

Excellence in Payments

Shri B. Mahapatra, Chairman, NPCI, Shri Dilip Asbe, MD, NPCI, distinguished guests, fellow bankers, captains of the industry and the Honourable members of the Jury – it gives me great pleasure to be amidst you all as NPCI today recognises the significant work done by the innovators in payment systems of the country. Let me begin with a quote by Robin Sharma, the motivational speaker, who says '*Small daily improvements over time lead to stunning results*'. No one can disagree with him. This is most applicable to the area of payment systems in India which has got international recognition. Giant strides taken by India in respect of payment and settlement systems and the retail payment space stand out prominently. The role played by NPCI in this regard is immense and it is only befitting that the awards instituted by them reflect the importance ascribed towards innovations in payment systems.

Retail payment systems in India : the Background

1. Thrust on digitisation of payment systems in India have had a relatively recent origin. The NPCI, envisioned as an umbrella organisation for retail payment systems in the country, was set-up with the guidance and support of the Reserve Bank and Indian Banks' Association (IBA) in December 2008.
2. The Payments Systems Vision Document 2005-08 of Reserve Bank had envisaged a new institutional structure for Retail Payment Systems, preferably owned by banks and other financial institutions, with the objective of a) optimally using the resources through consolidation of

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existing infrastructure and building new infrastructure to enable national reach in a seamless manner; and b) creating a robust technology platform which provides service of the highest quality to customers at affordable price. Accordingly, in the year 2009, the NPCI started its role as a payment system provider by operating the ATM network when IDRBT handed over to it the National Financial Switch (NFS). Thereafter, the RBI requisitioned the NPCI to operate the Cheque Truncation System (CTS) on its behalf.

3. The objective of an umbrella organisation is to provide swift, convenient, anytime-anywhere payment services which are easy-to-use, simple, secure, fast and cost-effective for customers. NPCI over the years has operated various retail payment systems viz. IMPS, UPI-including BHIM, National Unified USSD Platform (NUUP) for mobile payments, RuPay, NACH, Aadhaar based AePS, including Aadhaar Pay, APBS, BBPS, NETC, etc., some of which are available for use on a 24x7 basis. In all the payment systems the main role of NPCI has been to offer switching services and the attendant clearing and settlement facilities. This has involved creating technology platforms, setting up standards, framing procedural guidelines, creating risk management structure, etc. which, in a way has changed the retail payments scenario of the country. Thus initial expectations of the Reserve Bank, have been largely fulfilled.

Retail Payment Systems : The Rise of India in the Global Map

4. India has been always been a country which has fostered innovation and development in the area of payment and settlement systems. The past

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decade has witnessed the blossoming of a myriad of payment systems, all for the convenience of the common man.

5. For a country which has a large dependence on cash, the only major payment system until the 90s was the cheque clearing system. We still process over 90 million cheques per month. This is important as cheques are also non-cash transactions and are often not given due importance. This system was also unique in the sense that there were more than 1000 clearing houses in the country – a big number by any standard. The initial steps towards the change in the payment systems was the mechanisation of the clearing houses managed by the Reserve Bank in the late eighties by the introduction of the MICR technology for cheque processing. This not only ushered in computerisation of clearing, but also sowed the seeds for the digitisation of payments in the years to come. The initial steps towards electronic products were all set up by the Reserve Bank and once the level of maturity was reached, the market was allowed to develop and thus came about the emergence of interoperable ATMs. The NFS has proven that in a large country like India, networked ATMs can function very well and that costs are shared by competing entities as well. Today, the growth in ATM usage has migrated away from the metropolitan centres, to the Tier 3, 4 and 5 cities and the evolution of White label ATMs is proof of the large potential that ATMs have brought in.
6. India is among a few countries which has settlement / funds available for cheque clearing on a T+1 basis with finality. India has pride of place in the form of the UPI for retail payments. We are also having the one of its kind Aadhar enabled payment systems as well the most ubiquitous QR code-based processing. All these retail payment systems have resulted in the

availability of a wide choice for the common man and more importantly, at reasonable rates.

Excellence in Retail Payments

7. Retail payments have grown by nearly 45 per cent in volume and 30 per cent by value during 2017-18. Retail payment systems in India are characterised by large volumes and this makes it necessary that the systems are available whenever and wherever they are required. If these systems are to deliver at the desired levels of expectations, then there is a need to focus on certain key essential features of 'excellence'. Let me dwell a bit on each of these six excellence features:
8. The first most important requirement in this regard is 'AVAILABILITY'. Retail payment systems, by their very nature have to be available on demand, at all times – generally 24 by 7 – and at all convenient locations and modes. While most of our systems do reflect this, the bottleneck is in terms of digital connectivity. Addressing infrastructure constraint is critical to making available retail payment services to the population. Currently, a large number of RRBs, rural cooperative banks and district central cooperative banks are yet to be part of retail platforms (NEFT, IMPS and NACH). To encourage participation of citizens in semi-urban and rural India, there is a need to bring all RRBs, rural cooperative banks and district central cooperative banks on various retail electronic platforms subject to their technological capability.
9. The second requirement is 'EFFICIENCY'. In a country such as ours where the diaspora of population and the attendant requirements are of

multiple levels, it is essential that the systems are available at very cost effective rates and that they also perform as per the levels of expectations.

