

Payment Systems in India – Vision 2005-08

Part I

1. Introduction

The primary goal of any national payment system is to enable the circulation of money in its economy. It is recognised world wide that an efficient and secure payment system is an enabler of economic activity. It provides the conduit essential for effecting payments and transmission of monetary policy. Payment systems have encountered many challenges and are constantly adapting to the rapidly changing payments landscape. More recently, the proliferation of electronic payment mechanisms, the increase in the number of players in the financial arena and the payment crises in quite a few countries and regions in the 1990s have focused attention on public policy issues related to the organisation and operation of payment systems. Three main areas of public policy have guided payments system development and reform: protecting the rights of users of payment systems, enhancing efficiency and competition, and ensuring a safe, secure and sound payments system.

Electronic commerce and finance are growing rapidly. New payments mechanisms designed to aid electronic commerce have become routine. Predictions abound about the capabilities of the information and communication technology to bring forth important tools for conducting electronic commerce and payments. We are in the midst of a wave of innovation and change.

In a dynamic economy, markets need to play a key role in guiding the development of infrastructure, including mechanisms like payments systems. This means that innovation and competition will be central to the future development of the payments system - as they are in other areas of the economy. Strategic planning and investments by market participants will be shaped by views about the future. Public policy should assist them in shaping their views by pronouncing its vision and intentions clearly and well in advance so that the market participants can face the challenges and take advantage of opportunities. This Vision helps in charting out a course to purposeful and orderly change.

For such policy pronouncements, a country can opt for a strategic approach, where the state of the payment system is established, its weaknesses and strengths determined and a way forward charted, giving due regard to the country's environment and the strategic direction of the payment technologies and practices. This approach enables one to have a holistic vision of the entire payment system, and leads to the development of a Strategic Implementation Plan that is well structured, appropriately phased, properly sequenced and convergent in perspective.

India adopted this approach in the year 2001 when it came out with its "Payment Systems – Vision Document". It detailed, in the Document, the strategies and implementation plan for the payment system arena for 2001-

03. As we completed this period, it is time for taking stock of the plan, review its implementation, list and assess achievements and shortfall, learn lessons and re-plan for the next period. This document, “Payment Systems in India – Vision 2005-08” is the result of that exercise.