

PAYMENT SYSTEMS IN INDIA

VISION 2005-08

ACCOMPLISHMENTS

VS

STATEMENTS



RESERVE BANK OF INDIA

Vision 2005-08 – Accomplishments Vs Statements

I Introduction

1.1 The Bank has published two Vision Documents for payment systems – the first Vision document in 2001 and the second Vision 2005-08 in May 2005. Achievements of the Vision set in 2001 were highlighted in the Vision Document 2005-08.

1.2 The Vision Statement for 2005-08 proclaimed, "the establishment of safe, secure, sound and efficient payment and settlement systems for the country" as its Mission. The key role of financial markets and the significance of strategic planning were highlighted. Accordingly, the direction and activities of the Bank had started with the Vision approach to realise the Mission.

II Vision 2005-08 – Accomplishments

2.1 The roadmap set out in the Vision Document 2005-08 has been by and large accomplished as detailed below.

2.2 The Payment and Settlement Systems Act, 2007 (the Act) has been enacted and the Regulations under the Act viz., the Board for Regulation and Supervision of Payment and Settlement Systems Regulations, 2008 and the Payment and Settlement Systems Regulations, 2008 have come into effect from August 12th, 2008.

2.3 National Payments Corporation of India Ltd. (NPCI), a company to operate retail payments has been set-up.

2.4 Centralised Funds Management System (CFMS) which facilitates own account funds transfer across Offices of the Bank has been operationalised at all the RBI centres. Use of CFMS as a mode of funds transfer to achieve National Settlement System (NSS) was recommended by the Committee set-up to finalise the modalities for implementation of NSS.

2.5 Availability of RTGS and National Electronic Funds Transfer (NEFT) Systems at more than 55,000 branches across the country has surpassed the target of 500 capital market intensive centres identified by the two stock exchanges (Bombay Stock Exchange and National Stock Exchange).

2.6 NEFT settlement timings were rationalised - It is now available from 9.00 am to 5.00 pm on weekdays and from 9.00 am to 12 noon on Saturdays. High end new

servers for NEFT Production & Gateway services were installed at NCC-Nariman Point. A separate new Gateway for NEFT was also successfully operationalised at NCC-Nariman Point. Back-up arrangements at the RBI Data Centre were activated. Extending NEFT beyond India was also achieved with the implementation of Indo-Nepal Remittance Facility Scheme, a low-cost alternative to Nepali migrants in India for remitting periodic sums back to Nepal.

2.7 National-ECS (NECS) was successfully launched during September 2008. NECS leverages on the core banking enabled network of bank branches with access from a centralised location (at Mumbai) thus providing pan-India coverage. Launch of NECS was yet another attempt to provide a national character to critical and popular payment systems.

2.8 Local ECS availability was extended to 76 major locations in the country. The clearing cycle for Local ECS was successfully brought down from T+5 to T+1. T+1 clearing cycle is operational uniformly at all ECS centres in the country.

2.9 The Cheque Truncation System (CTS) was successfully implemented in the National Capital Region of New Delhi. All member banks of New Delhi Bankers' Clearing House are participating in CTS. MICR clearing in New Delhi has since been discontinued.

2.10 MICR Cheque Processing Centres (MICR-CPCs) were set-up at 31 more centres during the period, taking the total number of MICR-CPC locations to 66 and the number of MICR-CPCs to 71. At centres with lesser cheque volume but where there are five or more bank branches or at district headquarters where there are three or more bank branches, Clearing Houses (CHs) have been opened with settlement arrived at by using the Magnetic Media Based Clearing System (MMBCS). Computerisation of CHs at over 90% of the locations has been achieved.

2.11 Improvements in Outstation cheque collection - Operationalisation of Speed Clearing to provide a facility for realisation of outstation cheques at the local centre-of-deposit was conceptualised and implemented during 2008. This facility is now available at 64 of the 66 MICR-CPC locations.

2.12 Minimum Standards of Operational Efficiency at MICR-CPCs and other CHs operating with the MMBCS package were framed and put in place. All CHs are required to submit quarterly / half yearly Self Assessment Reports to respective Regional Offices of the Bank.

2.13 Benchmark Indicators of Efficiency for ECS (Credit and Debit) operations were formulated.

2.14 Apart from the mechanism of Banking Ombudsmen to handle payment system-related complaints, arrangements were put in place to look into queries and redress grievances of stakeholders by way of – a NEFT Help Desk at NCC-Nariman Point, placing contact details of RTGS participants on the Bank's website, etc.

