

Unpacking Interoperability

What is it and how to get there

Mandar Kagade

November 3, 2017

Ground covered

- What is & why?
- Types of interoperability
- Necessary conditions
- Getting there
- Snapshot from the CGAP scan
- Policy questions

What is & why?

- Ability of customers to transact across commercially and technically independent payment platforms (Watal Committee, A2A).
- Interoperability facilitates financial inclusion by making the use-case of DFS stronger (GPMI WP).

Types of interoperability

- PPIx to PPly
 - ▶ RBI Master Directions, 2017
- PPI to FI
- PPI to card scheme

A2A between PPI types

- Scheme interoperability
 - ▶ Members of a scheme interoperate
- Network interoperability
 - ▶ PPI_x to PPI_y
- Parallel system interoperability
 - ▶ Agent interoperability

Necessary elements

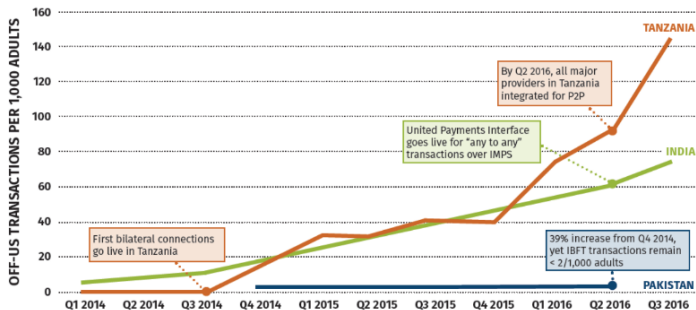
- Governance
- Incentives
- Technical integration

Getting there

- Central planning (6 countries including India)
- Market-driven (4 countries include Tanzania)
 - ▶ 4 PSPs, one use-case: P2P
 - ▶ Throw-back: Citibank and the ATM
- Interplay with necessary conditions
 - ▶ Central planning >>> technical integration
 - ▶ Market-driven >>> Governance/Incentives

Inter-loop traffic per 1000 adults (CGAP, 2016)

Figure 3: Interoperable Transactions over Time



Policy questions

- Mandatory vs. Voluntary
 - ▶ Potential collective action problem with mandates(Houpis & Bellis, 2007)
 - ▶ Empirical evidence from ATM share mandates in the US
 - ▶ Bourreau & Valletti(CGD); Davidson & Leishman(GSMA)

- Ex ante vs. Ex post
 - ▶ Abuse of dominance protection
 - ▶ Robust recent jurisprudence (Airtel vs. Jio/Meru Cabs vs. ANI Tech)
 - ▶ Multi-homing costs low

Interoperability from an altitude

- Competition vs. Innovation
- Sectoral regulator vs. Market regulator

References

- Digital Finance Interoperability & Financial Inclusion: A 20 Country Scan (CGAP, 2016)
- Enabling Digital Finance Inclusion through Competition & Interoperability: What works and what doesn't (Bourreau and Valletti, 2015)
- The case for interoperability: assessing the value for customers and operators (Davidson and Leishman, 2015)