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Self-regulatory organisation for fintechs

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Why is in news? Why the RBI has proposed setting-up a Self-Regulatory Organisation for fintechs

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

It can provide a **link between the regulator and market participants** through a less formal set-up.

What is an SRO?

A self-regulatory organization (SRO) is an entity such as a **non-governmental organization**, which has the **power to create and enforce stand-alone industry and professional regulations and standards on its own**.

In the case of financial SROs, such as a stock exchange, the priority is to protect investors by establishing rules, regulations, and set standards of procedures that promote ethics, equality, and professionalism.

An SRO is 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.

Examples of financial SROs include **Financial Industry Regulatory Authority, Inc. (FINRA)** and the **New York Stock Exchange (NYSE)**.

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.

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Proactively addressing issues like market integrity, conduct, data privacy, cybersecurity, and risk management, SROs can help build trust among consumers, investors, and regulators.

RBI's expectations from fintech players:

Fintechs need to evolve industry **best practices, privacy and data protection norms** in sync with the laws of the land, set standards to avoid mis-selling, promote ethical business practices and transparency of pricing.

The RBI would urge and encourage the fintechs to establish a Self-Regulatory Organisation (SRO) themselves.

RBI Deputy Governor said fintechs' **voluntary compliance mechanisms** contribute to a more sustainable and reputable fintech ecosystem, ensuring growth while minimising potential risks and negative outcomes.

In the context of a new and evolving sector like fintech, it is the industry participants who possess the deepest understanding of the processes and practices within the trade.

Therefore, they are **best suited to establish common rules, enforce them, and effectively handle disputes** that may arise from non-compliance with these rules.

Benefits of an SRO:

An SRO can **help in establishing codes of conduct for its members** that foster transparency, fair competition, and consumer protection.

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 organisations** 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.

Functions of an SRO:

The recognised SRO will serve as a **two-way communication channel** between its members and the RBI.

It will work towards **establishing minimum benchmarks and standards** and help instil **professional and healthy market behaviour** 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.