture
- Use tools like Competition Impact Assessment and Regulatory Impact Assessment
- Design market based incentives for consumer protection
- Enhance monitoring, supervision and enforcement
- Pro-competition approach needed while envisaging future of payments industry

About CUTS

- Established in 1983
- Economic policy research, outreach and capacity building organisation
- Working towards improving quality of regulation, competition and governance with objective of achieving consumer sovereignty
- Presence within and outside India
- Significant work in digital finance:
 - Payments banks: <https://goo.gl/s7PUAS> and <https://goo.gl/Qm4Khx>
 - Payment systems: <https://goo.gl/4vjjoj>
 - Competition and Interoperability: <http://goo.gl/7QPzGG> and <http://goo.gl/AsQHp0>
 - Regulatory engagement: <https://goo.gl/Zy21yE>
 - Consumer risks: <https://goo.gl/6mZfGp> and <http://goo.gl/LCWfot>

Thank you

Amol Kulkarni

Senior Policy Analyst

CUTS International

Email: amk@cuts.org

Web: www.cuts-ccier.org