

#### **4. Payment Systems – Current Status**

There are diverse payment systems functioning in the country, ranging from the paper based systems where the instruments are physically exchanged and settlements worked out manually to the most sophisticated electronic fund transfer system which are fully secured and settle transactions on a gross, real time basis. They cater to both low value retail payments and large value payments relating to the settlement of inter-bank money market, Government securities and forex transactions.

The retail payment systems in the country comprise both paper based as well as electronic based systems. They typically handle transactions which are low in value, but very large in number, relating to individuals firms and corporates. These transactions relate mainly to settlement of obligations arising from purchase of goods and services. In India there are about 1050 cheques clearing houses. These clearing houses clear and settle transactions relating to various types of paper based instruments like cheques, drafts, payment orders, interest / dividend warrants, etc. In 40 of these clearing houses, cheque processing centres (CPCs) using MICR technology have been set up. At 14 more clearing houses, MICR cheque processing systems are proposed to be set up. The clearing houses at 16 places including the 4 metros are managed by the Reserve Bank which also functions as the settlement banker at these places. In other places the clearing houses are managed by the State Bank of India and certain other public sector banks and the settlement bank functions are also performed by the respective banks. The clearing houses are voluntary bodies set up by the participating banks and post offices and they function in an autonomous manner. The Reserve Bank has issued the Uniform Regulations and Rules for Bankers' Clearing Houses (URRBCH) which have been adopted by all the clearing houses. These regulations and rules relate to the criteria for membership / sub-membership, withdrawal / removal / suspension from membership and the procedures for conducting of clearing as well as settlement of claims between members.

There are various types of electronic clearing systems functioning in the retail payments area in the country. Electronic Clearing System (ECS), both for Credit and Debit operations, functions from 46 places (15 managed by Reserve Bank and the rest by the State Bank of India and one by State Bank

of Indore). The ECS is the Indian version of the Automated Clearing Houses (ACH) for catering to bulk payments. The Electronic Funds Transfer (EFT) System is operated by the Reserve Bank at 15 places. This is typically for individual / single payments. These systems are governed by their own respective rules. A variant of the EFT, called the Special Electronic Funds Transfer (SEFT) System is also operated by the Reserve Bank to provide nation-wide coverage for EFT. All these electronic fund transfer systems settle on deferred net settlement basis.

There are a few large value payment systems functioning in the country. These are the Inter-Bank Cheques Clearing Systems (the Inter-bank Clearing), the High Value Cheques Clearing System (the High Value Clearing), the Government Securities Clearing System (the G-Sec Clearing), the Foreign Exchange Clearing System (the Forex Clearing) and the Real Time Gross Settlement (RTGS) System. All these systems except the High Value Clearings are electronic based systems. These mostly relate to inter-bank / inter-financial institutional transactions except the High Value Clearing where high value customer cheques are cleared. The Inter-bank Clearing functions in 7 places and the High Value Clearing in 15 places - both are managed by the Reserve Bank. The G-Sec Clearing and the Forex Clearing are managed by the Clearing Corporation of India Limited (CCIL). The RTGS System is operated by the Reserve Bank. All these are deemed to be Systemically Important Payment Systems (SIPS) and therefore the Reserve Bank has, in line with the international best practices in this regard, moved them (except the Inter-bank Clearings at places other than Mumbai and the High Value Clearings) to either secure and guaranteed systems or the RTGS System.