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Shri Shaktikanta Das
Governor
Reserve Bank of India
Department of Payment & Settlement Systems
Central Office Building
Shaheed Bhagat Singh Road
Mumbai - 400 001

February 4, 2019

SUBJECT: Authorization of New Retail Payment Systems - Policy Paper

Dear Shri Das,

Comments on Policy Paper on Authorization of New Retail Payment Systems are given below:

Preamble

1.0 At best *less* concentration of economic power, *more* decentralization and *less* over regulation has been a mixed bag worldwide. Airlines, commodities trading, trucking, gas, electricity and some financial services have benefitted generally but there have been unintended consequences.

Introduction

2.0 Most comments related to the Policy paper of RBI have thus far has been mainly around the business of scale, economic efficiency, risk, expertise and network effects of a large entity backed (owned) by the sovereign, that NPCI currently embodies

2.1 This has yielded consumer benefits of low prices of latest tech and quick uptick of various payment channels.

3.0 On the other hand it has been pointed out that this also creates the 'supernova effect' where the entity becomes all powerful or dominant or too big to control and sucks out innovation, invention, competition and becomes a law into itself not necessarily now, but into the future.

For e.g. in 2001 FSSNeT created the first domestic switching services and put a stiff competition to VISA & MCI at time - 2001 - 2010. The authorities felt FSS could be risk with almost all Banks switching ATM interbank domestic transactions and that gave for NFS / NPCI domestic ATM switching to come in place. The NPCI/RBI made banks to move from FSSNeT to NFS. This is a form of quasi regulatory appropriation.

4.0 The economic argument therefore for mitigating this is what is called as 'competitive neutrality' - whereby if government competes with private business, it should do so on an equal footing. This means that the advantages enjoyed by the government sector need to be netted out.

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5.0 So whilst building similar systems could create competition, cost optimization and prevents Single Point of Failure (SPOF) and redundancy, fostering an environment for collaboration. Perfect copy cats may not be encouraged or necessarily desirable or even be
viable. However, startups and other new age cos that do value adds/renovation of processes /stable execution of services, has to be encouraged for local ones to serve local audience better, through different channels, all while adhering to inter-operable standards effectively.

6.0. Comments on clauses

To address the above issues:

- Item #4: Shareholder representation of NPCI is 51 % Govt. It is a PSU structure. Its representation is from only banks namely PSU banks. The representation on the Board and other Governance mechanisms must now need to be inclusive and cover FINTECH players, civil-society, other stakeholders and Independent Directors. The RBI must have representation. Under the regulatory jurisdiction of a PRB.

- Alternatively, NPCI can be split in to other subsidiary independent operating (IOUs) for NACH, BBPS, ATMs, TReDS, Networks...and such. Each under the Regulatory jurisdiction of a PRB.

- This pre-supposes a PRB independent of being overseen or under direct day to day supervision of RBI. But with due representation and say of RBI.

- Item # 10: Encouraging liberal Entry and Exit based on threshold norms. Level playing field. With a no one size should fit all policy. . Let the market determine 'remainders' and sub scale 'leavers. And 'Incumbents' partnering with 'attackers. Instead of 'Incumbents' attacking 'attackers'!

Warm Regards,

Dr Anand Shrivastav
Chairman

CC
Shri Nandan Nilekani, Chairman, RBI Digital Payments Committee