Recommendations on Payments Systems

Why in news?

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An inter-ministerial committee on regulation of payments systems in India has submitted its recommendations to the finance ministry.

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What is recommendations of the committee?

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- The aim is to replace the Payment and Settlement Act, 2007, with an updated law, currently called the Payment and Settlement Services Bill.
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- The committee's draft has significantly streamlined the existing law, reducing the number of sections from 100 to 38 and cutting the number of possible actions by a regulator to just two.
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- The committee has suggested that the head of the regulator be appointed by the government in consultation with the Reserve Bank of India (RBI), which, however, has strongly suggested that the head come from within the central bank itself, and have a controlling vote.
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What are the concerns with the recommendations?

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- RBI has imposed more stringent rules for payments such as two-factor authorisation even for micro-payments than is the global norm.
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- It is relevant in this respect to consider the fact that the RBI's track record in this sector does not inspire a great deal of confidence.
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- This may be because consumer satisfaction is not among its priorities.
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- Following certain recommendations of an inter-ministerial committee, an element of controversy seems to be brewing over the location and leadership of the proposed regulator.
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- There are some indications that this might develop into another squabble over jurisdiction of the sort that RBI-government relations can ill afford.
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What measures needs to be taken?

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- Committee must understand the growing and relatively new sector needs a light touch in terms of regulation, as well as clarity from the authorities.
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- If the RBI is concerned at any point that aspects of the payments infrastructure are affecting the conduct of monetary policy, then it should convey that to the payments regulator, which will consider the argument on its merit.
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- Thus in India, if a single regulator is to be set up in order to avoid regulatory arbitrage, it should be independent.
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- New regulator must consider consumer requirements as well as competition, growth and stability.
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- In this context the government must stand firm and reject the RBI’s attempt to take control of this new regulatory mechanism. Independence for the payments regulator is a must.
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Source: Business Standard

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