Creating a fair digital payments market

Local firms will be at a disadvantage if big tech companies are given plum roles

PADMASHREE GEHL SAMPATH

Since early last year, WhatsApp has busily piloted its payment system in India. WhatsApp Pay relies on the Indian government’s Unified Payments Interface (UPI) system to facilitate inter-bank transactions. Regulatory approval that would allow its nationwide introduction is stuck on one point: the Indian government has asked WhatsApp to localise all data processing related to payment transactions in India and not on Facebook’s servers in the U.S. This is well in line with the government’s existing technology vision for the digital economy, which hinges on data localisation as the magic bullet to solve multiple problems ranging from prevention of personal data misuse to promotion of local enterprises. Unfortunately, it misses a number of other issues and hidden costs of this current deal and raises broader issues on big tech’s foray into financial services, especially payments.

The case of WhatsApp Pay

In the case of WhatsApp Pay, its parent company, Facebook, has come under scrutiny for harmful content, lack of privacy, and data misuse in recent years. The large amounts of social media data that Facebook sits on, its habit of using private user data to promote business, and its reluctance to adhere to policy have led to radical suggestions of breaking up big tech. Facebook, in response, has rolled out a new plan to reinvent its business, which is to build a new privacy-focused platform that integrates WhatsApp, Instagram and Messenger. This will provide end-to-end encryption for consumers and business services along with direct payment options. As The Economist recently noted, if this succeeds, it would make it more difficult to argue for big tech to be sliced up.

The only hitch in this new business plan is that Facebook is relatively new to the digital payments market and cannot gain a foothold in the U.S., where PayPal has the largest consumer base. This is where it becomes important to make WhatsApp Pay successful in India. India is WhatsApp’s largest market in the world with over 250 million monthly users. Once WhatsApp Pay catches on in India, Facebook intends to introduce it in other developing countries. Thus, the decision to allow WhatsApp Pay in India can catapult Facebook into the big league in the global digital payments market where companies like Aliba’s Alipay and Tencent’s WeChat are making waves.

India’s digital vision talks about data sovereignty and giving domestic firms an advantage. The digital payments market, with 800 million mobile users in the country of which more than 430 million have Internet access, is estimated to grow to over $1 trillion by 2025. If India is serious about giving local firms an advantage, it should leverage this immense opportunity. With the right policy incentives, local firms could capture large shares of the digital payments market to become e-commerce players on a global scale, as China’s experience shows. In China, domestic enterprises were strategically enabled to use the local market to emerge as global champions. Today, WeChat combines the functional features of several online platforms including Facebook, WhatsApp, PayPal and Uber Eats. Over 300 million users worldwide use WeChat payments for everything, right from ordering food to paying hospital bills, a model that all firms want to emulate.

But giving WhatsApp Pay a plum role in the digital payments market achieves the opposite because if the deal goes ahead, it will automatically give WhatsApp Pay a large advantage over all other Indian firms that are currently operating without the advantage of relying on a large social media and messaging base as WhatsApp does. This creates a ‘winner-takes-most’ dynamic that competition authorities worldwide are becoming wary of: simply because WhatsApp already has the economies of scale and network externalities, it will manage to integrate it into an entirely new sector, with undue advantages that it should normally not benefit from. To top it all, Facebook will also receive a cut in all WhatsApp Pay transactions conducted in India. Similar concerns with market power can exist with allowing other large firms like Google Pay and Amazon Pay, but these will need to be assessed individually while making decisions for the national digital payments market. What matters most is that without a level playing field, even the most well-meaning policy incentives will not safeguard the expansion of local firms in the digital payments arena, thus severely limiting the capacity of local firms to benefit from the potential of India’s own digital payments market.

Fallouts for privacy

The largest fallouts of granting market approval to a global player will be in the area of privacy. In the particular instance of WhatsApp Pay, the deal will give Facebook access to data on how people across countries are spending their money. Even if WhatsApp agrees to set up data localisation in India, the localisation requirement of the government is limited to payments data only. As a result, Facebook will still have access to metadata on all payment transactions, which can be matched with the data that the company already has access to on Instagram, Messenger and WhatsApp for the same users. With all of that, Facebook will be able to match user profiles on its social media websites with the user profiles that are authenticated by the UPI system in India. This would not only make Facebook the second biggest identification issuer in India after the Indian government, it would also make Facebook the best repository of data covering all areas of life — social and financial — on all Indian users. This kind of data pooling would never be allowed in the U.S. where financial privacy laws protect against such an outcome, so why should this be allowed in India? Similar risks exist in the case of Google Pay or Amazon Pay, where payments data can be matched with other existing repositories with outcomes that are not desirable and may/may not be as drastic as in the case of WhatsApp Pay.

These examples of big tech and finance help illustrate some of the complexities of digital markets. To address safe digital transformation, we need a policy that focuses on the nitty-gritty of implementation and coordination. We need to be clear on how digital technologies will transform different sectors, especially finance and payments, with a view to promoting competition, enabling local firms, protecting consumer welfare and promoting data sovereignty. In the specific case of the digital payments market, we need the elaboration of clear guidelines that enable the development of a digital payments market, going beyond requirements for storing and processing payments. Data localisation is costly, and consumers not only need protection that these compliance costs will not be passed on to them by businesses, but they also need clarity on how their data will be stored, for how long, and what uses will be prohibited. Local firms will need much more space and support in the digital payments market to be able to create new jobs, new prospects and digital dividends. These are crucial to guarantee the rights of all Indians as we move from a cash-based to a cashless economy.

Padmashree Gehl Sampath is a Fellow at Harvard University