

Ratan Watal Committee: Recommendations

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Part I

Why regulate payments?

- Systemic risk
 - ① Contagion effect
 - ② Operational failure
 - ③ Loss of confidence
- Network externalities
 - ① Monopoly
- Collective action problem
 - ① Mutual organisation - member owned
- Information asymmetries
 - ① Bank v. customer
 - ② Consumer protection

Part II

How can the State intervene?

Types of State interventions

- 1 Own payments system
- 2 Operate payments infrastructure
- 3 Oversee or regulate payments system and infrastructure

Potential models

- 1 Model 1: Owner + operator
- 2 Model 2: Owner
- 3 Model 3: Operator
- 4 Model 4: Overseer
- 5 Model 5: Overseer + operator
- 6 Model 6: Laissez-faire

Ranking the models

Table: Ranking of models

<i>Model</i>	<i>Financial stability</i>	<i>Competition</i>
Model 1: Owner + operator	High/Medium	Low
Model 2: Owner	High/Medium	Medium
Model 3: Operator	Medium/Low	Medium/Low
Model 4: Overseer	High/Medium	High
Model 5: Overseer + operator	High	Medium/Low
Model 6: Laissez-faire	Low	Low

Part III

Objectives of regulating

Objectives

- Consumer protection
- Competition
- Innovation

Part IV

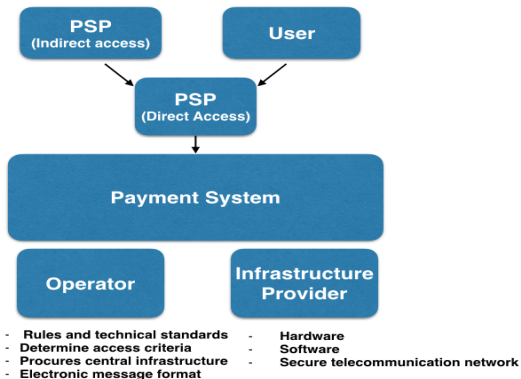
Who will regulate?

- Banking regulator not to regulate payments
 - Micro-prudential v. competition
 - Operator v. regulator
- Payments Regulatory Board
 - Finance Act, 2017
 - Governor, DG, officer - RBI; 3 nominees of CG

Part V

Open access

A basic outline



If PSPs own payment system

- May restrict access to other PSPs - entry barrier
- May resist innovation

- Two options:
 - Restrict ownership of payment systems
 - Impose open access obligations on payment systems

Part VI

Regulatory sandbox

Regulatory sandbox

- Innovation - within existing legal framework
- Formal mechanism to exempt

Part VII

Thanks.