

---

## Chapter VIII

### Perspectives

---

**8.1.** The efficiency of the financial infrastructure of which the payments and settlement process is a crucial component, is an important factor in promoting financial sector development, in improving the effectiveness of monetary policy, and in reducing the country risk profile. Integration of the payments services across the country and markets abroad is an important reason for improving the payments system.

**8.2.** The decade old experience of computerisation of clearing operations as well as the small beginnings in electronic payments and electronic banking has revealed the need for expansion and upgradation of technology. Yet, the development of the payments system is not just a matter of technology. It requires high availability of reliable communication network, the integration of work processes, and delivery systems.

**8.3** The payment instruments are constantly changing and newer products and services are being innovated in the developed and developing countries and these are being introduced with suitable modifications/safeguards in India. At the retail level a wide range of payment instruments like EFT, ECS, E-money, Smart Cards and credit cards will cater to the needs of different types of economic transactions. At the level of inter-bank payments and settlements, real time and on-line funds transfer are likely to play a major role both in local as well as inter-city dealings. The spread and the reach of the modern system should enable equal and convenient access from both small and big centres alike. The design of an integrated system should be such that there is a wide choice of payments instruments at the retail level and there is end to end connectivity over all parts of the country to enable delivery of these instruments through fast, reliable and secure communications. An integrated system would enable real time movement of funds between different financial markets, allow fair and equal access to all the financial intermediaries and enable effective regulatory oversight. The fundamental requirement is the integration of various payments instruments, transactions and settlements into a single system which combines flexibility with efficiency. This would have implications for not merely seigniorage but also the conduct of monetary policy.

**8.4.** The technology with regard to MICR processing would need to be upgraded to a full image capture solution. Processing of cheque images would pave the way for major process changes such as Cheque truncation and Electronic presentment. Electronic presentment of images of cheques will substitute physical delivery of cheques. This combined with centralised signature storage and retrieval system will eliminate several destination points and reduce clearing time very substantially. By using data communications the slow physical movement would be eliminated. Introduction of these processes would be facilitated if necessary changes in legal framework are made.

**8.5.** At centres with smaller cheque volumes, introduction of item based floppy input clearing with computerised settlements will be necessary. The computerised clearing centre can also be networked into a national clearing framework for query and transfer of inter-bank funds between the centres.

**8.6.** The cheque processing centres and computerised clearing houses will be the cornerstones for the expansion of automated and electronic clearing services. Computerisation of clearing houses either through MICR centres or through Floppy input clearing system will provide the basis for the delivery of the electronic services such as ECS (Credit and Debit) and EFT on a retail basis.

**8.7.** The felt need for a communication network with a wide geographical reach will be fulfilled when the proposed VSAT network begins to function. The network will be used for Funds transfer, transaction processing, data transfers, Government Securities trading and settlement, Government Receipts and Payments, currency chest accounting, ATMs, Smart / Credit card operations, EFT, ECS and Electronic Data Interchange (EDI).

**8.8.** Real Time Gross Settlement System is regarded as the centre piece of an integrated payments system. The RTGS is the centralised settlement system into which all the dispersed net settlement systems will flow. The RTGS will enable real time and on-line fund management for the financial system. Migration to an RTGS environment is the main objective of payments system reforms in most countries of the world. In fact, access to cross border settlement systems such as the TARGET in Europe is conditional on the availability of a full fledged domestic RTGS for each of the participating countries. The main centres of international finance like New York, London, Tokyo and Hong Kong etc., operate in a RTGS environment.

**8.9.** Apart from providing a real time funds settlement environment, the RTGS is critical for an effective risk control strategy. The risks inherent in a net settlement system are well known. Payments system risks in a net settlement system are such that the default by one bank may lead to a 'knock-on' or domino effect on the system. Gross Settlement reduces the risk significantly, as transactions are settled one by one on a bilateral basis in a real time mode.

**8.10.** In a cross border context, RTGS becomes even more relevant as cross country risks are more difficult to manage as compared to domestic transactions. Concepts such as Payment versus Payment (PvP) are especially relevant in cross currency transactions. RTGS provides both the technology and process controls to manage these risks better. The communication network forms the back bone for a domestic RTGS system. A national RTGS facility would help promote an integrated national payments system covering :

- Wide array of payments products and services with a mix of paper and electronic payments;
- ATM, Smart/Credit transactions;
- National Clearing System on Deferred Net Settlement (DNS) basis;
- National DvP System;
- Cross currency clearing and settlement system;
- money market dealing systems;
- debt and capital market segments;
- a National on-line Government Accounts system;
- National RTGS System;
- a National Currency management and accounting system;
- Wide Area Satellite based Closed User Group network, providing the communication backbone to the proposed Integrated National Payments system.

**8.11.** It is towards the creation of such an integrated system on a real time gross settlement basis that the movement has begun.