

## **VI Action Plan**

6.1 With the above agenda in mind, the following action points have been targeted to be achieved in the next one-to-three years' time. The Bank's response would be proactive and to dovetail its initiatives depending on co-operation and support from various stakeholders, expectations of the system, capabilities and preparedness of participants, and developments from time to time.

### **6.2 Authorisation of payment systems**

6.2.1 Notification of the Payment and Settlement Systems Act, 2007 empowers the Bank to regulate and oversee all payment systems. The existing and proposed payment systems will need to obtain authorisation from the Bank to continue / commence operations. The central bank is expected to lay down operational and technical

standards for the functioning of these systems, empowered to issue directions, call for information / returns, revoke authorisation and impose penalties / initiate prosecution proceedings for violations of the Act, the Regulations, the directions issued by it and the terms and conditions of authorisation.

6.2.2 For the purpose the Bank shall –

- Bring all payment systems in operation in the country under its regulatory purview.
- Authorise new payment systems and operators of payment systems only if they add efficiency, increase customer convenience, expand the outreach and bring in improvements to the payment system scope and activities in the country. Assessment will be made vis-à-vis efficiency parameters like need, technology to be used, benefits to the economy, expertise of the operator, financial soundness, composition of management, adherence to corporate governance, compliance with legal / regulatory guidelines, etc.
- Refuse authorisation and revoke authorization of payment systems if the need therefor is not felt or their operations are not satisfactory. This will be done in a transparent manner and in accordance with the provisions of the Act.

### **6.3 Smooth functioning of existing payment systems**

6.3.1 Endeavour will be to ensure that the systems authorised to operate function in a smooth and non-disruptive manner. This would be achieved by –

- Streamlining access criteria prescriptions for all retail and large value payment systems like MICR, ECS / NECS, NEFT and RTGS. The existing access criteria parameters will be constantly reviewed and modified, wherever necessary.
- Ensuring redundancies to handle business continuity requirements. The redundancies in the form of additional / alternate arrangements will address both processing and settlement requirements. Periodic assessment by way of conducting drills, switch-over of the operations / settlements will be carried out and business continuity plans will be documented and suitably modified.
- Putting in place appropriate mechanism for on-site inspections / off-site surveillance.

6.3.2 Banks need to indicate in their Cheque Collection Policies (CCPs) the timeframe for collection of local and outstation cheques, apart from other aspects advised to them from time to time. The CCPs need to be widely publicised and also published in the respective banks' websites. The CCPs framed by banks will be made comprehensive in

terms of scope, coverage, transparency and dissemination. It will be ensured that banks strictly operate within the meaning and intent of the CCPs especially in regard to timeframe for collection, grievance redressal mechanism and penalties for non-conformity.

6.3.3 In addition to the timeframe specified for collection of US-Dollar Denominated Instruments, guidelines will be framed and advised for collection of foreign-currency denominated cheques payable in UK and / or locations that have significant volumes.

6.3.4 Charges levied for offering various payment products will be constantly reviewed and appropriate interventions will be considered if the charge-structure is found to be non-transparent or unreasonable.

6.3.5 The Payment and Settlement Systems Act, 2007 provides legal basis for finality of settlement i.e. it lays down the point of time when the settlement will be deemed final. The Reserve Bank in order to provide operational clarity is in the process of issuing a Settlement Finality Directive.

6.3.6 One of the focus areas would be to ensure optimal operation of clearing entities. Recognising the role played by clearing and settlement facilitating entities such as the CCIL, the Bank would continue to closely monitor and oversee the operations of such entities. Insofar as the activities of CCIL are concerned, the operations have grown manifold and the organisation has been responding well to the changing requirements. Given the criticality of CCIL in the financial stability of the country, it would be necessary to review the shareholding pattern and the management structure to further strengthen efficiency levels so as to result in better confidence among users.

#### **6.4 Infrastructure building and improvement**

6.4.1 The Reserve Bank of India will render its views / opinion to National Payments Corporation of India (NPCI) in preparation of its roadmap. NPCI has been set-up as an umbrella organisation by the banking community to take over the retail payment system activities in the country. NPCI will be authorized for all the systems set-up by it / taken over by it.

6.4.2 Back-up arrangements by way of identifying alternate banks to take over processing and settlement operations in the event of non-availability of the main bank would ensure availability of clearing infrastructure during strikes / disruptions. Back-up arrangements by way of first / second alternate banks both for processing and settlement of clearing transactions will be operated in all major Clearing Houses in the country.

Such arrangements will be put in place at the top 100 Clearing Houses in the country in terms of volumes handled.

6.4.3 Putting in place alternate settlement arrangements in the event of non-availability of RBI as a settlement bank will also be explored.

6.4.4 Single Window Facility will be extended to all member banks that are part of Clearing Houses managed by major banks. This will enable member banks to view balances maintained by them with these banks at different Clearing Houses and also initiate funds transfer requests from / to their own accounts.

6.4.5 Secured Web Site (SWS) facility will be extended to cover all MICR-CPCs. The SWS facility will be used by CPCs / member banks to upload / download clearing data / reports. Hard copies of clearing reports by the CPCs will be provided only in exceptional and need-based circumstances.

## **6.5 Promoting electronic modes of payment**

6.5.1 All large-value and time-critical payments will be processed only through the electronic mode.

6.5.2 All bank branches will be enabled with IFSC and MICR codes. The intention is to leave the user with the choice of product for retail and small-value transactions viz. use MICR for NECS and IFSC for NEFT.

6.5.3 Reach of electronic products like RTGS, NEFT and NECS will be extended to cover all the branches of banks, including Regional Rural Banks.

