V Leeladhar: The payment and settlement system in India

Special address by Mr V Leeladhar, Deputy Governor of the Reserve Bank of India, at the Conclave on Indian Banking – Vision 2010, organised by the Indian Banks' Association, Mumbai, 1 August 2008.

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Dear Friends,

It is my pleasure to be here with you this afternoon at this important conclave, which seeks to articulate the vision of Indian banking in 2010. I am thankful to the organisers for affording me this opportunity to be here today and share some of my thoughts with this august audience. The Indian banking system has come a long way, particularly during the last couple of decades and continues to evolve in a myriad of ways. While, no doubt, the future contours of the Indian banking would be shaped and driven by a variety of factors, the developments in the payment and settlement systems, to my mind, would be of particular significance. This is so since the payment and settlement systems are part of the basic infrastructure needed for the proper functioning of market-oriented economies. They are indispensable for the efficient flow of payments for goods, services and financial assets and their smooth functioning is crucial for the effective implementation of the central bank's monetary policy and for maintaining the financial and monetary stability in the economy. The RBI has recognised the payment and settlement systems to be critically important for the broadening and deepening of the financial markets, as also for maintaining confidence in the financial system by enhancing the safety, soundness and efficiency of the market infrastructure.

I have, therefore, chosen to talk about the payment system in India, which is an important element of the financial sector infrastructure. Today, I would like to briefly touch upon the evolution and objectives of the Indian payment system – as a public good, various milestones crossed by us in the past few decades, the major initiatives that the RBI has taken to upgrade and modernise the payment system in India to benchmark it with the best in the world, and the various technological developments that can be leveraged to further deepen the penetration of the payment system services in the country to promote greater financial inclusion.

Evolution of the payment system in India

The history of the payment system can be said to be virtually co-terminus with the evolution of money. The earliest form of payment system could perhaps be traced back to the pre-historic days of barter trade when the settlement of consideration took place through exchange of conch shells, goods, cattle and later commodities. Such a system, in the absence of money as a medium of exchange, was obviously very cumbersome due to highly improbable 'coincidence of wants' of the two parties to a barter transaction. Subsequently, more formalised payment instruments, such as coins, developed. The earliest payment instruments known to have been used in India were coins, which were either punch-marked or cast in silver and copper; even leather is known to have been used for making coins. Thus, with the advent of institutionalised forms of money, initially in the form of coins and later as paper money, the barter trade withered away and the usage of currency became the order of the day.

Paper money, in the modern sense, has its origin in India in the late 18th century with the note issues of private banks as well as semi-government banks. Amongst the earliest issues were those by the Bank of Hindoostan, which was the first joint stock bank established in 1770, the General Bank in Bengal and Behar, and the Bengal Bank. Later, with the establishment of three Presidency Banks since 1809, the work of issuing notes was taken over by them and each Presidency Bank had the right to issue notes within certain limits. The private banks and the Presidency Banks introduced other payment instruments in the Indian money market and cheques were introduced by the Bank of Hindoostan. Buying and selling bills of exchange became one of the items of business to be conducted by the Bank of Bengal from 1839. The Paper Currency Act of 1861 conferred upon the Government of India the monopoly of Note Issue, thus, bringing to an end the note issues of private and Presidency Banks. In 1881, the Negotiable Instruments Act (NI Act) was enacted, formalising the usage and characteristics of instruments like the cheque, the bill of exchange and promissory note. The NI Act provided a legal framework for non-cash, paper payment instruments in India and continues to be an operative legislation even today.

While the modern cheques came into being in India only in the 19th century, it is noteworthy that India had pioneered the use of non-cash based payment systems long ago, which established themselves as strong mechanism for the conduct of trade and business. The most important form of credit instrument that evolved in India was termed as 'Hundis' and their use was reportedly known since the twelfth century. Hundis were used as instruments of remittance, credit and trade transactions, and were of various types, each type with its own unique features. However, with the steady rise in volumes of trade and commerce and the growing confidence of the public in the usage of cheques, etc., there was also rapid growth in the payment transactions using these instruments. With the development of the banking system and higher volume of cheques used, the need for an organised cheque clearing process emerged amongst the banks. Clearing associations were formed by the banks in the Presidency towns and the final settlement between member banks was effected by means of cheques drawn upon the Presidency Banks. With the setting up of the Imperial Bank in 1921, settlement was done through cheques drawn on that bank. After the establishment of the RBI in 1935, the Clearing Houses in the Presidency towns were taken over by the RBI, and continued with it for more than five decades.

