

MANAGING CONCENTRATION RISK AND FOSTERING COMPETITION IN RETAIL PAYMENTS

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Recent Developments in Retail Payments

- RBI in June 2018: “*With the maturing of retail payments market, it is important that concentration risk in retail payment systems is minimized from a financial stability perspective..give a fillip to innovation and competition in the sector..”*
- The Payment and Settlement Systems Bill 2018: ‘*An Act to foster competition, consumer protection, systemic stability and resilience in payment sector and establish a Payments Regulatory Board..’*
- Launch of UPI 2.0 with additional features and enhanced role of NPCI
- PPIs overtook debit cards in terms of volume but non-bank PPIs decreased since last year
- Payments banks started operating while customer acquisition was frozen for some. Increased instances of frauds and security breaches
- Accusations of unauthorised use of data by payment companies
- Revised regulations for PPIs, P2P lending, MDR, incentives for select digital payment, regulatory sandbox and data science lab

Issues for discussion

- Reasons for concentration and instability risk in retail payments and segments wherein such risks are emerging (payment switches, payment instruments, sub-segments led by banks/ non-banks)
- Reasons for inability of market forces to manage such risks without regulatory intervention (existing regulatory disincentives, entity based regulation)
- Reasons for inability of existing regulatory framework to facilitate competition and innovation or address anti-competition concerns (role of competition regulator, role of RBI to foster competition and innovation, capacity constraints)
- International experiences in promoting competition and managing concentration risk (risk based regulation, open banking, RIA, Regtech)
- Measures required to promote competition and innovation in retail payments and address concentration risk in a sustainable manner (independent Payments Regulatory Board, Payment Systems Advisory Council)