

## CONTRIBUTION TO REFORMS IN DIGITAL PAYMENTS SECTOR IN INDIA

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### **Introduction**

CUTS International has been engaged in promoting consumer welfare across sectors, including retail payments in India. We have undertaken extensive evidence-based research on regulation, competition and grievance redress in payments banks<sup>1</sup> and digital payments sector<sup>2</sup>, and have also worked closely with the Watal Committee on Digital Payments<sup>3</sup> and the Reserve Bank of India (RBI). These initiatives involved in-depth primary and secondary research, collection and analysis of data, and multiple rounds of rigorous consultations with key stakeholders and experts.

Set out below is a summary of our research and advocacy initiatives in this sector and the corresponding impact created thereunder.

### **Grievance Redress**

CUTS International has long advocated for creation of a robust grievance redress mechanism for consumers in digital payments sector, especially focusing on removing the artificial distinction between customers of banks and non-banks.<sup>4</sup> To recall, the prevailing Banking Ombudsman mechanism dealt with complaints related to banking sector only. Similarly, the framework for limiting customer liability in respect of unauthorised electronic payment transactions, issued by the RBI, was applicable only for banks and credit card issuing non-banking financial companies, and did not cover Prepaid Payment Instruments (PPIs).

In its Statement on Development and Regulatory Policies (December 2018), the RBI announced setting up of an Ombudsman Scheme for Digital Transactions and designing of a framework for limiting customer liability in respect of unauthorised electronic payment transactions involving PPIs.<sup>5</sup>

### **Reforms in the Payments and Settlement Systems Act**

We have also been at the forefront of promoting evidence based reforms to facilitate optimal competition and regulation of digital payments. To that end, we conducted competition assessment of retail payments sector, which involved in-depth research and rigorous stakeholder consultations. Our key recommendations include: constitution of an expanded Payments Regulatory Board, undertaking transparent stakeholder consultation and comprehensive cost-benefit analysis to balance the interests of all stakeholders in the evolving

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<sup>1</sup> <http://www.cuts-ccier.org/PaymentsBanks/>

<sup>2</sup> <http://www.cuts-ccier.org/Payments-Infrastructure/>

<sup>3</sup> [http://finance.du.ac.in/du-finance/uploads/pdf/Reports/watal\\_report271216.pdf](http://finance.du.ac.in/du-finance/uploads/pdf/Reports/watal_report271216.pdf)

<sup>4</sup> [http://www.cuts-ccier.org/Payments-Infrastructure/pdf/DP\\_the\\_way\\_to\\_promote\\_digital\\_payments.pdf](http://www.cuts-ccier.org/Payments-Infrastructure/pdf/DP_the_way_to_promote_digital_payments.pdf);

[http://www.cuts-ccier.org/Payments-Infrastructure/pdf/Research\\_Report-Competition\\_assessment\\_of\\_payments\\_infra\\_in\\_India.pdf](http://www.cuts-ccier.org/Payments-Infrastructure/pdf/Research_Report-Competition_assessment_of_payments_infra_in_India.pdf)

<sup>5</sup> [https://www.rbi.org.in/Scripts/BS\\_PressReleaseDisplay.aspx?prid=45658](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=45658)

regulatory payments landscape, avoiding conflict of interest in roles of key entities in retail payments, and ensuring risk based regulation.<sup>6</sup>

These initiatives are aligned with the proposed recommendations of the Inter-Ministerial Committee for Finalisation of Amendments to the Payments and Settlement Systems Act, 2007 and the intent and provisions of the draft Payment and Settlement System Bill, 2018.<sup>7</sup> Subsequent to release of the draft Bill, we organised several consultations with key stakeholders in retail payments sector on the issue of managing concentration risk and promoting competition in retail payments. The key takeaways of the consultation were presented to the RBI, which were duly acknowledged by the regulator.<sup>8</sup>

