



RBI Opposes Independent Payments Regulatory Board

The Reserve Bank of India (RBI) has opposed the move to have an independent Payments Regulatory Board (PRB) as proposed by the draft amendments to the Payment & Settlement Systems Act, 2007.

- The 2007 Act designates the Reserve Bank of India (RBI) as the authority to regulate the payment systems in the country. These systems include inter-bank transfers such as the National Electronics Funds Transfer system, ATMs, credit cards, mobile banking, etc.

Background

- An inter-ministerial committee was set up by the government for finalization of amendments to the Payment & Settlement Systems Act, 2007.
- According to the draft Payment and Settlement System Bill, 2018, submitted by the committee, an independent payments regulatory board (PRB) needs to be established outside the purview of RBI to regulate the payments sector aimed at fostering competition, consumer protection, systemic stability and resilience in the payments sector.
- The committee said that it is important to distinguish the role of the central bank (RBI) as an infrastructure institution providing settlement function from its role as a regulator of the payment sector.
- The committee had recommended that the chairperson of the payments regulator should be appointed by the government in consultation with the RBI.

The Dissent Note by RBI

- According to the RBI, the PRB must remain with the central bank and should be headed by the RBI governor. The RBI and the government may nominate three members each to the board, with a casting vote for the governor.
- The payment system is bank-dominated in India. Regulation of the banking systems and payment system by the same regulator **provides synergy and inspires public confidence** in the payment instruments.
- Regulation of the payment system by the central bank is the dominant **international model for stability consideration**.
- Thus, having the regulation and supervision over Payment and Settlement systems with the central bank will ensure holistic benefits. Also, it will not result in increased compliance costs.
- Certain payment systems like cards are issued by banks globally and dual regulation over such instruments will not be desirable.
- Payment systems are a sub-set of currency which is regulated by the RBI. The overarching impact of Monetary policy on payment and settlement systems and vice versa provides support for the regulation of payment systems to be with the monetary authority. There is an underlying bank account for payment systems which is under the purview of banking system regulation which is vested with the RBI.
- The RBI cited the report of the **Ratan Watal Committee** on digital payments as recommending the establishment of the PRB within the overall structure of the RBI, arguing therefore that there is no need for any deviation.
- There has been no evidence of any inefficiency in payment systems of India. Hence, there need not be any change in a well-functioning system.

Way Forward

- The RBI has stated that though the changes are welcomed by it, they should not result in existing foundations being shaken and the potential creation of disturbances in an otherwise well-functioning structure as far as India is concerned.
- The central bank said that objectives for the PRB should not be mandated by law, as it will lack flexibility. The views of the Ministry of Law could also be taken into account on jurisdictional conflict. Further, it added that innovation is generally not mandated – it evolves based on requirements.
- The RBI also opposed the panel's proposal on designating the Securities Appellate Tribunal (SAT) for grievance redressal, stating that exchanges and securities markets are not under the purview of the Payment Systems Bill.

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