

## **2. National Settlement System (NSS)**

An associated issue pertains to the manner in which settlement is done for various clearings in the country. Wholesale payment occurs through Large Value payment systems like RTGS, G-Sec and Forex Clearing settled in the books of RBI at Mumbai. With regard to retail clearings taking place at 1050 clearing houses spread all over the country, the settlement is done in the account of the settlement bank at each clearing centre separately. This casts a liquidity burden on the banks as they do not get benefit of excess funds at one clearing centre to offset the deficit at another. There is a need to settle the position of banks in the various clearing houses centrally in accounts maintained at Mumbai by means of a National Settlement System to enhance liquidity management efforts in banks. It is proposed to achieve this goal in a phased manner starting with the clearing settlement at the four metro centres being centralized at Mumbai. Appropriate technology based solutions will be put in place so that banks with regional presence can have access to the settlement account at Mumbai. Alternative approach can be to design the

National Settlement System such that the accounts at the regional centres can be accessed for centralized national settlement. In either way, National Settlement System would facilitate efficient funds management.

Keeping the above in view, it is proposed to initiate the following step

**Action Point:**

1. Reserve Bank to establish a National Settlement System through which the clearing houses/ clearing organisations can settle the net position of the participating banks at the national level. To start with, all clearing settlements from four centres (Mumbai, New Delhi, Kolkata and Chennai) would be settled through National Settlement System by December 2005. Coverage of all major clearing centres; i.e 40 MICR Clearing centres would be completed by December 2006. All settlements to be in central bank money.