

Payment and Settlement Systems in India

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- The Board for Regulation and Supervision of Payment and Settlement Systems (BPSS) of the Reserve Bank of India is the highest policy-making body on payment systems in the country.
- In India, the payment and settlement systems are regulated by the Payment and Settlement Systems Act, 2007 (PSS Act) which was legislated in December 2007.

→ ***RBI's permission required for setting and operation of payment systems in India***

▪ Payment Systems

1. Paper-based Payments
2. Use of paper-based instruments (like cheques, drafts, and the like) accounts for nearly 60% of the volume of total
3. Non-cash transactions in the country. In value terms, the share is presently around 11%.

Recent developments in paper-based instruments include launch of Speed Clearing (for local clearance of outstation cheques drawn on core-banking enabled branches of banks), introduction of cheque truncation system (to restrict physical movement of cheques and enable use of images for payment processing), framing CTS-2010 Standards (for enhancing the security features on cheque forms).



Electronic payment

- **Electronic Clearing Service (ECS) Credit:** The Bank

introduced the ECS (Credit) scheme during the 1990s to handle bulk and repetitive payment requirements (like salary, interest, dividend payments) of corporates and other institutions.

- **National Electronic Clearing Service (NECS):** NECS (Credit) facilitates multiple credits to beneficiary accounts with destination branches across the country against a single debit of the account of the sponsor bank.
- **Regional ECS (RECS):** RECS, a miniature of the NECS are confined to the bank branches within the jurisdiction of a Regional office of RBI.
- **Electronic Clearing Service (ECS) Debit:** ECS (Debit) facilitates consumers/subscribers of utility companies to make routine and repetitive payments by 'mandating' bank branches to debit their accounts and pass on the money to the companies.
- **National Electronic Funds Transfer (NEFT) System**
 - In November 2005, a more secure system was introduced for facilitating one-to-one funds transfer requirements of individuals/corporates. Available across a longer time window, the NEFT system provides for batch settlements at hourly intervals, thus enabling near real-time transfer of funds.
- **Real-Time Gross Settlement (RTGS) System**
 - RTGS is a funds transfer system where the transfer of money takes place from one bank to another on a "real-time" and on "gross" basis.
 - Settlement in "real-time" means payment transaction is not subjected to any waiting period.
 - "Gross settlement" means the transaction is settled on one to one basis without bunching or netting with any other transaction. Once

processed, payments are final and irrevocable.

▪ **Clearing Corporation of India Limited (CCIL)**

- CCIL was set up in April 2001 by banks, financial institutions and primary dealers, to function as an industry service organisation for clearing and settlement of trades in the money market, government securities and foreign exchange markets.

▪ **Pre-paid Payment Systems**

- Pre-paid instruments are payment instruments that facilitate the purchase of goods and services against the value stored on these instruments.
- The value stored on such instruments represents the value paid for by the holders by cash, by debit to a bank account, or by credit card.
- The pre-paid payment instruments can be issued in the form of smart cards, magnetic stripe cards, internet accounts, internet wallets, mobile accounts, mobile wallets, paper vouchers, etc.
- The use of pre-paid payment instruments for cross border transactions has not been permitted, except for the payment instruments approved under Foreign Exchange Management Act, 1999 (FEMA).

▪ **Mobile Banking System**

- Reserve Bank brought out a set of operating guidelines on mobile banking for banks in October 2008, according to which only banks which are licensed and supervised in India and have a physical presence in India are permitted to offer mobile banking after obtaining necessary permission from Reserve Bank.

▪ **ATMs / Point of Sale (POS) Terminals / Online Transactions**

- Presently, there are over 61,000 ATMs in India.
- Savings Bank customers can withdraw cash from any bank terminal up to 5 times in a month without being charged for the same.

- There are over five lakh POS terminals in the country, which enable customers to make payments for purchases of goods and services by means of credit/debit cards.
- To facilitate customer convenience the Bank has also permitted cash withdrawal using debit cards issued by the banks at PoS terminals.

▪ **National Payments Corporation of India**

- The Reserve Bank encouraged the setting up of National Payments Corporation of India (NPCI) to act as an umbrella organisation for operating various Retail Payment Systems (RPS) in India.
- NPCI is expected to bring greater efficiency by way of uniformity and standardization in retail payments and expanding and extending the reach of both existing and innovative payment products for greater customer convenience. It is owned by a group of promoter banks and was set up under the guidance and support of the reserve bank of
- India (RBI) and Indian banks' association (IBA). The BHIM app, Unified Payments Interface (UPI), FASTag which aims at cashless society in the country is the recent work of NPCI.

▪ **RuPay**

- RuPay is NPCI's card payment network which is accepted at ATMs, PoS machines, and e-commerce sites.
- RuPay offers lower charges than its global competitors like Visa and MasterCard. Key benefits of RuPay include lower cost and affordability, and penetration in the untapped/unexplored consumer segment.
- RuPay cards are uniquely positioned to offer complete interoperability between various payment channels and products. NPCI currently offers varied solutions across platforms including ATMs, mobile technology, cheques et al and is extremely

well placed in nurturing RuPay cards across these platforms.

- The RuPay card is available in 3 variants: Debit Card, Credit Card & Prepaid cards.
- **Unified Payments Interface UPI:** UPI is a simple & instant payment system created by NPCI that is based on the IMPS system. UPI can operate on a smartphone and can be thought of like an email ID for money. It lets you transfer money immediately between any two parties' bank accounts and works 24x7.
- **Bharat Interface For Money (BHIM):** BHIM is a smart mobile-based app based on Unified Payment Interface -UPI that allows simple, easy and quick payment transactions using UPI. The user can send money using a Virtual Payment Address(VPA), Account Number & IFSC, Aadhaar Number or QR Code.

Other services offered by NPCI

- National Financial Switch (NFS) – provides e-commerce transactions with interbank payment gateway and shared ATMs.
- Immediate Payments Service (IMPS) – provides electronic fund transfer payment mechanics through the usage of mobile phones, internet banking and ATM
- *99# – provides banking services to common man which works on USSD channel.
- National Automated Clearing House (NACH)- facilitates high volume interbank transactions which occur repetitively.
- Cheque Truncation System (CTS)- clearing cheques using online image basis
- Aadhaar Enabled Payment System (AEPS)- provides a point of sales transactions with an Aadhar enabled number.
- Bharat Bill Payment System (BBPS) – a unified platform for bill payment system in the country.