2.15 List of centres offering ECS & Speed Clearing, consolidated links to Cheque Collection Policies (CCPs) of banks, comprehensive list of CHs, details of branches with IFSC and MICR codes, particulars of branches offering RTGS & NEFT products, FAQs on various payment system products, etc., were placed on the Bank's website for wider dissemination and stakeholder awareness.

2.16 The Department also participated effectively in various International & National events relating to payments systems. The Bank was actively represented in the SAARC Payments Council deliberations and a meeting of the Council was also organised in the country.

2.17 A world class Data centre with an on-city and off-city backup has been set up. Testing of the back-up site is done periodically. Back-up arrangements for RTGS, CFMS, NEFT and other critical payment systems have been put in place.

III Payments system infrastructure and current status

3.1 The Payment and Settlement Systems Act, 2007 along with the Board for Regulation and Supervision of Payment and Settlement Systems Regulations, 2008 and the Payment and Settlement Systems Regulation, 2008 provide the legal framework and the base for smooth operations of the payment systems in the country. Our payment systems are now compliant with Principle 1 of the Core Principles for Systemically Important Payment Systems.

3.2 There are significant developments in payment systems apart from the accomplishment of the vision set for 2005-08. There is a shift towards use of electronic modes of payments, though in the retail payment systems, in terms of volume, cheque clearing continues to dominate.

3.3 In the large-value payment systems, post-implementation of Real Time Gross Settlement (RTGS) System, the Securities Settlement System (SSS) implemented in RBI has facilitated seamless transfer of funds and securities for liquidity management purposes.

3.4 Steps were taken towards encouraging migration towards electronic payment mode; simultaneously efforts were made for bringing in efficiency and putting in place risk mitigation measures for paper based clearing and settlement system by way of implementation of CTS and computerisation of settlement at Non-MICR Clearing Houses. For smooth operations of the payment systems, the centres with more than 5 banks but with no Clearing Houses were advised to set-up Clearing Houses. There are at present 1138 Clearing Houses operating in the country. Automated cheque processing using Magnetic Ink Character Technology (MICR) technology is now available at 66 locations. At centres where the daily volume of cheques cleared is not substantial, Clearing House operations are being automated using Magnetic Media Based Clearing System (MMBCS) software. This has facilitated faster settlement and reduction in errors and reconciliation.

3.5 Increasing use of mobile phones necessitated issuance of Mobile Payment Guidelines for banks providing this facility, which was done in October 2008.

3.6 For bringing in transparency in the payment services offered and the charges levied from customers, banks have been advised to display the same on their website; link to the respective banks' website has also been provided on the Bank's website. Charges for electronic payment products viz. NEFT / RTGS, and outstation cheque collection have also been prescribed.

3.7 Free withdrawals at non-home bank ATMs : Automated Teller Machines (ATMs) have become an important delivery channel for banking transactions in India, particularly for cash withdrawal and account balance enquiry. The charges levied on the customers for use of ATMs of other banks varied from bank to bank and from network to network. To bring greater transparency and reasonableness in charges being levied by banks on their customers for such transactions, the Bank has freed charges for cash withdrawal and balance enquiry from April 2009.

3.8 Cash Withdrawal at Points Of Sale (POS) Terminals : Cash being predominantly used for small value payments and in rural / under-banked areas, the need for arrangements for dispensation of currency at more number of outlets was examined. Initiatives were taken to permit cash withdrawal at POS using debit cards up to a maximum of Rs.1000/-.

3.9 Commencement of authorisation of payment systems : The Payment and Settlement Systems Act, 2007 has cast the responsibility of regulation and supervision of payment systems on the Bank. The Act has come into effect from

August 12, 2008 and the process of authorising payment systems and issuing approvals to payment system products / operators has commenced.

3.12 Discontinuation of inter-city clearing : With the introduction of Speed Clearing to enable 'local' clearing of outstation cheques, the Inter-city Clearing facility provided by the Bank at 15 locations in the country is being discontinued in a phased manner.

3.13 Increase in threshold of high value cheques and discontinuation of high value clearing : In view of the various risks associated with use of paper-based instruments for clearing and settlement of large-value transactions, the process of migration of large-value payments to the electronic mode was initiated. The threshold limit for cheques eligible to be presented in High Value Clearing has been enhanced from the present Rs.1 lakh to Rs.10 lakh and the high value clearing has been discontinued at a couple of locations.

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