

# **Independent Payments Regulatory Board - RBI's Dissent**

#### Why in news?

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The RBI has opposed the government's proposal to set up a separate and independent regulator for the payments industry in the country.

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#### What was the proposal?

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 An inter-ministerial committee was earlier set up by the Department of Economic Affairs.

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• It was tasked to finalise amendments to the Payment & Settlement Systems (PSS) Act, 2007.

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• **Recommendations** - The committee proposed the establishment of an <u>Independent Payments Regulatory Board (PRB).</u>

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• The aim is to foster competition and consumer protection, systemic stability and resilience in the payments sector.

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• It also recommended having a government-appointed chairperson for the PRB.

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• It held that the <u>Securities Appellate Tribunal (SAT)</u> should look at dispute cases related to the payments.

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- $\bullet$  Besides, the Payment Council of India (PCI) also maintained that the payments sector has undergone a sea change in the last 7-8 years. \n
- So, there are various types of risks involved, and a risk-based regulation is the need of the hour.

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#### What is RBI's rationale?

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- In a dissent note, the RBI has rejected the above recommendations.
- It has argued that payment systems are a sub-set of currency, which is regulated by the RBI.

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• There is an overarching impact of monetary policy on payment and settlement systems and vice-versa.

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 $\bullet$  This adds validity to the idea that regulation of payment systems remain with the monetary authority i.e. the RBI.

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• Also, the activities of payments banks come well within the purview of the traditional banking system.

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• So there is no case of having a separate regulator for payment systems outside the RBI.

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• Regulation of the banking systems and payment system by the same regulator provides synergy.

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• Nevertheless, RBI is open to changes and is not totally against a new PSS Bill, if required.

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• However, the changes should not result in the existing foundations being shaken.

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• They should not result in potential creation of disturbances in an otherwise well-functioning and internationally-acclaimed structure.

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• RBI also held it would prefer the Payments Regulatory Board to function under the purview of the RBI Governor.

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• It, however, may comprise three members nominated by the government and the RBI respectively.

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• It should come with a casting vote for the governor to ensure smooth operations of the board.

• The recommendation on Securities Appellate Tribunal was also rejected by the RBI.

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• The exchanges and securities markets are not under the purview of the Payment Systems Bill.

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• So there is no rationality in bringing SAT for resolving payment systemrelated cases.

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### Why is RBI's decision welcome?

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• There is definite overlapping of the current regulatory powers of the RBI and the proposed regulations for the payments industry.

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• A unified regulator can thus help lower the regulatory compliance costs and enable the seamless implementation of rules.

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• Further, there is a risk that a brand new regulator may be unable to match the expertise of the RBI in carrying out regulatory duties.

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• This is especially given the fact of rapidly growing payments industry which can ill-afford regulatory errors at this point.

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 Moreover, the decision comes as an expression of RBI's firm stance against any dilution of its current powers over the financial sector.

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#### What lies ahead?

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• The move comes as an instance of RBI and Union government being at loggerheads over the legitimate extent of their powers.

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• RBI's dissent against government's plans has potentially set the stage for a regulatory turf war.

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 $\bullet$  But, at this time of increasing risks to the stability of domestic financial system, both the government and RBI must work together. \n

### Source: BusinessLine, The Hindu

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#### **Quick Facts**

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## **Payments Council of India**

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- $\bullet$  The Payments Council of India was formed under the aegis of IAMAI (Internet and Mobile Association of India) in the year 2013.  $\$
- It was set up to cater to the needs of the digital payment industry, address and help resolve various industry level issues and barriers.
- It works to promote payments industry growth and to support the national goal of 'Cash to Less Cash Society' and 'Growth of Financial Inclusion'.

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