

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 Independent Payments Regulatory Board (PRB).

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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 Securities Appellate Tribunal (SAT) should look at dispute cases related to the payments.

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- Besides, the *Payment Council of India (PCI)* also maintained that the payments sector has undergone a sea change in the last 7-8 years.

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- 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.

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- 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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- 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.

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- 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 system-related 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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- But, at this time of increasing risks to the stability of domestic financial system, both the government and RBI must work together.

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Source: BusinessLine, The Hindu

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Quick Facts

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Payments Council of India

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- The Payments Council of India was formed under the aegis of IAMAI (Internet and Mobile Association of India) in the year 2013.

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- It was set up to cater to the needs of the digital payment industry, address and help resolve various industry level issues and barriers.

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- 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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