

TURF BATTLE: ON INDEPENDENT PAYMENTS REGULATOR

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

The Reserve Bank of India (RBI) and the Union government are once again at loggerheads over the legitimate extent of their powers. In a rare gesture, the central bank last week made public its reservations against the government's plans to set up an independent payments regulator, potentially setting the stage for a regulatory turf war. In a strongly worded dissent note against the inter-ministerial committee for the finalisation of amendments to the Payment and Settlement Systems Act, 2007, published on its website on Friday, the central bank observed that it would prefer the Payments Regulatory Board to function under the purview of the RBI Governor. "There is no case of having a regulator for payment systems outside the RBI," the note read. In support of its stance, the RBI stated that the activities of payments banks come well within the purview of the traditional banking system, which the central bank oversees as the overarching financial regulator. So, according to this logic, it might make better sense to have the RBI oversee the activities of payments banks as well instead of creating a brand new regulator for the growing industry. "Regulation of the banking systems and payment system by the same regulator provides synergy," it noted. The RBI, in essence, is pointing to the interconnection between the payments industry and the banking system to back the extension of its regulatory powers.

The RBI's case makes good sense when seen from the perspective of the cost of regulatory compliance. As stated above, there is definite overlapping between the current regulatory powers of the RBI and the proposed regulations for the payments industry. A unified regulator can thus help in lowering the compliance costs and enabling the seamless implementation of rules. Further, there is the real risk that a brand new regulator may be unable to match the expertise of the RBI in carrying out necessary regulatory duties. So it makes better sense to have the RBI take charge of the rapidly growing payments industry which can ill-afford regulatory errors at this point. The fact that the RBI has made public its dissent against the Union government's idea, suggests that the central bank has serious problems with the dilution of its current powers over the financial sector. However, the RBI's demand for the centralisation of regulatory powers also brings with it the need for exercising a greater degree of responsibility. At a time when there are increasing risks to the stability of the domestic financial system, both the government and the RBI must look to work together to tackle these risks instead of battling over regulatory powers.

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