

6. Payment and Settlement Systems Act, 2007**(PSS Act)** 

This Act empowers the RBI to regulate and supervise payment systems in India, ensuring they are safe, secure, and efficient.

General Aspects:

- **Purpose:** To provide for the electronic regulation and supervision of payment systems in India.
- **Designated Authority:** The RBI is the main authority for regulation and supervision through the Payments Regulatory Board.
- **Board Composition:** The Payments Regulatory Board includes:
 - Chairperson (ex-officio): Governor, RBI
 - Members (ex-officio): Deputy Governor (DG) of RBI (in charge of PSS) & One RBI Officer (nominated by the Central Board)
 - Members: Three persons nominated by the Central Government

DG, Officer**Key Provisions of the Act:**

Main Area	Key Aspects
Authorization of Payment Systems	- A payment system needs RBI authorization to operate . Corporations (or PSBs with 51% equity) are eligible to be a Clearing House for banks .

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	RBI authorizes based on specific factors . - <u>Rejection of an application will happen only after hearing the applicant .</u> - Authorization can be revoked for contravention, non-compliance, or violations . - An opportunity to be heard must be provided; meanwhile, operations may be put on hold . - Appeals against refusal or revocation can be made to the Central Government.
Regulation & Supervision	- RBI sets standards for various aspects of the payment system . - No charge for using electronic modes of payment (Section 10A) . - Any changes in the system require prior RBI approval . - System providers must submit returns, information, and documents requested by RBI . - RBI has the right to access information on operations and systems . - RBI officers can enter premises to examine equipment and seek information . - RBI can conduct audits/inspections itself or through a third party . - <u>RBI can direct a system or participant to stop certain acts or to remedy a situation .</u> - RBI can issue directions for Policies, Systems, and Conduct of business.

Duties and Rights of System Provider

- System providers must operate according to the PSS Act, RBI Directions, Rules, Authorization conditions, and Contracts .
- They must provide participants with Terms & Conditions, Rules, Netting arrangements, and maintain standards .
- They must keep documents and information confidential .
- The Bankers' Book Evidence Act, 1891, applies .
- Payment obligations and settlement can be done through gross or netting procedures .
- In case of losses or liquidation, obligations determined as per RBI procedure are final and irrevocable .
- A portion of collected amounts must be kept in the manner specified by RBI.

Settlement of Disputes

- Disputes between participants are settled by a panel of at least 3 participants .
- RBI settles disputes between the provider and a participant, or between providers, or against a panel's decision.

Offences & Penalties (Examples): 🚫

Clause	Description	Remarks/Section
(i)	Contravention of authorization	<u>Imprisonment or Fine or Both</u>
(ii)	Wilful material false statement or omission	Imprisonment & Fine

(iii)	Failure to provide/furnish document/information	Fine
(iv)	Disclosing prohibited information	Imprisonment or Fine or Both
(v)	Contravention of the Act, Regulation, Order, Direction	Fine
(vii)	RBI to issue Show Cause Notice, Give hearing opportunity	(Sec. 30)
(viii)	Fine payable within 30 days of demand	
(ix)	RBI may compound (settle) offenses , except those involving imprisonment	(Sec. 31)

Other Important Aspects of P&SS Act:

- # Overriding Power:** This Act takes precedence over any other law.
- Exclusions:** It does **not apply to stock exchanges** or their clearing corporations.
- Application:** It applies to a trade repository and an issuer.
- IFSCA's Role:** In International Financial Services Centres (IFSC), the International Financial Services Centres Authority (IFSCA) will exercise the RBI's powers under this Act.
- Public Servant:** An RBI officer given power under this Act is considered a Public Servant.
- RBI's Power to Make Regulations:** RBI can make regulations for the Payments Regulatory Board, authorization, and the system itself.



Summary

The Indian financial sector is meticulously regulated by a framework of laws primarily consisting of the **Reserve Bank of India Act, 1934**, the **Banking Regulation Act, 1949**, and the **Payment and Settlement Systems Act, 2007**. These acts empower the **Reserve Bank of India (RBI)** to function as the central bank, controlling currency, credit, and monetary stability.

The **Banking Regulation Act** governs the licensing, supervision, and overall regulation of banks, including cooperative banks, ensuring a robust and efficient banking system. Key aspects covered include permitted business activities, management norms, capital and reserve requirements, restrictions on loans and investments, and RBI's extensive powers of inspection and direction over banks.

Crucial monetary policy tools like the **Cash Reserve Ratio (CRR)** and **Statutory Liquidity Ratio (SLR)** are defined and regulated by these laws. CRR mandates a portion of deposits to be kept with the RBI in cash, while SLR requires banks to maintain a percentage of deposits in liquid assets like gold or government securities. Both serve to control inflation and ensure liquidity.

The **Payment and Settlement Systems Act, 2007**, enables the RBI to oversee and regulate all payment systems in the country, ensuring their safety and efficiency. This includes authorization of payment systems, setting operational standards, and resolving disputes.

Each of these acts also specifies detailed **penalties** for various violations, ranging from fines to imprisonment, ensuring compliance and upholding the integrity of the financial system. The entire regulatory framework is designed to protect depositors' interests, prevent bank failures, and foster balanced growth in the banking sector.

LEARNING SESSIONS