

# STUDENTS' ECONOMIC FORUM

*To kindle interest in economic affairs...  
To empower the student community...*



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Theme 266

**PAYMENT SYSTEM VISION DOCUMENT -2015**

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Theme No. 266 : PAYMENT SYSTEM VISION DOCUMENT -2015

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A well informed customer will make the policy makers as well as organisations which produce goods and services more responsive to the customer needs. This will also result in healthy competition among organisations and improve the quality of goods and services produced.

The “SIB Students’ Economic Forum” is designed to kindle interest in economic affairs in the minds of our younger generation. We highlight one theme in every monthly meeting of the “Forum” Indian payment systems pose significant challenges and opportunities in the coming years. This month we discuss on the initiatives taken by RBI to develop a more efficient and integrated payment system in our country.

**What is the background of the payment system in India?**

The earlier Document ‘Payment Systems in India - Vision 2009-12’ mainly focused on ensuring that all the payment and settlement systems operating in the country are safe, secure, sound, efficient, accessible and authorised. Cash still remains the predominant payment mode with the value of banknotes and coins in circulation at 12.04% of GDP. The wide network of treasuries/currency chests and over 1100 clearing houses across the country contributed to the slow turn around to adoption of modern payment products. The initiatives taken by the RBI have resulted in deeper acceptance and penetration of non-cash payment modes. Cheque continues to be a dominant mode in retail payments constituting around 50 percent in terms of volume and around 80 percent in terms of value, with retail electronic payments lagging behind. Even though the growth of electronic payments including RTGS, NEFT have been impressive, the benefits of modern electronic payment systems are yet to reach all sections of society. With financial inclusion gaining pace and the number of bank accounts increasing at a sustained pace, the number of transactions is likely to increase in the payment and settlement infrastructure. There is a huge potential of government transactions (payments and receipts) migrating to electronic mode. It is estimated that Government subsidies alone constitute more than Rs. 2.93 trillion. The e-commerce and m-commerce platforms are poised for a big stride in coming years. The main focus of the Vision Document is to provide a thrust to modern electronic payments that are safe, simple and low-cost for use by all.

**What is the Mission Statement?**

The Mission Statement is to ensure that the Payment and Settlement Systems in the country are safe, efficient, interoperable, authorised, accessible, inclusive and compliant with International Standards. RBI indicates the renewed commitment towards providing an efficient and integrated payment and settlement system for the country driven by

customer demands of convenience, ease of use and access to impel the necessary convergence in innovative e-payment products and capabilities to meet these demands consistent with international standards and best practices. The overall regulatory policy stance is towards promoting a cashless / paperless society, the “green” initiative, and hence the increased emphasis on the use of electronic payment products and services that can be accessed anywhere and anytime by all at affordable prices.

### **What is the Vision statement?**

The Vision Statement is set out to proactively encourage electronic payment systems for ushering in a less-cash society in India. The Vision statement sets out the roadmap to ensure benefits of a structured modern payment and settlement systems, including innovative products, to reach out beyond the currently served target groups thereby facilitating greater financial inclusion. This is to be achieved by nurturing a payment system that adequately serves the national and international needs of the nation.

### **Which are the focus areas in the vision document?**

The Key focus areas are

#### **1. Efficiency enhancement in the payment systems**

**Cheque Clearing:** The focus of cheque clearing operations in the coming years would be consolidation, rationalisation, and centralisation, through the implementation of grid-based CTS solution. The issuance of CTS 2010 compliant cheques will facilitate this process and the policy disposition will continue to be biased towards electronic payments and products in terms of a more efficient clearing and settlement cycle as compared to that of the paper-based instruments. The cheque clearing in the entire country would be centralised into 3 to 4 grids (from existing 1100+ clearing houses) with the clearing houses/banks linked to the CTS grids by leveraging technology/ clearing house infrastructure. In smaller centres the clearing house or one of the banks could transform itself into a Service Bureau offering scanning and transmission facilities to member banks on a pay-per-use basis.

#### **National Electronic Funds Transfer System (NEFT):**

The scope of NEFT in terms of access to non-bank authorised payment system operators who achieve a critical mass in terms of the volume and value of transactions being handled through a Sponsor Bank arrangement would also be examined.

#### **National Electronic Clearing Services (NECS):**

The way forward would be to consolidate local ECS and RECS into NECS. One of the major challenges faced in the ECS schemes relate to mandate management and the ease with which the customers can manage their mandates. Efforts would be made to rationalise and strengthen the mandate management systems. This could be achieved through business process re-engineering resulting in an electronic (centralised/ decentralised) mandate management system.

Other payment systems:

RBI would strive towards building and preserving efficiency gains in the authorised payment systems through a proactive regulatory and policy framework.

