

Interoperability and Open Access

Competition in the payments industry, IGIDR-Paypal roundtable

June 14, 2017

Outline

Competition

Open Access

Interoperability

Regulations

Competition

Creative Destruction

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- Travel (Hotels, Travel Operators)

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- Music
- Travel (Hotels, Travel Operators)
- Local transport
- Financial advisory
- Television
- Advertising

Money is message

FinTech is also reshaping and unbundling the traditional banking business.

This is driving competition and innovation.

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Incumbents:

- Banks will increasingly face threats to (i) their low cost CASA deposit base and (ii) being relegated to a commodity storing money at the back end
- Early movers in non-banks may face threat from new players if they do not have a core value proposition to retain customer base

Open Access

Relevance to competition

- Access to core payment systems
- Access to customer accounts

Access to core payment systems

Central banks lie at the hearts of payment systems, giving households and firms the assurance that transactions have settled in the most secure form of payment: central bank money.

Some PSPs want to reduce their reliance on the systems, service levels, risk appetite and goodwill of the very banks with whom they are competing. Re-selling services ultimately provided by banks limits the growth, potential to innovate, and competitive impact...

...Bank intends to extend direct access to RTGS beyond the current set of firms, allowing a range of non-bank PSPs to compete on a level playing field with banks. - Mark Carney, Governor of the Bank of England

RBI's Vision-2018: Building a robust payments infrastructure in the country to increase the accessibility, availability, interoperability and security of the payment systems will continue to remain a key objective.

Access: RBI's Vision

- Increasing acceptance infrastructure
- Implementation of the Bharat Bill Payment System (BBPS)
- Implementation of the Trade Receivables Discounting System (TReDS)

Access to customer accounts

- Can make it possible to share data that banks have historically held, improve banking experience
- Sharing data using open APIs can help build useful applications. Customers can look for a mortgage more easily, banks can find customers matched to a new product, and businesses can share data with their accountants.

PSD2: Open APIs need to exist for banking, to help provide open access to open data and shared access to private data. This can facilitate innovation.

Interoperability

Relevance to competition

For all its growth, India's cash to GDP ratio at 10.6% is one of the highest in the world

- Customers want *universal solutions*, hence payments product *ubiquity* is critical to driving positive *network effect* for commercial success.
- Ubiquity means widespread merchant acceptance network, a broad set of use cases, with multiple *cash in-cash out* options.

Interoperability can drive use case and increase competition by reducing entry barriers.

RBI's Vision

The ability of customers to use and re-use a set of payment instruments seamlessly across different segments to meet a variety of payment requirements should not be constrained by a silo approach to developments in the payments eco-system. The requirement of users for seamless payment experience are met only when the payment systems are inter-operable and are able to communicate *within their own segments* on the basis of common standards adopted by all providers of these services.

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Promoting Interoperability

- Unified Payment Interface (UPI)
- Toll Collection
- Payments for Mass Transit systems

Interoperability at different levels

- Scheme interoperability
- Network interoperability
- Parallel system interoperability

The Value is in the Network

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The case for non banks

- 45+ wallet companies in Asia(ex China), but only 4 or 5 of them have DAU (Daily Active Users) > 20M
- Most operate with zero revenue model and complete absence of community or commerce axis
- Majority of early users acquired (bought) are *dormant*, leading to high acquisition and retention costs, and low transaction value.

Quick use case around mobile/utility recharge, cab payments (on-demand taxi), coupled with promotional offers, digital wallets positioned themselves as a platform for processing online and offline merchant payments.

Open Access and Interoperability can help bring core value proposition to non-bank payments from consumers and merchant perspective.

Regulations

Enabler or Dampener

- Payments Regulatory Board
- Proposed changes to the PSS Act
- Interoperability and open access without changes in law

Thank you

ashish.aggarwal@nipfp.org.in