



STUDENTS' ECONOMIC FORUM

A monthly publication from South Indian Bank

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To empower the student community...*

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Theme 297

**PAYMENT AND SETTLEMENT SYSTEMS
IN INDIA: VISION-2018**



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Theme No: 297: PAYMENT AND SETTLEMENT SYSTEMS IN
INDIA: VISION-2018

A well informed customer will make the policy makers as well as organizations which produce goods and services more responsive to the customer needs. This will also result in healthy competition among organizations and improve the quality of goods and services produced. The “SIB Students’ Economic forum” is designed to kindle interest in the minds of younger generation.

Various steps are being taken by the government/RBI to reduce the cash transactions and increase the cashless transactions. This is possible by further technological advancement. Electronic payments such as electronic wallets, Unified Payment Interface(UPI), Bharat Bill Payment system etc will help to improve cashless transactions. This month we discuss Payment and Settlement Systems in India: Vision 2018.

What is the need for Payment and Settlement Systems in India: Vision-2018?

It reiterates the commitment of the Reserve Bank of India to encourage greater use of electronic payments by all sections of society so as to achieve a “less-cash” society.

What is the objective of Payment and Settlement Systems in India: Vision-2018?

The objective is to facilitate provisions for a payment system for the future. It should have the attributes of safety, security and universal reach with technological solutions. An effective payment and settlement system will enable faster processing, enhanced convenience and the extraction and use of valuable information that accompanies payments.

What are the trends in electronic payment systems?

The major milestones of the electronic payment systems are as follows:

- From 2012-13, all segments of electronic payments, particularly retail electronic payments have shown healthy growth both in terms of volume and value of usage.
- The RTGS/NEFT volumes increased three fold during the period 2013 to 2016.
- The e-commerce sites and mobile payment applications have contributed a lot for the steep rise in mobile transactions.
- Significant growth in the card usage resulting in a quantum leap in ATM and POS transactions.

- The usage of prepaid instruments (PPI) is also increasing.
- Steady decline in cheque payments from 2013 to 2016.

What are the broad contours of Vision-2018?

The broad contours of Vision-2018 can be explained by 5 Cs.

Broad contours of Vision-2018	Description
Coverage	Enabling wider access to a variety of electronic payment services.
Convenience	Enhancing user experience through ease of using the products and processes.
Confidence	Promoting integrity of systems, security of operations and customer protection.
Convergence	Ensuring interoperability across service providers.
Cost	Making services cost effective for users as well as service providers.

What are the strategic initiatives of Vision-2018?

The strategic initiatives of Vision-2018 and their imperatives are as follows:

1. RESPONSIVE REGULATION:

RBI in consultation with stakeholders will go for enhanced coverage. This will also include the interoperability of the payment systems and convenience with security for the end users. The responsive regulation will be in sync with emerging developments and innovations includes the following:

- Orienting policy with emerging developments and innovations - It includes the framing of new policy and review of existing policy in emerging areas. It covers assessing the policies for prepaid instruments, mobile banking, white label ATMs, nodal account for intermediaries etc.
- Setting up Payments Systems Advisory Council- It includes the representatives/ experts to strengthen the consultative purpose.
- Amendments to PSS (payments and settlement systems) Act - This calls for improved governance of payment system operator, Resolution of Central Counter Party (CCP)/ Financial Market Infrastructure (FMI) etc.
- Strengthening of financial stability-The financial stability will be strengthened by encouraging the adoption of legal entity identifier by the financial entities.

2. ROBUST INFRASTRUCTURE

Includes the following:

- Facilitating faster payment services - This could be effected with more

settlement cycles for the NEFT transactions. The financial institutions shall ponder the feasibility of the adoption of ISO standards. This could be also done by having innovative and better user interface of mobile technology.

- Improving accessibility - This could be done by having a better infrastructure accepted across all verticals. The implementation of Bharat Bill Payment System and Trade Receivable Discounting System is a step towards this process.
- Promoting interoperability - The improvement in the accessibility could result in Unified Payment Interface (UPI), better toll collection and payment in the mass transit system etc.
- Enhancing safety and security - The safety and security can be enhanced by migrating to EMV chip and PIN card. Security of ATM transaction can be increased by increasing the safety and security of the ATM infrastructure.
- Cheque clearing system: The system shall be modified to eliminate the paper transactions. Financial institutions should encourage the complete migration of cheques to CTS-2010 standards.

3. EFFECTIVE SUPERVISION

There shall be effective supervisory mechanism to strengthen the resilience of the Financial Market Infrastructures (FMIs) and System-Wide Important Payment Systems (SWIPS) in the country. This is besides setting up appropriate framework for new systems and augmenting the data reporting and fraud monitoring systems. The effective supervision includes the following:

- Assessment of resilience of payment and settlement infrastructure including FMIs and System-Wide Important Payment Systems (SWIPS) - Checking the resilience of communication, messaging and IT system of financial institutions etc. This also needs to build capability to process transaction from multiple systems.
- Design of a robust framework - The payment system operators or the financial institutions need to put in place a framework for the large value transactions, retail transactions etc.
- Strengthening of reporting framework including fraud monitoring - Moving the reporting of periodic returns by payment systems operators to XBRL platform and a framework for the collection of data on frauds in payment systems.
- Analysing data and publishing reports - A report of select retail and large value transactions, the analysis of payment systems related data within the bank.

4. CUSTOMER CENTRICITY

A customer centric approach to streamline the customer grievance redressal

mechanism, focuses on building customer awareness and education and initiates customer protection measures. The customer centricity includes the following:

- Strengthening of customer grievance redressal mechanism - A robust and responsive customer grievance redressal system is essential to build an environment of trust and confidence in payment systems. The bank should formulate better grievance redressal systems.
- Enhancing customer education and awareness - The customer confidence in the system is inbuilt by better awareness in products and processes. A well informed customer will have better chance of migrating to cashless transaction. The bank shall collaborate with all other stakeholders to create an environment for the awareness of the of e-payment system.
- Protection of customer interest - The banking system should be able to provide the best system to mitigate the risk of fraudulent activities. This is to protect the interest of the customer. There must be a regulatory framework to limit the customer liability in the event of any unauthorised transaction.
- Positive confirmation - There should be an effective mechanism to get the positive confirmation for both RTGS/NEFT transactions.
- Conducting customer surveys - The policies and the regulatory framework could be refined with customer feedback. A good customer survey will elicit better customer feedback. The finding of these surveys will throw insight to the use of existing payment methods and their expectations about the system.

What are the expected outcomes of Vision-2018?

- Decline in paper-based clearing systems
- Increase of retail electronic payment systems
- Increase in the number of customers registered for mobile banking
- Significant growth in acceptance infrastructure
- Increased usage of Aadhaar in payment systems

The Reserve Bank of India is trying to have more cashless payments in India which will help to reduce a substantial amount of black money in the market. A better electronic payment system will also help to increase the transparency in the system

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