1. Introduction

1.1. The Reserve Bank of India (RBI), as the regulator of payment and settlement systems in the country, sets the necessary regulatory framework, generally through a consultative process, to ensure that different types of payment systems operate in the country to meet the various payment needs in the economy. Over a period of time, a bouquet of payment instruments has evolved to meet the needs of different segments of users.

1.2. As the payment ecosystem matures and as the number of payments systems proliferate, it becomes necessary, in the interest of optimal use of regulatory resources, that the payments industry develops industry standards in respect of system security, pricing practices, customer protection measures and grievance redressal mechanisms. While self-regulation would release regulatory resources that can be better focused on issues of systemic importance, it would, by virtue of being developed by the industry itself, be more appropriate and encourage better compliance. As the industry is forced to think in terms of developing systems that conform to best international practices, the industry would be better served in global competitiveness.

1.3. It is therefore proposed to encourage the establishment of a Self-Regulatory Organisation (SRO) that will be responsible for setting and enforcing rules for Payment Systems Operators (PSOs).

1.4. An SRO is a non-governmental organisation that sets and enforces rules and standards relating to the conduct of entities in the industry (members) with the aim of protecting the customer and promoting ethics, equality, and professionalism. SROs typically collaborate with all stakeholders in framing rules and regulations. Their self-regulatory processes are administered through impartial mechanisms such that members operate in a disciplined environment and accept penal actions by the SRO. An SRO is expected to address concerns beyond the narrow self-interests of the industry, such as to protect workers, customers or other participants in the ecosystem.

1.5. Regulations, standards, and dispute resolution and enforcement by an SRO get legitimacy not just by mutual agreement of its members, but also by the efficiency with which self-regulation is perceived to be administered. Such regulations supplement to, but do not replace, applicable laws or regulations.

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1 ‘Payment System’ as defined under 2(i) of Payments and Settlement Systems Act, 2007; Operators include System Participants and System Providers as defined under Section 2(p) and 2(q) of the Act.
2. **Benefits of an SRO**

2.1. An SRO is constituted with an expectation to provide a link between the regulator and market participants through a less formal set-up. It makes for structured participation of the PSOs in the regulatory process and helps in meeting regulatory expectations in a more participative manner. The benefits of an SRO are:

2.1.1. Expertise – SROs are widely considered as experts in their fields and hence have in-depth knowledge of the markets they operate in. This is helpful to their members as they can be called in to participate in deliberations and learn more about the nuances of the industry.

2.1.2. Higher standard of conduct – Formation of SROs ensure member organisations follow a certain standard of conduct that helps promote ethical ways of doing business. This can lead to enhanced confidence in the ecosystem.

2.1.3. Watchdog – SROs can serve as a watchdog to guard against unprofessional practices within an industry or profession.

2.1.4. Communication – SROs facilitate organised communication between the regulator / stakeholders and the industry.

2.1.5. Customer experience – SROs can enhance customer experience in a payment product by way of standardising processes, especially those related to grievance redressal.

2.2. It is expected that an ideal SRO shall have the following characteristics in order to gain the trust of both its members and customers:

2.2.1. Legal authority to enable it to set policies / standards and enforce them on industry participants.

2.2.2. Robust governance – Transparent and well-defined processes for making rules and enforcing them.

2.2.3. Managing conflict – Adhere to standardised processes for handling conflicts, as well as methods to resolving them.

2.2.4. Oversight and surveillance methods – Establish effective means of oversight over its members and ensure that they adhere to the rules and regulations of the industry as also operate ethically. The SRO shall have modern surveillance methods to enable it to monitor even the most complex systems and ensure that standards are followed for all systems.

2.2.5. Resolution of disputes – Enable creation of a dispute resolution mechanism that is transparent and consistent while ensuring fairness in dealing with all such cases.
3. Eligibility for recognition of an SRO by RBI

3.1. An SRO shall be set-up as a not-for-profit company under the Companies Act.

3.2. Any group or association of PSOs desirous of being recognised as an SRO by the Reserve Bank shall have as its members a majority of the industry segment it seeks to represent, in terms of number / volume / value.

3.3. The SRO shall be professionally managed with clear bye laws.

3.4. The memorandum / bye laws of the SRO shall specify criteria for admission of members and the functions it will discharge, as one of its main objects.

3.5. The memorandum / bye laws of the SRO shall also provide for the manner in which the governing body of the SRO would function.

3.6. Reserve Bank shall reserve the right to clear the appointment of important positions in the governing body of the SRO.

3.7. The SRO shall have adequate infrastructure to discharge its duties effectively, at the time of application.

4. General criteria

4.1. The Board of Directors and management of the SRO shall satisfy the fit and proper criteria prescribed by the Reserve Bank, on an ongoing basis. Any change in directorship or adverse development about any Director shall be immediately reported to the Reserve Bank.

4.2. The SRO shall frame a code of conduct to be followed by all its members.

4.3. The SRO shall be in a position to exercise surveillance over its members to ensure that the code of conduct prescribed by it and the regulatory prescriptions of the Reserve Bank are adhered to by its members.

5. Grant of recognition as an SRO

5.1. Interested entities shall apply to the Reserve Bank seeking recognition as an SRO.

5.2. Reserve Bank reserves the right to require the entity to submit further information or clarification as deemed necessary by it before granting recognition as an SRO.

5.3. On finding suitable as an SRO, the Reserve Bank shall issue a letter of recognition.

5.4. Reserve Bank, if it considers appropriate, is not obligated to necessarily involve the recognised SRO in any discussions or decisions.

5.5. Reserve Bank may forward any proposals / suggestions to the recognised SRO for further engagement with its members.

5.6. Reserve Bank may withdraw its recognition to the SRO after giving due opportunity to the entity to further its views / comments.
6. Functions and obligations of the recognised SRO

6.1. The recognised SRO shall serve as a two-way communication channel between its members and Reserve Bank.

6.2. The recognised SRO shall work towards establishing minimum benchmarks, standards and help instill professional and healthy market behaviour among its members.

6.3. The recognised SRO shall promptly inform Reserve Bank about any violation that comes to its notice of the provisions of the Payments and Settlement Systems Act or any other regulation issued by the Reserve Bank.

6.4. The recognised SRO shall impart training to the staff of its members and others. It shall conduct awareness programmes for spreading safe digital transactions.

6.5. The recognised SRO shall establish a uniform grievance redressal and dispute management framework across its members.

6.6. The recognised SRO shall conduct or promote research and development for creating a secure and safe digital payments ecosystem.

6.7. The recognised SRO shall investigate any matter referred to by the Reserve Bank.

6.8. The recognised SRO shall provide any information, including data, sought by the Reserve Bank periodically or as requested.

6.9. The recognised SRO, invited for periodical interactions with the Reserve Bank, shall reasonably be expected to look at the larger picture of the segment / industry before offering its views / inputs / suggestions. Such an SRO shall be expected to address concerns beyond the self-interest of its membership, viz. to protect customers, participants and other stakeholders in the ecosystem. It shall play an important role in supplementing and complementing the present regulatory / supervisory arrangements.

6.10. The recognised SRO shall abide by the directions issued by Reserve Bank from time to time.

6.11. The SRO will continue to adhere to the criteria under which it has been recognised as an SRO at all times.

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