

CONTEMPORARY ISSUES

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**PAYMENTS**

## RECENT DEVELOPMENTS

- ▶ February 2016: Cabinet decision
- ▶ April 2016: Task Force (MoF)
- ▶ August 2016: Watal Committee (MoF)
- ▶ December 2016: Report submitted to MoF

## WHY PROMOTE DIGITAL PAYMENTS?

- ▶ Improve ease of digital transactions
- ▶ Reduce costs of cash handling and management
  - ▶ Estimated at Rs. 21,000 cr
- ▶ Build transaction history
  - ▶ Credit access and financial inclusion
- ▶ Reduce tax avoidance
- ▶ Reduce impact of counterfeit money

## WATAL COMMITTEE

- ▶ Identify market failures and necessary interventions
- ▶ Study global best practice
- ▶ Suggest legislative and regulatory reforms

# MARKET FAILURES IN PAYMENTS

- ▶ Systemic risk
- ▶ Network externalities
- ▶ Collective action problem
- ▶ Information asymmetry

## DRAWBACKS IN CURRENT LEGISLATION

- ▶ Regulator lacks clear objective - competition, innovation, consumer protection
- ▶ Does not mandate open access
- ▶ Lacks consumer protection framework
- ▶ Lacks framework to deal with SIPS
- ▶ Lacks comprehensive provisions on data protection

## DRAWBACK IN REGULATORY ARCHITECTURE

- ▶ Central bank is the banking and payment regulator
- ▶ Globally: Central bank is not payment regulator
  - ▶ UK, Australia, USA
  - ▶ No incentive for prudential regulator to enhance competition in payments
  - ▶ Digital payment reduces seniorage income of CB

## CONTEMPORARY ISSUES: LEGISLATIVE

- ▶ Should payment regulation (competition/open access) be independent of prudential regulation?
- ▶ Should central bank be responsible for promoting competition among PSPs (bank and non-bank)?
- ▶ Who should regulate SIPS (bank and non-bank)?
- ▶ Should non-bank PSPs have access to RTGS?
- ▶ Are legislative provisions needed for regulatory sandboxes?



## CONTEMPORARY ISSUES: REGULATORY

- ▶ How can cost of cash be made explicit or cost of digital transaction be made implicit?
- ▶ Should MDR or inter-change fee be regulated to help expand card transactions?

TEXT

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▶ Thanks!