Financial Sector Self-Regulatory Organizations (SRO)

Why in News?

In August, the Reserve Bank of India (RBI) recognised the Fintech Association for Consumer Empowerment (FACE) as a self-regulatory organisation (SRO) in the financial technology (fintech) sector.

What is a self-regulatory organisation (SRO)?

- **Self-Regulatory Organizations (SRO)** - These are usually non-governmental organizations, established to regulate certain professions or industries to promote order among businesses and organizations.
- They act as a bridge between industry players and the regulator.
- SROs accomplish control through internal mechanisms that regulate the flow of business operations.
- **Functions of SROs** -The primary function of this SRO is
    - To represent all stakeholders
    - Set standards and best practices
    - Establishing and enforcing regulatory standards
    - Promoting ethical behaviour and market integrity
    - Fostering transparency and accountability among members
    - Collect data, monitor and report violations
    - Address grievances, resolve disputes
    - Raise customer awareness and protect them
    - Support research and development
    - Complement existing regulatory and supervisory arrangements.
- **FinTech SRO (SRO FT)** - They have membership from fintech's currently regulated by the RBI, including non-banking financial companies-account aggregators (NBFC-AA), NBFC-peer-to-peer (P2P) lending platforms, among others, excluding banks.
- **Regulations of SRO** - The Reserve Bank of India recognizes SRO in banking and fintech sector and SEBI in the capital market sector.

SROs regulated by SEBI
• **Association of Merchant Bankers of India (AMBI)** AMBI was granted recognition to set up professional standards for providing efficient services and establish standard practices in merchant banking and financial services. • **Association of Mutual Funds of India (AMFI)** It is the SRO of mutual funds organizations. • **Registrars Association of India (RAIN)** The Registrars Association of India (RAIN) a self-regulatory organisation for registrars to an issue and share transfer agents has been set up.
SROs regulated by RBI

• **Foreign Exchange Dealers' Association of India (FEDAI)** –It was formed as an association of banks dealing in foreign exchange (authorised dealers) and is incorporated under Section 25 of the Companies Act, 1956.
• **Fintech Association for Consumer Empowerment (FACE)-** It is a self-regulatory organisation (SRO) in the financial technology (fintech) sector.
• **NBFC Microfinance SROs** - Sa Dhan and Microfinance Institutions Network (MFIN).

What are the benefits?

- **Facilitate open communication** - Through regular consultations, feedback, and policy dialogues, the SROs facilitate open communication and help fintech's remain informed about regulatory expectations.
- **Expertise** – SROs are widely considered experts in their fields and, therefore, know a great deal about the markets they work in.
- **Higher standard of conduct** – With the establishment of SROs, member organizations follow a certain standard of conduct that helps promote ethical ways of doing business.
- **Boost confidence** – High standard of conduct can lead to investors and consumers becoming more confident in the market.
- **Saves public money** – SROs do not rely on people's taxes but are instead funded by the organizations that are under its wings.
- Therefore, the government is able to save by foregoing the need to maintain an agency for such a purpose.

What are the challenges?

- **On Boarding** – There is initial low momentum in onboarding members under the self-regulatory bodies.
- There has not been any SRO for the banking system and most of them functions as mere associations.
- **Heterogeneous entities** - Since NBFC sector is heterogeneous, limiting the number of SROs to two will affect their effectiveness.
- **Big Entitles** - The most influential technology companies such as Alphabet (Google), Apple, Meta (Facebook), Amazon and Microsoft offer various financial and non-financial services.
- There is lack of guidelines about their inclusion under the SROs.
- **Diverse functions** - Many entities are involved both in lending and payments and are directly regulated for certain activities, but indirectly regulated for others.
- The coverage of these entities under an SRO poses challenges.
- **Uncertainty in Roles** - There is a lack of clarity on the roles of fintech's that are associated with lending and payments companies.

Way forward?

- Encourage and incentivise entities to get registered under self-regulatory organizations.
- Set up SROs for different segments, based on the principal activities and the chain of entities involved.

- Treat regulated and unregulated entities differently.
- Avoid overlap for the effective implementation of the SRO regime.

Quick Facts

- **Indian Banks' Association (IBA)** – It was established in 1946 as an interface between banks, the RBI, and the government.
- It is not an SRO.
- **Association of Small Finance Banks of India**- It is a body representing small finance banks.
- It is also an association, not an SRO.
- **Finance Industry Development Council** – It was established in 2004 and represents NBFCs, particularly those involved in lending.
- It's an industry body, not an SRO.

References

[Business Standard| SROs in finance sector]

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