

Business Standard

GUEST COLUMN

Boon or bane?

A look at what mobile wallet interoperability means for stakeholders

Pre-paid instruments: Pre-paid instruments (PPIs) is not a new concept, but its combination with available technology has created a powerful product—mobile wallets. These are easy to use, secure and have recently gained a lot of popularity. The Reserve Bank of India (RBI) has encouraged alternate payment mechanisms to achieve its financial inclusion goals, especially for payment requirements of the small and medium-sized enterprises, the unorganised sector, low-income households, farmers and migrant workers. Currently, the mobile wallets exist in silos with wallets not communicating with each other, causing several inconveniences to end-users.

Interoperability can simply be understood as this: If a person A, with an account with bank A, needs to make a payment to person B, with an account in Bank B, person A can write a cheque from bank A which person B will deposit in his bank B and banks A and B will clear and settle the payment between themselves.

Implications for customers: With RBI allowing interoperability of mobile-wallets through existing UPI network, equity market participants can transfer their shareholdings between two depositories, which helped increased liquidity in the markets. With interoperability of wallets, consumers no longer require multiple mobile wallets and can still pay across merchant networks of any other e-wallet through UPI.

Implications for mobile wallet companies: Now, all KYC compliant consumers will be able to transfer money from one e-wallet to another and eventually from their e-wallets to their bank accounts. For this, the e-wallet issuers need to adhere to the RBI rules for merchant on-boarding, technical requirements and standards and follow the rules and regulations applicable to

payment system providers. For settlement, they can choose to either participate directly or have a sponsor bank arrangement. Since PPIs will now be a part of the country's payment system, the safety and security will need to be EVM Chip and PIN compliant. Wallet companies will end up using networks of other companies resulting in interchange fees as costs.

Following this move, wallet companies will likely face decrease in their margins due to increased operational cost. However, the move will open new opportunities for existing e-wallet companies, which makes the industry more lucrative. With interoperability, competing wallets

would be required to share resources, therefore quality of loyalty programmes and customer service will be distinguishing features.

Implications for payments banks:

Perceptually, while this will increase competition, unlike the wallet companies, the payment banks can enjoy a benefit of paying interest on the deposit amount. On the contrary, wallet companies are required to keep the deposit amount in an escrow account which cannot be used for earning a return.

Is this the best solution? Does UPI provide the best technical solution to interoperability? From its present avatar, UPI will require enhancements to evolve as a one-stop solution for payments. Technologies like distributed ledgers using block chain and smart contracts are being positioned as new nirvanas for creating a future ready holistic financial ecosystem. But, adopting a completely new technology could mean making redundant all the investment made in UPI and other retail payment systems. Industry participants should take this opportunity to build prototypes and use cases for alternative technical solutions.



PREETI GOVAL
Professor & Area Chair
Finance & accounting
Great Lakes Institute of
Management