### **Reforming the Regulation of Prepaid Payment Instruments**

We have actively campaigned for facilitating greater interoperability in digital financial services market to enable level playing field between market players, improve financial inclusion and economic growth of the country.<sup>9</sup> Consequently, the RBI revised the regulatory framework of PPI issuers to provide for interoperability amongst PPIs<sup>10</sup> and released operational guidelines on interoperability of PPIs to be implemented in a phased manner.<sup>11</sup>

Our recommendations regarding One Time Password based e-Know Your Customer (KYC) mechanisms, reforming the Central KYC Registry requirements, and enabling small merchants to open small value current accounts on the basis of KYC were also endorsed by the Watal Committee in its Report on Medium Term Recommendations to Strengthen Digital Payments System.<sup>12</sup> We have also presented our recommendations at several high profile conferences at national and international level.<sup>13</sup>

### **Reforms in Retail Payments Systems**

We have actively campaigned for enhanced role of non-banks in access to and operations of retail payments systems.<sup>14</sup> The RBI has recently released a discussion policy paper on 'Authorisation of New Retail Payment Systems' with the objective of encouraging more players to participate in and promote pan-India payment platforms which is in line with our advocacy initiatives in the sector.<sup>15</sup>

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*For clarifications and suggestions, please write to Amol Kulkarni, Fellow ([amk@cuts.org](mailto:amk@cuts.org)) & Swasti Gupta, Research Associate ([swg@cuts.org](mailto:swg@cuts.org)), CUTS International.*

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<sup>6</sup> [http://www.cuts-ccier.org/Payments-Infrastructure/pdf/Research\\_Report-Competition\\_assessment\\_of\\_payments\\_infra\\_in\\_India.pdf](http://www.cuts-ccier.org/Payments-Infrastructure/pdf/Research_Report-Competition_assessment_of_payments_infra_in_India.pdf)

<sup>7</sup> <https://dea.gov.in/sites/default/files/Payment%20and%20settlement.pdf>

<sup>8</sup> [http://www.cuts-ccier.org/pdf/CUTS\\_Submission\\_to\\_RBI\\_on\\_Innovation\\_and\\_Competition\\_in\\_Retail\\_Payments.pdf](http://www.cuts-ccier.org/pdf/CUTS_Submission_to_RBI_on_Innovation_and_Competition_in_Retail_Payments.pdf)

<sup>9</sup> [http://www.cuts-ccier.org/Payments-Infrastructure/pdf/Research\\_Report-Competition\\_assessment\\_of\\_payments\\_infra\\_in\\_India.pdf](http://www.cuts-ccier.org/Payments-Infrastructure/pdf/Research_Report-Competition_assessment_of_payments_infra_in_India.pdf)

<sup>10</sup> [https://rbi.org.in/scripts/BS\\_ViewMasDirections.aspx?id=11142](https://rbi.org.in/scripts/BS_ViewMasDirections.aspx?id=11142)

<sup>11</sup> [https://www.rbi.org.in/scripts/FS\\_Notification.aspx?Id=11393&fn=9&Mode=0](https://www.rbi.org.in/scripts/FS_Notification.aspx?Id=11393&fn=9&Mode=0)

<sup>12</sup> [http://finance.du.ac.in/du-finance/uploads/pdf/Reports/watal\\_report271216.pdf](http://finance.du.ac.in/du-finance/uploads/pdf/Reports/watal_report271216.pdf) (p.123-126).

<sup>13</sup> [http://www.cuts-ccier.org/Representations\\_2017.htm](http://www.cuts-ccier.org/Representations_2017.htm)

<sup>14</sup> [http://www.cuts-ccier.org/Payments-Infrastructure/pdf/Research\\_Report-Competition\\_assessment\\_of\\_payments\\_infra\\_in\\_India.pdf](http://www.cuts-ccier.org/Payments-Infrastructure/pdf/Research_Report-Competition_assessment_of_payments_infra_in_India.pdf)

<sup>15</sup> <https://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/ANRPS21012019A8F5D4891BF84849837D7D611B7FFC58.PDF>