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?
Thanks!