10. The third crucial requirement is 'CONVENIENCE'. Today's customer is very discerning and chooses convenience over cost – a feature which is observed prominently among the young population. The large scale use of Mobile Banking, app based payment systems, QR Code are all testimony to this fact.
11. The fourth hallmark of excellence is 'SAFETY'. All payment systems should display explicit levels of safety. It would be necessary that the systems not only meet the requirements of safety but are also subjected to safety audits at periodic intervals.
12. The fifth essential necessity is 'SECURITY'. This is perhaps the central pivotal requirement since the entire world of today is grappling with issues relating to cyber security. It is of utmost importance that the risk management practices to ensure smooth clearing and settlement (settlement guarantee fund, default fund, line of credit, margins, debit caps, etc.) are implemented with a conservativeness in approach and ruthlessness in implementation across each and every product. There have been incidents involving misuse of the payment systems / networks to defraud the participant institutions and / or their customers. Whether the fraudsters could have been prevented from doing so can be a matter of debate, but there cannot be differing opinion that attention to security on an ongoing basis can greatly mitigate this risk. Failure to do so by one / few entities can put the entire payment system to peril. While it is gratifying to note that NPCI – in collaboration with IDRBT – is providing optimal security to their retail payment systems, there is an essential need for the

entire eco system to have security as an integral component and ensure that security becomes a culture. It is necessary to keep in mind that no system can be 100% fool proof. While experimenting security standards that are best in class, periodically testing them for vulnerability, mitigating the risks, it is equally important to build in resilience so that the service continues uninterrupted or recovers within a short period if there is any failure.

13. The sixth indicator of excellence is 'ADAPTABILITY'. In a fast changing world, product life cycles are becoming very short and thus adapting them for quick changes is a virtual requirement. I may at this stage indicate that while the RBI introduced the MICR cheque clearing with the reader sorter based processing, it also closed it a few years ago and brought in Cheque Truncation. This is a good example of adaptability coupled with evolution.

Way Forward

14. Let me flag a few aspects, which apply to any payment service provider and products, and may need to be examined going forward.

i. Performance Assessment: As I look at the landscape of retail payment systems, the question of whether we have too many products/variants could be contemplated. Products that have outlived its utility could be eased out. The process of consolidation, exit route for products and players should be actively pursued. May be markets/users themselves could take care of this. It is also useful to make the systems inter-operable to harness their true potential.

ii. Customer Grievance Redressal Mechanism: (a) The e-BAAT programmes and the recent media workshops that RBI has conducted reveal one striking

feature. Lack of consumer awareness not just on the various payment options and features available, but even on the grievance redressal mechanisms available. This illiteracy transcends across all geographies and regions, not just rural or semi-urban, north or south and is equally true of the staff at the front desks of bank branches. Are we doing enough to educate the public? Should it be the responsibility of the regulator alone? The answer is no. Let us all strive to build consumer awareness consciously and rigorously. An informed customer is a crucial cog in the payment ecosystem.

(b) We get many complaints related to failure of transactions. In our country, when new users are being initiated into digital financial transactions, if their early experience is less than wholesome, they are put off, and fall back on non-digital means. It is imperative that we harness technology to ensure this. Payment systems must ensure 100% accuracy.

(c) While we are on the subject of consumers, let me also highlight the need for effective redressal mechanisms. While an elaborate machinery is in place for redressing banking-related customer complaints, the same cannot be said about redressal of complaints in the digital space and need to be put in place. Member institutions and payment service providers must strengthen their grievance redressal mechanism to handle complaints, which should be transparent, easy and effective.

15. The Reserve Bank has been placing its Vision for payment systems in the public domain right from 2001. Work on the next vision document for the ensuing period has now commenced. The future will hold more challenges and the time would be ripe for consolidation as also growth. RBI has always favoured competition and innovation in every field including payments systems. Allowing non-banks into the payment

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ecosystem was done to foster this with permission given to non-banks to issue PPIs, establish white label ATMs, innovation and competition has gathered momentum. This will guide the regulatory philosophy in the coming years also.

16. In addition to issues highlighted above, we have also been receiving inputs for the road map for payment systems over the next three-four years. While we are working on the same, there is a need to debate and put in [place the following in the best possible manner. They are—

- a. Robust data collection, big data analysis and analytics framework for creating benchmarks.
- b. Platforms for industry wide sharing of fraud data.
- c. Need for Self-Regulatory Organisations amongst various industry sectors
- d. Security standards for mobile payments, including Internet of Things' devices and security aspects of social networks based payments.
- e. Leveraging block chain or distributed ledger technology.
- f. Encouraging contact less payments, including through QR code, tokenisation.
- g. Innovation through regulatory sandbox.

17. Last but not the least, the payment systems in India which, as indicated earlier - are amongst the best in the world. This has happened only because of the collaborative efforts of all stake holders. RBI, on its part has always followed a consultative process with all the stakeholders while framing regulations. While competition and innovation must be encouraged, the regulator has to be mindful of stability of the system. For

example, dilution of KYC, AML framework can seriously undermine public confidence in the system itself and must be eschewed.

18. The spirit to leverage technological innovation to safely and securely bridge the gap in payment systems should continue to be our watchword. If today's awards of excellence is any indication, I am optimistic that the future is bright. Let us not be a part of the future – let us create the future and make it successful.

19. My congratulations to the winners of award today. The award should goad them to further excellence and inspire others to create a payment system that is safe, secure, efficient, convenient and best in the world.

I wish NPCI will play a stellar role in achieving this.

Thank you.