



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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DPSS.CO.PD.No.503/02.12.004/2020-21

October 22, 2020

The Chairman / Managing Director / Chief Executive Officer
Authorised Payment System Operators (Banks and Non-banks)

Madam / Dear Sir,

Framework for Recognition of a Self-Regulatory Organisation for Payment System Operators

Industry self-governance helps in industry-wide smooth operations and ecosystem development. Reserve Bank of India's Payment and Settlement Systems Vision 2019-21, therefore, envisaged the setting up of a Self-Regulatory Organisation (SRO) for Payment System Operators (PSOs). The [Statement on Developmental and Regulatory Policies](#) of the Reserve Bank of India (RBI), as part of its [Sixth Bi-monthly Monetary Policy Statement – 2019-20](#) (dated February 6, 2020), announced putting in place a Framework for Establishing a SRO for PSOs.

2. RBI had placed a draft framework for public comments and based on the comments and suggestions received, it has finalised the Framework for Grant of Recognition as a SRO, which is at [annex](#).

3. Interested groups / association of PSOs (banks as well as non-banks) seeking recognition as an SRO may apply to the Chief General Manager, Department of Payment and Settlement Systems, Central Office, 14th Floor, Shahid Bhagat Singh Marg, Fort, Mumbai – 400 001. The applications shall comply with the instructions laid down in the Framework.

4. This directive is issued under Section 18 read with Section 10(2) of the Payment and Settlement Systems Act, 2007 (Act 51 of 2007).

Yours faithfully,

(P. Vasudevan)
Chief General Manager

भुगतान और निपटान प्रणाली विभाग, केंद्रीय कार्यालय, 14वीं मंजिल, केंद्रीय कार्यालय भवन, शहीद भगत सिंह मार्ग, फोर्ट, मुम्बई - 400001

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हिंदी आसान है, इसका प्रयोग बढ़ाइए

**Framework for Recognition of a Self-Regulatory Organisation
for Payment System Operators¹**

(DPSS.CO.PD.No.503/02.12.004/2020-21 dated October 22, 2020)

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, 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 time, a bouquet of payment instruments has evolved to meet the expectations of different segments of users.
- 1.2. As the payment ecosystem matures and the number of payments systems proliferate, it becomes necessary, in the interest of optimal use of regulatory resources, that the payments industry develops standards in respect of system security, pricing practices, customer protection measures, grievance redressal mechanisms, etc. 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, it would enhance global competitiveness.
- 1.3. It has, therefore, been decided to encourage the establishment of a Self-Regulatory Organisation (SRO) 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 member entities in the industry, with the aim of protecting the customer and promoting ethical and professional standards. The SRO is expected to resolve disputes among its members internally through mutually accepted processes to ensure that members operate in a disciplined environment and even accept penal actions by the SRO. An ideal SRO would function beyond the narrow self-interests of the industry and address larger concerns, such as protecting customers, furthering training and education and strive for development of members, the industry and the ecosystem as a whole.

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.

1.5. Regulations, standards, 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, but do not replace, applicable laws or regulations.

2. Characteristics of an SRO

2.1. An SRO is expected to have the following characteristics in order to gain the trust and confidence of its members:

- Authority, derived from membership agreements, to set behavioural and professional standards and enforce them on the members;
- Objective and well-defined processes to make rules and enforce them among members;
- Standardised procedures for handling conflicts and disputes, as well as methods to resolve them through a transparent and consistent dispute resolution mechanism;
- Effective means of oversight over its members and ensuring that they adhere to the rules and regulations of the industry as also mutually accepted ethical and professional standards of behaviour; and
- Develop surveillance methods for effective monitoring.

3. Eligibility for Recognition of an SRO by RBI

3.1. The SRO shall be set-up as a not-for-profit company under the Companies Act, 2013.

3.2. Only regulated payment system entities, viz, banks and non-bank PSOs can be members of an SRO.

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

3.4. The memorandum / bye laws of the SRO shall specify the criteria for admission of members and the functions it will discharge. It shall also provide for the manner in which the Board of Directors (governing body) would function.

3.5. RBI may, if it deems necessary, require that the appointment of important positions in the Board of Directors of the SRO be subject to its prior approval.

3.6. The SRO shall be financially viable to carry on the activities handled or assigned to it. The fee for membership of the SRO shall be reasonable and uniform across all members.

4. Requirements Related to Management of Affairs of the SRO

4.1. The Board of Directors and management of the SRO shall satisfy the fit and proper criteria (FPC) on an ongoing basis. Here, FPC would mean that the person is of high integrity, with

blemishless character and having relevant expertise in relevant fields in the payments ecosystem.

- 4.2. Any change in directorship or adverse development about any Director shall be immediately reported to RBI.
- 4.3. At least one-third of members in the Board of Directors shall be independent and not associated with member institutions.
- 4.4. The Board shall frame a code of conduct to be followed by its members.
- 4.5. The SRO should be in a position to monitor adherence to the code of conduct as well as compliance with regulations by its members.
- 4.6. The SRO shall follow transparent practices for establishing its governance processes; setting standards, prescribing benchmarks, etc.

5. Grant of Recognition as an SRO

- 5.1. A group / association of payment system operators (banks as well as non-banks) shall apply to RBI seeking recognition as an SRO.
- 5.2. RBI reserves the right to require the applicant to submit further information or clarification as deemed necessary, before deciding on the grant of recognition as an SRO.
- 5.3. On finding the applicant suitable, RBI shall issue a "Letter of Recognition" as an SRO.
- 5.4. RBI, if in its considered opinion, concludes that the SRO is functioning in a manner detrimental to the public interest, it may withdraw its recognition to an SRO after giving due opportunity to the entity to further its views / comments.

6. Functions and Responsibilities of the Recognised SRO

- 6.1. The recognised SRO shall serve as the representative voice of its members in public discussions or in interactions with RBI or any other authorities or in any communication with other bodies.
- 6.2. The recognised SRO shall work towards establishing minimum benchmarks, ethical and behavioural standards and help instil professional and healthy market behaviour among its members. It shall work towards development of not only the entities it represents but also the payment industry as a whole.
- 6.3. The recognised SRO shall promptly inform RBI about any violation that comes to its notice, of the provisions of the Payments and Settlement Systems Act, 2007 or any other guidelines / regulations / directions issued by RBI.
- 6.4. The recognised SRO shall establish an uniform grievance redressal and dispute resolution framework across its members, including addressing inter-PSO issues.

- 6.5. The recognised SRO shall impart training to the staff of its members and others. It shall conduct awareness programmes for spreading awareness about safe payment transactions.
 - 6.6. The recognised SRO shall conduct or promote research and development for creating a secure and safe payments ecosystem.
 - 6.7. The recognised SRO shall carry out any work assigned to it by RBI and examine any proposals or suggestions referred to it by RBI.
 - 6.8. The recognised SRO shall provide any information, including data, sought by RBI periodically or as requested.
 - 6.9. The recognised SRO shall be invited for periodical interactions with RBI, and shall reasonably be expected to look at the larger picture of the segment / industry in offering its views / inputs / suggestions. The SRO shall strive to address concerns beyond the interest of its membership, viz. to protect customers, participants and other stakeholders in the ecosystem.
 - 6.10. The recognised SRO shall play a constructive role in supplementing and complementing the present regulatory / supervisory arrangements.
 - 6.11. The recognised SRO shall abide by the directions issued by RBI from time to time.
 - 6.12. The recognised SRO shall continue to adhere to the criteria under which it has been recognised as an SRO at all times.
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