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Use of electronic mode of payment for large value transactions

Recognising the importance of ensuring the safety, security of the payment systems, the Reserve Bank of India (RBI) has put in place three modes of electronic payments i.e. Real time Gross Settlement (RTGS) System, National Electronic Fund Transfer (NEFT) System and Electronic Clearing Service (ECS). Payments by these modes have been steadily growing in the last few years. An internal Working Group set up by the Reserve Bank to examine the various issues related to migration from paper-based systems to electronic systems recommended a phased approach of encouraging, monitoring and mandating for this migration. The Reserve Bank has been using the approach of encouraging and monitoring resulting in almost 40,000 bank branches spanning over 9773 centres being covered by the RTGS and NEFT systems.

A study conducted by the Reserve Bank revealed that during a three month period about 2,100 cheques each valued at Rs.1 crore and above were processed in the clearing houses in the four metros. It is proposed that with effect from April 1, 2008 all payment transactions of Rs. 1 crore and above between RBI regulated entities i.e. banks, primary dealers and NBFCs as well as in RBI regulated markets i.e. money market, Government Securities market and foreign exchange market may be mandated to be undertaken through electronic mode only. This move will not only reduce risk from moving large paper-based value retail payments to safer electronic modes, but will also bring greater efficiency and customer convenience to the payment systems.

RBI has accordingly prepared an Approach paper and placed the same on its website today and the same is open for public comments up to March 3, 2008. Comments may be sent by e-mail or faxed to 022- 22659566 or letters addressed to the Chief General Manager (DPSS), Reserve Bank of India, Central Office, Mumbai-400001.

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Manager

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**Use of Electronic Mode of Payment for large value transactions:
Approach Paper**

Recognising the importance of electronic payment systems in ensuring safe, secure and fast payment and settlements RBI has put in place three modes of payments:

	Payment Systems	Features	Coverage
1	RTGS (Real Time Gross Settlement)	For online real time settlement of systemically important payments. Minimum transaction value Rs.1.00 lakh. Transaction window from 9.00 a.m. to 4.00 p.m. Amount is credited to the beneficiary's account within a maximum time of 2 hours.	About 40,000 branches of banks in the country are enabled to put through transactions in this system.
2	NEFT (National Electronic Funds Transfer)	For settlement in batch process – 6 settlements a day on week days and 3 settlements on Saturday. Customers accounts credited on the same day for first four settlements and by the next day for the last two settlements.	More than 39,000 bank branches are enabled to put through transactions in the system.
3	ECS (Electronic Clearing System)	Netted settlement for bulk transactions of repetitive nature (dividend, salary, pension payments, refunds, vendor payments).	At 70 centres

2. The volumes of transactions put through these systems have been steadily going up as can be seen from the table below:

Sr.No.	System	2006-07		2007-08 (upto Jan.2008)	
		<u>No.</u> (in lakhs)	<u>Amount</u> (Rs.crores)	<u>No.</u> (in lakhs)	<u>Amount</u> (Rs.crores)
1.	RTGS	38.75	18481154.60	44.88	2,19,14,347.04
2.	NEFT	47.76	77,446.31	102.19	1,08,663.64
3.	ECS	1442.21	1,08,713.88	1668.57	1,39,729.93

Recommendations of the Working Group on Electronification of Payments

3. In this connection, an internal Working Group had examined various issues relating to migration from paper based instrument to these electronic payment systems. The Working Group had suggested a phased approach of encouraging, monitoring and mandating for the transactions to be moved from paper based system to electronic system. Accordingly, RBI has been in regular touch with banks and based on the feedback received in expanding the coverage, rationalization of systems and procedure and upgrading the technology infrastructure steps are being taken to strengthen these systems

4. During last few months several rounds of discussions with banks had been held and symposia had been organised at several places in the country. The access points to provide RTGS and NEFT system is growing at the rate of about 1500 additional branches every month and we expect the number of access points to increase further in the next few months for both RTGS and NEFT.

5. While this process of encouraging and monitoring would be a continuing activity, it is suggested that we may now consider the third stage of migration strategy where use of electronic payment systems would be made mandatory for making large value payments beyond a cut-off amount (say Rs.1 crore).

Study on Large Value Payments

6. A study reveals that the daily average number of cheques for Rs.1 crore and above being used by all entities at four metropolitan centres for the three months (October-December 2007) is around 2100 valued at Rs.14,800 crore. Since four metro centres account for bulk of large value payments (as evident from the cheque clearing data), the likely volume of cheques Rs.1 crore and above may not be very large for the whole country. Therefore, this additional volume can be comfortably handled in the RTGS or NEFT or ECS infrastructure.

7. Moving such large payments from an unsecured paper-based system to a fully secure electronic credit push system would have the following advantages:

- Reducing credit and settlement risks from having large value retail payments being made by paper instruments

- Bringing greater efficiency by moving large value retail payments to electronic mode
- Increasing customer convenience
- Reducing the transaction cost for the banks (which in turn can be passed on to customers)

International Experience

8. In many developed countries, the percentage growth of cheques as mode of payment has been negative for last few years. But in India, the cheque volume continues to grow with a positive growth rate, inspite of more than 33% growth rate (in 2006-2007 over 2005-2006) by volume in electronic transactions.

Proposal

9. In view of the above it is proposed to make large value payments of Rs.1 crore and above mandatory to be routed through electronic payment mechanism with time frame as under:

Type of transactions	Time frame
(i) All payment transactions of Rs. 1 crore and above between the RBI regulated entities such as banks, primary dealers and NBFCs	1st April 2008
(ii) All payments of Rs. 1 crore and above in RBI regulated markets such as money market, Government securities market and foreign exchange market	1st April 2008