6.5.4 Operating hours of RTGS will be reviewed and considered based on market / user expectations and stakeholder feedback.

6.5.5 Number of settlements in NEFT will be reviewed and further increased / rationalised depending on analysis of volumes, user requirements and efficiency perspectives.

6.5.6 Efforts would be made to provide positive acknowledgement to the remitter confirming credit to the beneficiary's account for transactions initiated in NEFT. This would give comfort to the remitter and enhance his usage.

6.5.7 Electronic modes of payments have the benefits of safety, speed, efficiency, low cost and audit trails. The Bank will therefore endeavour to facilitate the electronic modes.

6.5.8 Local ECS operating in a number of centres will gradually be subsumed in NECS.

6.5.9 The introduction of Regional ECS (RECS) (introduced in Bangalore) will be explored in centres where the users (payer and payee) are based in the same region.

6.5.10 Further to the initiatives taken to operationalise Indo-Nepal Remittance Facility Scheme (for one-way migrant remittances from India to Nepal), operationalisation of electronic products like NEFT and ECS / NECS in Bhutan will be taken up. In addition, the possibility of extending National Financial Switch (NFS) to cover banks operating in Bhutan will also be actively explored.

6.5.11 The Centralised Funds Management System (CFMS) as it presently exists, facilitates centralised balance viewing of and funds transfer between own accounts of a member bank maintained with the Bank at different locations. It will be examined if CFMS can be enabled to facilitate funds transfer between member banks as well.

## **6.6 Reducing risks in paper-based clearing**

6.6.1 Over a period of time, efficiency has been brought into the paper mode of clearing by way of introduction of MICR processing, computerised settlement, truncating the movement of physical cheques, etc. Operations across all Clearing Houses in the country will be fully computerised. Magnetic Media Based Clearing System (MMBCS) software will be used to computerise processing and settlement operations at all Clearing Houses in the country. All new Clearing Houses will function only on MMBCS mode.

6.6.2 Operationalising MICR-Cheque Processing Centres (MICR-CPCs) will be considered at all locations where it is viable and have a daily volume of 10,000 instruments or more. Such CPCs could be made part of the grid-based CTS. Cheques processed by MICR-CPCs will cover over 95% of volume and value of cheques processed in the country.

6.6.3 Given the various risks associated with paper-based clearing especially for large-value transactions, and the advantages available in the electronic products like NEFT / RTGS, conduct of High Value Clearing will be discontinued at all locations in the country.

6.6.4 Speed Clearing to clear outstation cheques at the centre of presentment will be extended to cover 100 major centres in the country.

6.6.5 The Bank run Inter-City Clearing will be discontinued at all locations.

6.6.6 Cheque Truncation System (CTS) will be rolled out at Chennai. National roll-out of CTS will be considered once this project is operationalised.

6.6.7 The prospect of bringing various Clearing Houses in a region (covering adjacent states) using a Grid-based approach is being examined. Grid-based cheque clearing system to cover nearby MICR-CPCs and Clearing Houses under the Chennai-grid (covering southern states) will be implemented. The New Delhi-grid will also be operationalised by extending the jurisdiction of New Delhi Bankers' Clearing House to cover nearby cities / states. Extending the concept of grid-based clearing to cover other regions in the country will be reviewed based on experience gained from the operationalisation and functioning Chennai and New Delhi grids.

6.6.8 Cheque standardisation will be endeavoured which would build more security features to cheques and thus reduce incidence of frauds. Standardisation will also facilitate OCR capture of information contained in the cheques, thereby enabling straight-through-processing and least manual intervention. Cheques with enhanced security features when presented through CTS will provide the level of comfort expected by presenting banks and drawee banks alike.

6.6.9 All cheques in the country, including the cheques used by the Government departments will be completely migrated to the MICR mode. Non-MICR clearing presently operational in a few locations in the country (on a once-per-week basis or otherwise) will be discontinued.

6.6.10 The clearing infrastructure in place at various locations have the advantages of faster clearing cycle, low cost, uniform practices, better dispute resolution and are functioning since long. Bilateral arrangements function outside the clearing infrastructure and do not contribute to the efficiency of the system in all situations. Therefore, all the Bilateral Clearing arrangements between banks would be reviewed and allowed to continue only where necessary.

## **6.7 New frontiers**

6.7.1 There has been an increase in the various new payment systems initiatives / products. Introduction, usage and acceptability of the new on-site and off-site delivery channels viz. Core Banking Solutions (Branch Banking), Computers (Net Banking), Cards (Pre-paid Payment Instruments), Mobiles (Mobile Banking), Automated Teller Machines, Points-Of-Sale Terminals, Hand-held Devices, Interactive Voice Response Modes and the like will be carefully monitored, nurtured and actively pursued. Some of

these initiatives have been very popular on account of low cost, convenience and high efficiency. The increasing popularity is reflected in their fast increasing customer / user base.

6.7.2 Effectiveness and reach of Business Correspondents (BCs) and various modalities including eligibility criteria, area of operations, appointment of sub-agents, etc., will be periodically reviewed and streamlined, if necessary, in the interest of increased outreach and expansion of banking services to the rural populace.

6.7.3 Review of the policy on ATMs in terms of increasing the number, criteria for setting up on-site and off-site ATMs, levy of charges, safety of transactions on ATMs, activities permitted to be carried out through ATMs, security features for ensuring the privacy and safety of transactions, resolution of grievances, complaint handling, accessibility of other-bank ATMs, inter-ATM networks, etc., will be closely watched and appropriate measures will be put in place to protect usage and prevent mis-use.