

IV Risk Mitigation

4.1 With increase in reach, size and significance of payment systems the Bank is committed to assuring their safe and efficient functioning by identifying various risks, addressing risk-reduction by putting in place risk-mitigation measures and mandating appropriate risk-management practices.

4.2 The risks in payment systems viz. concentration risk, counter-party risk, credit risk, legal risk, liquidity risk, operational risk, regulatory risk, settlement risk and systemic risk will continue to be addressed by the Bank.

4.3 Towards this end, emphasis will be on advocating –

- Mitigating concentration risk in both large value as also retail payment systems by way of limiting operations of multiple payment systems by a single entity as also one bank acting as settlement bank for multiple payment systems or alternatively putting in place measures for risk mitigation wherever necessary. Important large value payment systems are now being operated by Clearing Corporation of India Limited (CCIL), which also acts as a central counterparty for systemically important payment systems. This calls for very close monitoring of the activities and functioning of CCIL and continuously reviewing the need for an additional / alternate central counterparty operating some of the payment systems with each capable of taking over the operations of the other in case of eventuality. The risk of concentration of settlement in the form of a single central counterparty needs to be carefully looked into. The retail payment systems are operated by various entities, and the focus would be to ensure that there is no concentration of a single bank acting as settlement bank for multiple payment systems. The other issue that needs to be addressed as part of concentration risk is in the outsourcing arrangements entered into by system participants with service providers. Reliance on a single or few service providers gives rise to concentration risk and could emerge as a significant single-point-of-failure. Proper risk mitigation measures in this regard would be pursued in consultation and co-ordination with all the regulatory departments.

Vision Document on Payment and Settlement Systems and Roadmap for Implementation

- Risk mitigation measures to address operational risk would be by way of (a) using latest and relevant technology, (b) having straight-through-processing interfaces, (c) placing controls in the form of maker-checker practices and building proper audit trails, (d) encouraging vendor-neutral platforms and products, (e) addressing scalability issues by monitoring adequacy of infrastructure and performance, etc.
- Approaches to mitigating counterparty liquidity and settlement risks by regulating access (access criteria, credit ratings, exposure limits, net debit cap, etc.), guaranteed settlement by committed lines of credit, settlement guarantee fund using central counterparty, preventing volatility (margins, haircuts, calling for additional securities, etc.) and secure netting systems.

4.4 With the move towards consolidation of infrastructure and integration of various payment systems, isolating and mitigating operational risk assumes importance. Risk-containment is the plan and as part of this exercise, exacerbation and transmission to other systems will be analysed and prevented both in Bank-operated and others-operated systems. The participants in such systems will also be expected to institutionalise similar practices.