

Keynote Address

INFINET AND ITS IMPACT ON BANKING¹

By
A.VASUDEVAN

Ladies and Gentlemen,

Today is a momentous occasion for all of us. We are now at the threshold of a great change – a kind of a revolution, so to say, – in technology for the banking sector. We have all had the privilege of hearing a very important and a very purposeful speech of Deputy Governor, Shri Talwar, a few moments ago. I have, therefore, very little to speak on the network as such. I would, therefore, dwell on a tangential issue – the one on the impact that INFINET would have on banking. To this end, I shall touch upon, in brief terms, the probable areas of usage that INFINET could be put to, the applications that could be routed through the INFINET, and the way that banking would evolve with the use of INFINET.

2. It has been widely acknowledged that one of the biggest bottlenecks in the banking system in the country today is the lack of a system that ensures fast, safe and secure intra-bank and inter-bank communication. In fact, this deficiency has hampered to a large extent the development of a modern, integrated payment system. Most of the cases of complaint against banks relate to the time taken for transfer of funds across banks and between cities and to the delays in the collection of outstation cheques. Clearly, the non-availability of a reliable communication backbone has been one of the main contributors to this state of affairs. The functioning of the existing terrestrial line networks is hardly optimal in terms of efficiency, although of late, there has been some change in this area for the better. But, the wide geographical spread of branches of banks and the differing terrain of the country necessitate the setting up of a reliable communication backbone as an imperative factor.

3. The best solution in the given circumstances therefore, has to centre on the establishment of satellite based network using VSAT technology. The decision to go in for VSAT technology is a deliberate choice. For, without it, it would have been difficult to initiate a network, the Indian Financial Network or INFINET as we have now called it. Clearly, it gets the distinction of being a forerunner of an efficient telecommunications backbone for the Banking and financial sector. With the inauguration of this network today, we need to now seriously examine the use to which it can be put.

4. There can be no better measure of success of the INFINET than the facility for quick funds transfer. Most of you may be aware that the Reserve Bank of India has, over the last few

¹ Keynote Address by Dr. A.Vasudevan, Executive Director, Reserve Bank of India, delivered on June 19,1999 at the inauguration of the 'INFINET' held at the Institute for Research and Development in Banking Technology, Hyderabad

years, developed many new products for the benefit of banks which are all aimed at ultimately improving customer service and systemic efficiency. One of this – the Electronic Clearing Service (ECS) – is aimed at effecting electronically, repetitive credits or debits for a large population of customers spread across a large number of branches of many banks. This facility is presently available in cities. To illustrate, ECS (Credit) is available for a corporate customer based at Mumbai to distribute, say dividend or interest payments, to his shareholders located at different cities, say, Mumbai, Delhi, Chennai, Bangalore, Hyderabad, Thiruvananthapuram, Kanpur, Nagpur and so on. I am glad to announce that one of the applications that could be put on the INFINET would be inter-city ECS. Under this proposal, corporate customers at one place could effect credits to accounts of customers situated anywhere within the reach of coverage of ECS. Intercity ECS would not only result in quick inter-city funds flows, but also pave the way ultimately for paperless funds transfers, and minimise greatly the levels of clearing related reconciliation entries at banks.

5. Many of you would have noticed that one of the products that is slowly gaining acceptance in recent months is the Electronic Funds Transfer (EFT) Scheme of the Reserve Bank of India. This facility, currently in operation between the four major metropolitan cities would be another application that could use the INFINET medium. Work is in fact already on at the Department of Information Technology to make the EFT software work on TCP/IP platforms compatible with the INFINET. Once EFT takes the INFINET route, funds transfers facilities from a bank in one city to another bank in a different city would become easier. The time taken for funds transfers would also be reduced and ultimately pave the way for straight through processing.

6. No payment systems could boast of excellence unless funds transfers take place in a on-line basis. In India, we have the banks maintaining current accounts at the various locations of the Reserve Bank of India. Managing funds flows at these current accounts and providing for transfers from one location to another is yet another activity that could be put over the INFINET. We in the Reserve bank are working on the establishment of a Centralised Funds Management System (CFMS) comprising the Centralised Funds Enquiry System (CFES) and the Centralised Funds Management System (CFMS) by the RBI. This would in our view, pave the way for banks to manage their funds with the RBI in a much more efficient manner and also provide the Treasury / Funds departments of banks with latest information on their balances with the various Deposit Account Department offices of the RBI.

7. A natural extension of the above would be the establishment of a Real Time Gross Settlement System for the country. We at the RBI have done considerable amount of preliminary work for the setting up of a RTGS system for the country. The main processing system for the RTGS system is being put into place at the four National Clearing Cells (NCCs) in the metropolitan cities. While it has to be accepted that a project such as the introduction of RTGS spreads across a few years, it would have to be ensured that RTGS in India would be implemented in the quickest possible time alongwith the attendant requirements of security and safety. Our Governor has already announced in the Monetary Policy for the ensuing year that RTGS would be established within 15 to 18 months. We are working to achieving this goal. In

our view, INFINET would be an ideal medium for transmission of both messages and funds for the RTGS system.

8. As all of you know, one of the serious weaknesses of today's payments system relates to the delays in the collection of proceeds in respect of inter-city cheques. This is yet another area of activity that could be put on the INFINET in the first phase of implementation of the network. Realisation of cheques sent on collection basis through the National Clearing Cells of the RBI could be informed through the INFINET, thus reducing the time taken for realisation of intercity cheques. I must add that the requisite hardware and software for this are being provided for at the four NCCs. This activity, when it picks up, is bound to have a substantial impact on most of the small customers of banks.

9. Most of the above activities have some relation to the central bank's functioning with the banks. We have not left out the areas of usage by banks exclusively, either. Work is already on for finalisation of the message formats for Interbank applications and the first part of this report is ready. Once message formats are standardised for use across banks, message transfers for a wide variety of applications that take place between banks would take place effectively, efficiently and quickly. This may also open up facilities for Electronic Data Interchange (EDI) between banks and their constituents and perhaps pave the way for the introduction of E-Commerce in the country.

10. Yet another area of interest is the Management Information Systems (MIS). Using Information Technology for MIS is ideal and helpful in decision making. Also INFINET helps to provide facilities for banks for transmitting information on currency chests which would ensure flow of notes and coins as required, INFINET would also provide communication tools for carrying MIS-based data of banks and financial institutions – both for their own internal usage such as periodical statements, data etc., as also for sharing across members critical data such as credit information of customers at the national level, intercity linking of ATMs, facilities for transmission of data for data warehousing purposes, data mining etc. The dissemination of information from the Central Bank to the other members – in the form of circulars, guidelines and the like could also be through the INFINET.

11. One of the areas that is demanding great attention especially in the IT area is the need for educating the staff at banks on technology related aspects. I am happy to inform that the IDRBT is planning a series of training courses and distance learning modules based on the INFINET. Thus education and training using the INFINET would thus be another area of value for bankers.

12. The introduction of the INFINET as a medium of communication for the banking and financial sector in sum opens up a wide array of opportunities for the participants in the field. One could without hesitation, say that INFINET is poised to act as the agent of change for the good of all of us. It has become imperative for us to act quickly to utilise the INFINET by placing on it the requisite software and work towards expansion of the capacity of the network.

Thank you.