



ROUND TABLE DISCUSSION ON MANAGING CONCENTRATION RISK & FOSTERING COMPETITION IN RETAIL PAYMENTS

Monday, 24th September, 2018 | Nishith Desai Associates, 3, North Avenue, Maker Maxity,
Bandra Kurla Complex, Bandra East, Mumbai

Background

The Reserve Bank of India (RBI), in its Monetary Policy Statement in June 2018, noted that it is important that the concentration risk in retail payment systems is minimised from a financial stability perspective. It plans to encourage more players to participate in and promote pan-India payment platforms so as to give a fillip to innovation and competition in the sector. To this end, the RBI is likely to put a policy paper for public consultation. The Inter-Ministerial Committee for Finalisation of Amendments to the Payments and Settlement Systems Act, 2007 also recently released its recommendations.

In order to design effective measures to manage concentration risk and foster competition in retail payments, it is necessary to revisit the causes and factors contributing to emergence of such risks; efforts hitherto made to address them; and assess impact of such efforts. Steps taken in other jurisdictions to address similar risks and promote competition also need to be studied.

In this backdrop, CUTS International, in association with the law firm Nishith Desai Associates, organised a roundtable discussion on the theme of “**Managing Concentration Risk & Fostering Competition in Retail Payments**” on Monday, 24th September, in Mumbai.

The roundtable witnessed constructive discussions with diverse stakeholder groups comprising Industry Players, Former Regulators, Lawyers, and Civil Society. Some of the eminent participants included **Mr. Vijay Chugh**, Former Principal Chief General Manager, Department of Payment and Settlement Systems of the RBI, **Ms. Gowree Gokhale**, Nishith Desai Associates, Head TMT; **Mr. Probir Roy**, Co-founder, PayMate; **Ajay Kaushal**, Director, BillDesk; **Sarat Selvarajan**, Director Finance, Mastercard, **Hina Rao**, US Consulate, among others.

Summary of the Discussion

The event unfolded with a round of introductions followed by a presentation by CUTS, which set the stage for deliberations on the issue of managing concentration risk and fostering competition in retail payments sector in India. During the discussions, the following key points emerged:

- The advent of new FinTech services is multiplying payment options for consumers. While making decisions, the regulators should step into the shoes of rural consumers and attempt to become the voice of the unheard. In developing a retail payments systems it is important to understand the level of innovation in the market that the Indian consumers can absorb. For instance, the reason innovative ATM machines did not pick up in rural areas is because they are not consumer friendly. People are highly intimidated by them and would rather go to the banks and interact with human interface.
- There is a need to look at the Retail Payments Sector more holistically to include other aspects such as Cross Border Remittance while considering regulation.
- Regulation cannot operate by looking into the rear view mirror. The need of the hour is light touch regulation as overregulation in the Indian Retail Payments market that hasn't completely matured may stifle innovation.
- In relation to regulation making process, it was pointed out that there is a need to broad base and institutionalise stakeholder consultation mechanism. As regards the composition of Payments Regulatory Board, under the 2018 PSS Bill, the Board may not be limited to payments and include other aspects of FinTech.
- The PRB should not be viewed as a match for seats between the Government and the RBI but should seek greater representation from all stakeholders. Further, the Board should ensure direct participation from industry/ private players to become more representative. The current recommendations of the PSS Bill lie in the favour of Central Government with respect to the Composition of the Board.
- As the payments market becomes more fragmented there is a need to delineate what constitutes payments, what are we regulating and what is the rationale behind such regulations. On one hand, the introduction of more number of players in the payments sector has the potential to introduce competition, promote innovation and therefore manage concentration risk. On the other hand, there is a possibility that unregulated players can enter the market and enhance the concentration risk.
- New cutting edge technologies should be deployed to make the payment experience easier and convenient for the consumers. All platforms should be ownership neutral so the choice lies with the consumers in the end. Instead of cannibalising on each

other, the market players should be collaborative to expand the pie in the payments system.

- One of the key reasons of concentration risk in the retail payments market is structure and operation of National Payments Corporation of India. The NPCI needs to be separated into two independent entities managing payment infrastructure and payment instrument businesses respectively to avoid conflict of interests and foster innovation and competition in the sector. International experiences may provide good precedents in this regard.
- A comprehensive cost-benefit analysis is imperative to balance rights of all stakeholders in the evolving regulatory landscape of payments sector. While the new PSS Bill has provisions with respect to undertaking cost-benefit analysis while drafting regulation, it remains to be seen how these will be implemented.

Way Forward:

- In furtherance to the roundtable discussion, CUTS International submitted succinct recommendations to the RBI on 'Managing Concentration Risk and Promoting Competition and Innovation in the Retail Payments Sector.'¹
- In the future, CUTS International aims at organizing similar roundtables as well as making recommendations to policymakers and relevant authorities on a periodic basis. Another roundtable discussion was organised on 24th October in Delhi.

¹ http://www.cuts-ccier.org/pdf/CUTS_Submission_to_RBI_on_Innovation_and_Competition_in_Retail_Payments.pdf