- Review the domestic money transfer guidelines and further fine-tune the role of non-bank payment system operators in facilitating domestic remittances.
- Review the extant guidelines for acquiring of PoS/ ATM transactions and consider the role of non-bank payment system operators; examine the feasibility of introducing white label PoS.
- Monitor the progress of white label ATMs and enhance the services available at white label ATMs.

## **2. Standardisation, Portability and Inter-Operability**

- a. Review the need for standardising the payment instruments, message format, payment instructions in consultation with stakeholders. Examine the international messaging format like ISO 20022 for adoption across payment systems.
- b. Strive towards interoperability and portability in mitigation systems including mobile payments; Aadhaar based payments in consultation with stakeholders.
- c. Monitor the progress of use of SWIFT as an alternate messaging network.
- d. Notify interoperable standards for all payment systems and products starting with standards for Micro-ATMs.
- e. Review the feasibility of adoption of IBAN/BBAN for standardisation of account numbers.
- f. Examine the feasibility of forming a standard setting body under the overall guidance of RBI with representation from IBA, IDRBT and other stakeholders (other experts, if required) to formulate standards, for various payment systems. The proposed standard setting body would also formulate standards for migrating to a uniform routing protocol for payment systems.
- g. Encourage electronic invoicing and electronic letters of credits in trade finance.
- h. Aim for a streamlined IT architecture which will eliminate point to point interface for various payment products through a “Payment Hub”.

## **3. Development of infrastructure and integrated payment system**

- Augment the existing hardware and network resources, besides optimising the application software in the RBI operated payment systems like NEFT, NECS etc.; implementation of next generation RTGS.
- Monitor the progress of existing/new payment systems such as ACH, IMPS etc.
- Assess the processing capabilities of system participants to handle the increased volume in consultation with the stakeholders and draw up a plan for augmentation of the processing capabilities.
- Focused efforts in building a skilled pool of human resources through workshops, seminars, summits, with active industry participation.
- Provide linkages between Payment systems infrastructure to encourage convergence, portability and interoperability.

- Develop the full functionalities of a trade repository consistent with international best practices.
- Engage with all stakeholders for building an integrated payment infrastructure.

#### **4. Risks in payment systems**

As part of risk management framework, attempts would be made towards settlement of all payment systems beyond a threshold, whether operated by banks or non-banks, to be settled in RBI's books of accounts. For instance centralised settlement of clearing files emanating from CTS, MICR clearing, other settlement files originated by non-bank entities like card networks such as VISA, MasterCard etc in the books of RBI could be considered.

#### **5. Compliance with international standards through oversight**

The oversight of payment systems will continue to be based on the pillars of authorisation, safety, security, efficiency and accessibility. The smooth operations of payment systems attain critical importance from a financial stability perspective. Accordingly, well-functioning payment systems not only are dependent on the 'risk mitigation measures' (covered in the above section on Risk Management in payment systems) but also on the safety and security of the system, the minimisation of operational risks, effective management of various services and technology providers.

#### **6. Promote access and inclusion**

Provide a conducive regulatory framework for the introduction of technology based innovative products for the use of all. Ensure the availability of low cost and safe domestic and cross border remittances.

#### **7. Payment system literacy and visibility**

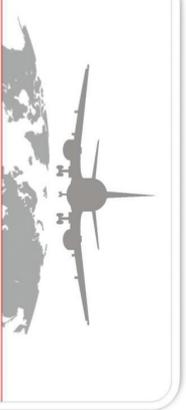
The payment system literacy and visibility would be increased through electronic Banking Awareness Training (eBAT). This will bring awareness of the various payment products and the ease with which they can be used to encourage the use of non-cash payment products and provide impetus to the move towards a less-cash society.



## LONG TERM ACTION POINTS:

- Strive towards interoperability and portability in all payment systems including mobile payments; Aadhaar based payments in consultation with stakeholders.
- Aim for a streamlined IT architecture which will eliminate point to point interfaces for various payment products through a “Payment Hub”.
- Provide linkages between Payment systems infrastructures to encourage convergence, portability and interoperability
- Promote funds settlement of all payment systems beyond a threshold, whether operated by banks or non-banks in RBI’s books of accounts.
- Prepare a resolution framework for Financial Market Infrastructures in line with international initiatives.

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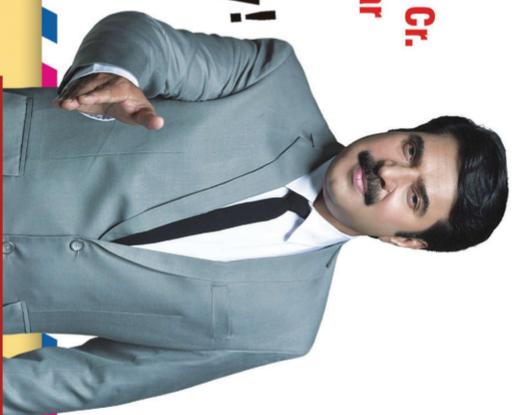


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