New Framework for Payment Systems Operators

Why in News

Recently, the **Reserve Bank of India (RBI)** has issued a framework for **payment and settlement related activities by payment system operators.**

- This framework is issued under provisions of **Payment and Settlement Systems Act, 2007.**

    - The **Payment and Settlement Systems Act, 2007** provides for the **regulation and supervision of payment systems in India and designates the RBI** as the authority for that purpose and all related matters.

Payment System

- A **payment system is a system** used to **settle financial transactions** through the transfer of monetary value and consist of the various mechanisms that facilitate the transfer of funds from one party (the payer) to another (the payee).
- A payment system includes the **participants (institutions) and the users** (customers/clients), the rules and regulations that guide its operation and the standards and technologies on which the system operates
- The **Board for Regulation and Supervision of Payment and Settlement Systems (BPSS)**, a sub-committee of the **Central Board of the RBI** is the **highest policy making body** on payment systems in India.

Payment System Operators (PSOs)

- PSOs by virtue of services they **provide and the construct of models** on which they **operate, largely outsource their payment and settlement-related activities** to various other entities.
- It is an **institution** which has been **granted an authorisation for the operation of a payment system.**

Key Points

- **New Framework:**

    - **Licensed non-bank Payment System Operators (PSOs)**, cannot outsource core management functions.

        - **Core management functions** include **risk management and internal audit, compliance and decision-making functions** such as determining compliance with KYC norms.

    - It will be **applicable to all service providers**, whether **located in India or abroad.**
- **Objective:**

- To **put in place minimum standards** to manage risks in outsourcing of payment and settlement-related activities including tasks such as onboarding customers and IT-based services.
  - **Need:**
    - **There is a potential area of operational risk associated** with outsourcing by payment system operators and participants of authorised payments systems.
      - **India's tech ecosystem** has seen **several high-profile cyber attacks** such as those at **Juspay, Upstox and Mobikwik** over the last year targeting customers' payments data.
  - **Related Previous Initiative:**
    - Earlier, the **RBI** has put in place **restrictions with respect to investments in payments system operators (PSOs)** by new entities from jurisdictions that have **weak measures to deal with money laundering and terrorist financing activities.**

Way Forward

- **Since, India is the second-fastest digital** adapter among 17 of the most-digital economies globally, and rapid digitisation does **require forward-looking measures to boost** cybersecurity**.**
- It is **important for the corporates or the respective government departments** to **find the gaps in their organisations** and address those gaps and create a layered security system, wherein security threat intelligence sharing is happening between different layers.

Source: IE

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