

## 5. Efficiency Enhancements

Cheques continue to be the dominant retail payment instruments. To enhance efficiency in this system, India has embarked on Cheque Truncation to quicken the realization of proceeds of cheques. During the currency of the new vision document, cheque truncation will be operationalised in the four metros and some of the other major cities like Bangalore and Hyderabad where high bandwidth is available. In due course, a National Cheque-Truncation System (**National CTS**) may emerge – possibly under the new national entity for retail payment systems- that may route all intercity cheques facilitating thereby, customer credits on a T+1 or even T+0 basis.

India has introduced MICR processing in 40 places and another 14 are in the offing. With this about 70% of the country's volume of cheques will stand MICRised. In order to bring in uniform standard for cheques and to facilitate cheque truncation nation-wide, the remaining small number of non-MICR cheques can be completely replaced with MICR cheques by March 2007.

Rationalisation of the Clearing Houses is another key activity that should be a priority. This is in tune with the new institutional structure suggested earlier.

Consolidation, merger and amalgamation of the Clearing Houses and establishment of new Clearing Houses in the geographies where they are required under the overall single entity shall be the desired objective. Another significant area of enhanced efficiency and customer service is the increase in the geographical jurisdictions of the Clearing Houses so that more and more number of bank branches and customer are catered to.

Integration of SFMS – the message transfer facilities within the country- with that of Society for Worldwide Interbank Financial Telecommunication (SWIFT) for straight-through processing (STP) by inter-connectivity between SWIFT and INFINET to facilitate seamless integration with the banking applications will receive a high priority in this phase.

The regulatory structure shall encourage the use of alternative and innovative modes of payment tools including the smart cards and other cards with integrated memory capabilities - all to be based on uniform standards and inter-operability.

Requisite environment and infrastructure for end-to-end straight through processing from the customers' to banks end should be created. Initiatives such as allowing customers to upload / download their transactions files shall be pursued forward by enabling PKI security features on them. Standardisation of account numbers, standard message format framework for the banking applications are some of the other initiatives to ensure that STP becomes an industry practice.

Ensuring availability of payment systems through appropriate business continuity plans (BCP) would receive priority. For MICR Clearing at the four metropolitan centres, back up MICR centres have already been setup. At Mumbai, there are now three cheque processing centres in different parts of the city which act as backup to one another. For other MICR centres, nearby MICR centre form part of backup arrangement. As regards the large value national payment systems like RTGS and G-Sec Clearing, on-city back-up has been created. Thrust during the next three years would be to build data centres - both on-city and off-city which would be the processing hubs for all large value payment systems. On-city data centre arrangement would consist of the primary processing site and a hot standby backup. The off-city data centre in a non seismic zone would serve as remote backup.

Keeping the above in view, it is proposed to initiate the following steps towards efficiency enhancements in payment systems during 2005-08:

**Action Points:**

1. Implementation of Image Based Cheque Truncation Clearing at major centres ( New Delhi, Mumbai, Chennai, Kolkata, Bangalore and Hyderabad) which would in due course lead to National Cheque Truncation System ( National CTS)
2. Rationalisation of Clearing Operations by setting up new Clearing Houses, expansion of geographical jurisdiction of the Clearing Houses, merger and amalgamation Clearing Houses, etc.

3. MICRisation of every cheque – every cheque issued to follow MICR standards
4. All Payment and Settlement Services to be available on a national level- National ECS, National EFT and National CTS
5. Encouragement, facilitation and removal of impediments for the introduction of innovative products for banks, customers and Government- e.g. e-purse, integration of SWIFT and SFMS, straight through processing capabilities from the customer end itself
6. Enhancing the efficiency of Systemically Important Payment systems i.e by increased usage of RTGS system
7. Creating off-city back-up arrangements for large value national payment systems like RTGS system and G-Sec Clearing and revamping the present arrangement of on-site backup by way of two data centres (primary and hot standby).