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NOTE OF DISSENT

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

IT is rare that a regulator in India, and that too the country's central bank, places in the public domain its dissent note on recommendations for a proposed law. On Friday, the Reserve Bank of India released its dissent note to clearly signal that it was opposed to an independent regulatory body to supervise India's payments and settlements architecture as proposed by an inter-ministerial committee headed by the Secretary, Department of Economic Affairs, and to moving it out of the central bank. The RBI has listed out its reasons, the grounds for which rests on its experience of having regulated this segment over the last several years, marked by competition, innovation and customer protection measures, which are the main objectives under the proposed new law. It has also argued that considering that banks are regulated by it, a holistic oversight by the central bank would be far more effective besides ensuring lower compliance costs. The RBI has gone a step further, saying that there was no case for a separate regulator for payments and settlements given that there is no evidence of any inefficiency in India's payments systems and globally, the country was gaining recognition as a leader in payments systems with some other central banks having adopted the bank's systems.

The payments and settlements systems, according to it, are a sub-sect of currency which is regulated by the RBI and the impact of monetary policy provides support for the regulation of payments systems. The inter-ministerial committee's recommendation to carve out the RBI's oversight functions may be on weak grounds looking at the global financial infrastructure landscape. The US Federal Reserve's Board and the dozen federal Reserve Banks around that country have a distinct responsibility with regard to the payments system. So is the case in Australia and Canada and some other jurisdictions — with such arrangements having been put in place to support the implementation of monetary policy. That's because supervising this segment, clearing and settling of financial transactions electronically, is critical to the financial stability of any economy. The RBI wants the proposed new board to be headed by its governor with a casting vote to boot. In short, the underlying message it has sought to send out is that there is no need to fix a system which isn't broke.

Conflict of views between the government and central bank on policy issues isn't something to fret about. But what should worry many is the growing divide between the two at a time when there ought to be a closer engagement given the macro economic challenges and external sector risks. Managing that should be the priority rather than jousting over what is emerging as a new cottage industry — the proliferation of regulators.

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