



**भारतीय रिज़र्व बैंक**

**RESERVE BANK OF INDIA**

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## **Reserve Bank of India releases Dissent Note on Inter-Ministerial Committee for finalization of Amendments to PSS Act**

An Inter-Ministerial Committee for finalization of amendments to the Payment & Settlement Systems Act, 2007 was formed by the Government under the chairmanship of Secretary, Department of Economic Affairs. RBI was represented in the Committee.

Draft report of the Committee has been placed in public domain by the Government. RBI representative has submitted a dissent note on certain recommendations of the Committee, a copy of which is reproduced below for public information.

### **Dissent Note**

- a. 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 regulation of payment systems to be with the monetary authority.
- b. There is an underlying bank account for payment systems which is under the purview of banking system regulation which is vested with the RBI.
- c. Settlement systems are finally posted in the books of account of banks with the RBI to attain settlement finality. Regulating these entities goes hand in hand with the settlement function.
- d. There are certain payment systems like cards which are issued by banks globally. Dual regulation over such instruments will not be desirable.
- e. In India, the payment system is bank-dominated. Regulation of the banking systems and payment system by the same regulator provides synergy and inspires public confidence in the payment instruments.
- f. 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.
- g. There has been no evidence of any inefficiency in payment systems of India. The digital payments have made good and steady progress. India is gaining international recognition as a leader in payment systems. Given this, there need not be any change in a well-functioning system.
- h. The Payments Regulatory Board (PRB) must remain with the Reserve Bank and headed by the Governor, Reserve Bank of India. It may comprise 3 members nominated by the Government and RBI respectively, with a casting vote for the Governor to ensure smooth operations of the Board. The composition of the PRB is also not in conformity with the announcements made in the Finance Bill by the Honorable Finance Minister.

Generic comments of RBI on certain recommendations of the report are as under.

<b>Paragraph No:</b>	<b>Details in the report</b>	<b>Dissent</b>
Executive Summary – para 8	The PRB to be an independent regulator.	There is no case of having a regulator for payment systems outside the RBI.
do -	On the composition of the PRB.	The composition of the PRB is not in conformity with the announcements made in the Finance Bill by the Finance Minister.
Para 1.3	On Competition, innovation and customer protection to be the main objectives under the proposed draft bill	Competition, innovation and customer protection have been hall marks of the initiatives under the PSS Act. Today, most of the developments have been thanks to innovation; the existence of multiple players and a myriad of systems is proof of competition and a host of customer protection measures have been the outcome of the initiatives taken under the PSS Act. If there are specific concerns which need to be provided for, then making amendments to a relatively new law (i.e. the PSS Act of 2007) is much more easier than framing a new Act.
Para 1.6	On the PRB to be an independent regulator	The Watal Committee has recommended the establishment of the PRB within the overall structure of the RBI which would deliver the outcomes which is now changed; there is no need for any deviation and the PRB can be with the RBI.
Para 1.10	An area of concern, arising out of systemically important payment systems.	Since banks are regulated by the RBI, a holistic regulation by RBI would be more effective and not result in increased compliance costs if multiple regulators exist for related systems. Almost all countries in the world have recognized this change which has gained significance in the recent past.
Para 2.4	On the need to have non banks to have access and participate in payment systems	Currently, non-banks do have access to payment systems operated by banks; in fact there are payment systems operated by non-banks (for e.g. NPCI and card companies as well as PPI issuers) as well; this has been referred to in para 2.8 of the report also.
Para 2.9	It is important to distinguish the role of the Central Bank as an infrastructure institution providing settlement	Payment systems are actually technology based substitutes for currency. The distribution of currency is done by the RBI through the banks; the logical extension of this to payment

	function from its role as a regulator of the payment sector. It is this role of the regulator which needs to evolve from being largely bank centric.	systems has being yielding good results. Fin tech companies and other non-banks have been bridging this function very well. It is not clear how non-banks can be ascribed the job of creating money via payment systems. It needs to be recalled that even banks distribute currency on behalf of the RBI and cannot create their own currency.
Para 2.13 to 2.17	Committee's analysis of the suggestions of the RBI	The essence of my arguments have not been factored in the recommendations.
Para 3.2	Formal mechanism for co-ordination between PRB and RBI	My view is that there needs to be integrated operations and not co-ordination. Co-ordination is required across different but related functions, which is not the case for payment systems. This is also the basis for reiterating that the Governor of the RBI should be the Chairman of the proposed PRB.
Para 3.4	On the explicit indication of Risk Based regulatory framework.	Approaches to regulation are best allowed to be evolved by the regulator so that changing environments can be effectively addressed.
Para 3.5 and 3.6	On the proposed detailed structure of the PRB	For the reasons stated in the note, I do not subscribe to the views. It may be also mentioned that world over, payment systems – especially retail ones do not generate self-sufficiency. If this has to be achieved in India, then these systems may become unaffordable, thereby not supporting the common man, which goes against the spirit of the objectives sought for.
Para 3.7	Objectives outlined for the PRB in the draft Bill	Objectives for the PRB are best avoided to be mandated by law, which may not provide the much needed flexibility. The views of the Ministry of Law could also be taken into account on jurisdictional conflict. Further, innovation is generally not mandated – it evolves based on requirements.
Para 3.12.9	On designating the SAT for grievance redress	It is not clear why the SAT is being brought in for resolving payment system related cases and more so when exchanges and securities markets are not under the purview of the Payment Systems Bill.
General		It may be mentioned that RBI does welcome changes and is not totally against a new PSS Bill if indeed required. It has to be, however,

		recognized that changes should not result in existing foundations being shaken and the potential creation of disturbances in an otherwise well-functioning and internationally acclaimed structure as far as India is concerned.
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