

Financial Technology & RBI's Proposal of Self-Regulatory Organisation (SRO)

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Why in News?

- Reserve Bank of India (RBI) Governor **Shaktikanta Das** has asked fintech entities to form a Self-Regulatory Organisation (SRO).

- Those entities who are interested in being recognized as SROs will have to apply to the RBI. Once the RBI finds an entity suitable, it will issue a letter of recognition.

What is Financial Technology?

- FinTech (financial technology) is a catch-all term referring to software, mobile applications, and other technologies created to improve and automate traditional forms of finance for businesses and consumers alike.
- FinTech can include everything from straightforward mobile payment apps to complex blockchain networks housing encrypted transactions.
- The term **“fintech company”** describes **any business that uses technology to modify, enhance, or automate financial services for businesses or consumers.**
- Some examples include mobile banking, peer-to-peer payment services (e.g., Gpay, PhonePe), automated portfolio managers (e.g., Fintoo, Motilal Oswal), or trading platforms (e.g., Zerodha, Groww).

RBI’s Expectations from FinTech Companies:

- RBI Governor **Shaktikanta Das** has said that **fintechs need to evolve industry best practices, privacy and data protection norms in sync with the laws of the land.**
- They must promote **ethical business practices** and **transparency of pricing** and **avoid mis-selling.**
- RBI Deputy Governor **T Rabi Sankar** said fintechs’ voluntary compliance mechanisms contribute to a more sustainable and reputable fintech ecosystem, ensuring growth while minimizing potential risks and negative outcomes.

Self-Regulatory Organisation (SRO):

- An SRO is a **non-governmental organisation** (NGO) 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.
- 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, but do not replace, applicable laws or regulations, according to the Reserve Bank of India.

Need for an SRO:

- As regulators continue to contemplate, implement, and refine regulations for the orderly development of the fintech sector, SROs could play a pivotal role in the fintech industry by promoting responsible practices and maintaining ethical standards.
- There have been many instances where a few fintech players were involved in unethical practices such as charging exorbitant higher interest rates and harassment of borrowers for recovering loans.
- Proactively addressing issues like market integrity, conduct, data privacy, cybersecurity, and risk management, SROs can help build trust among consumers, investors, and regulators.

Functions of an SRO:

- The recognized SRO will serve as a **two-way communication channel** between its members and the RBI.
- It will work towards establishing **minimum benchmarks, & standards** and help instill professional and healthy market behavior among its members.
- SROs will impart training to the staff of its members and others and will conduct awareness programmes.
- It will establish a **uniform grievance redressal and dispute management framework** across its members.

Benefits of an SRO:

- SROs are widely considered experts in their fields and so 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.
- Formation of SROs ensures member organizations follow a certain standard of conduct that helps promote ethical ways of doing business, which can lead to enhanced confidence in the ecosystem.
- They can serve as a watchdog to guard against unprofessional practices within an industry or profession.

Q1) What do you mean by Financial Inclusion?

Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a

responsible and sustainable way.

Q2) What are Digital Banking Units (DBUs)?

According to the Reserve Bank of India (RBI), a DBU is “a specialised fixed point business unit/hub housing certain minimum digital infrastructure for delivering digital banking products and services as well as servicing existing financial products & services digitally, in both self-service and assisted mode.”

Source: [Why the RBI has proposed setting-up a Self Regulatory Organisation for fintechs](#) | [Investopedia](#)

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