Sakshi ChadhaMandar Kagade


Swift action will be needed to put in place infrastructure facilitating digital transactions. Photo: PTI

Debates in the aftermath of the government's decision to withdraw high-value banknotes have reached fever pitch. In the public discourse on Facebook and Twitter, arguments have usually taken colour from the political affiliation of the commenter; in more hallowed debates among policy wonks and economists, the views appear to be sharply divided on whether the withdrawal will bring net benefits or not. Some influential voices (Kenneth Rogoff, Larry Summers, among others) have argued that this monetary experiment may hurt. Others (like Bibek Debroy, J.R. Varma and Vivek Dehejia) have argued in favour of the withdrawal—that this will operate as a one-time tax on the current float of unaccounted-for wealth stored in cash while whiplashing the consumer economy into digital (or plasticized) transactions. Regardless of the merits of the measure, however, what seems certain is that unless the government and regulators act swiftly to put in place infrastructure facilitating digital transactions, the potential positives will remain just that—potential positives.

One such critical infrastructural necessity is the interoperability of prepaid payment instruments (PPI), popularly known as wallets. While interoperability has several dimensions, in its simplest form it is the ability of, say, a Paytm user to transact with a merchant/user that uses another wallet (say, Freecharge). The ATM provides the most visible example of interoperability in retail finance. You walk into the ATM of any bank and swipe a card issued by your bank and withdraw cash. The card/point-of-sale terminal ecosystem is another example of interoperability. Interoperability is said to have pro-competitive effects and also promote financial inclusion.

Sakshi Chadha and Mandar Kagade are, respectively, manager, Microsave-Digital Financial Services and policy analyst, Bharti Institute of Public Policy, Indian School of Business.