Source : www.livemint.com Date : 2018-09-26

PSSA 2018: A STEP TOWARDS SEPARATING BANKING, PAYMENTS

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

The inter-ministerial committee set up to finalize the amendments to the Payment and Settlement Systems Act (PSSA), 2007, has submitted its report and I would call this a very positive step towards taking India to Payments 2.0.

When PSSA was passed by Parliament in December 2007, it initiated the first phase of recognizing payments from banking or classic banking. Classic banking is “accepting, for the purpose of lending and investment, of deposit of money from individuals or legal entities”. Bank’s earnings would directly depend on how they are able to reduce cost of deposit through current account savings account and are able to lend at higher rates with decision on security/risk taken for such lending. Apart from the interest income, banks would impose different kinds of fees for providing loan products, as additional revenue stream.

Payments on the other hand are transfer of monetary value from a person/legal entity to another person/legal entity for either consideration towards goods and services rendered or just transfer of money. In case of payments for goods and services, or merchant payments, merchant delivering goods/services pays a fee, or the merchant discount rate and for money transfer service (P2P payments), the customer sending money is charged a fee for money transfer services. If one looks at classic banking systems and classic payments systems, their business interests and business cases are different. A bank would want all customers to have either savings account and/or current account so that they generate lowest cost deposits for maximizing the bank’s profitability through lending. Payments system would become successful when customers of all banks use the system through what we call “interoperable payments systems” and a network like National Payments Corporation of India.

Now, the recommendation of PSSA 2018 draft amendment is a step towards separating banking and payments by setting up a separate seven-member Payments Regulatory Board (PRB) chaired by a person appointed by the government in consultation with Reserve Bank of India (RBI), one deputy chairman nominated by the central board of RBI, two members appointed by the central board of RBI, one officer nominated by the government and two whole-time members.

Apart from objectives that are obvious for a regulatory board viz. consumer protection, systemic stability and resilience, one of the main objectives of PRB is to bring competition and innovation. The proposed Bill recognizes RBI’s role in the context of monetary policy in making regulations for existing or new payments systems/enhan-cements/amendments.

Reference to RBI by PRB have time-based responses defined in the Bill. It also provides for test systems or regulatory sandbox for a period of six months for a legal entity to apply and launch the test system/innovation. Clearly more role of fintech is needed to innovate in payments systems—a promising step to Payments 2.0.

Sunil Kulkarni is joint managing director at Oxigen Services (India) Pvt. Ltd, and a part of Payments Council of India.

END