It is noteworthy that the volume of paper-based clearing we handle is the sixth largest in the world and during the year April 2007 to March 2008 about 1.46 billion cheques were cleared in the country. The total number of cheques cleared and the value during the last three years in India are as follows:

Type	**Volume (in billion) (April – March)**			**Value (Rupees in lakh crore)**		
	2005-06	**2006-07**	**2007-08**	**2005-06**	**2006-07**	**2007- 08**
Total Cheques	**1.29**	**1.37**	**1.46**	**113.29**	**120.42**	**133.96**
Of these: a) MICR	1.03	1.14	1.22	94.74	104.35	115.29
b) Non MICR	0.026	0.023	0.024	18.55	16.07	18.67

In the wake of financial sector reforms, the maturing of the banking system and the rising volume of paper-based clearing, the RBI has now adopted a policy stance of moving away from the actual management of retail payment and settlement systems. Thus, for a few years now, the task of setting up new MICR-based cheques-processing centers has been delegated to the commercial banks. The management of clearing houses also stands decentralised to a large extent and in many cities and towns, the commercial banks have been entrusted with the management of the bankers' clearing houses.

Just to provide an overview, let me mention for record that at present, there are 1089 Bankers' Clearing Houses operating in India, of which 1036 are managed by State Bank of India and its Associates, 17 by the Reserve Bank, and the remaining 36 by 12 nationalised banks. The mechanised cheques processing using MICR technology (Magnetic Ink Character Recognition) is now available at 60 locations and six more locations are being upgraded with this technology. Thus, the computerised clearing houses numbering 915 (including the 60 MICR centres), account for 84 per cent of the total number of clearing houses in the country. This demonstrates that our payment system has indeed made remarkable progress during the last two decades, with ongoing adoption and up-gradation of technology.

Objectives of the payment system

As some of you might recollect, a monograph on *Payment Systems in India* was prepared by the RBI in 1998 to increase the awareness, both within the country and abroad, of the payment systems existing in India. The monograph also detailed the objectives that needed to be achieved. To that end, a Payment System Vision Document for 2001-04 was prepared to draw up the roadmap for consolidation, development and integration of payment systems in the country. Once these objectives were achieved, a Vision Document for 2005–08 was published in May 2005, articulating the Reserve Bank's vision for the coming four years for the payment and settlement area. The mission enshrined in the Vision Document is the establishment of **safe, secure, sound and efficient payment and settlement systems for the country**, towards which all the upgradation efforts are focused. Whereas ***safety*** in payment and settlement systems relates to risk reduction measures, **security** pertains to confidence in the integrity of the payment systems. All payment systems are envisaged to be on ***sound footing*** with adequate legal backing for operational procedures and transparency norms. ***Efficiency*** enhancements are envisaged by leveraging the benefits of technology for cost-effective solutions. Thus, as part of its public policy objectives, the Reserve Bank has played a major role in the design, development and functioning of payment and settlement systems, and the multi-dimensional efforts of the RBI over the years have been geared to realise this vision.

The role of the RBI

The development of a payment system is one developmental role that is common to most of the central banks. It is well recognised that an efficient payment and settlement system is essential for efficient functioning of the modern financial system. The Reserve Bank has, therefore, played a catalytic role, over the years, in creating an institutional framework for development of a safe, secure, sound and efficient payment system for the country. It has also initiated a variety of institutional, procedural and operational measures to strengthen and refine the payment system. In order to place the efforts of the RBI in a proper perspective, allow me to briefly trace some of the salient developments, chronologically.

Remittance Facilities Scheme

Many of you might remember that one of the earliest mechanisms for movement of settlement funds of banks between the clearing centres was provided by the Reserve Bank as far back as in 1940. Since October 1, 1940, the Reserve Bank has been operating an integrated Remittance Facilities Scheme, which facilitates transfer of funds between banks located at different centres in the country, expeditiously and with a minimum cost. The Scheme is operated by the Reserve Bank and the public sector banks as its agents, including treasuries and sub-treasuries of the government. In other centres, the SBI operates a remittance scheme to enable banks to fund and draw upon their various settlement accounts. In the absence of the SBI, its associate banks or the public sector banks managing the clearing house, provide the remittance facility. The Scheme has served us well and enables smooth movement of settlement funds between all the clearing centres.

Clearing house regulations

As you are aware, the bankers' clearing houses constitute the critical nodes in the entire payment system of the country and their efficient and orderly functioning is crucial for a robust payment system. However, prior to 1986, there were no formal regulations and rules governing the transaction of business in the clearing houses and each clearing house had its own rules and regulations, based on local conventions and convenience. Hence, in case of disputes, resolution of the problem proved to be difficult. In 1986, therefore, the Reserve Bank formulated a set of guidelines known as the *Uniform Regulations and Rules (URR) for the Bankers' Clearing Houses,* so as to harmonise, across the country, the framework governing the conduct of the clearing houses. These guidelines had also become necessary in the backdrop of increasing computerisation in the banking industry and the consequential changes in the functioning of the clearing houses. The Regulations have since been adopted individually by the general body of each clearing house in the country. Individual clearing houses are free to frame their own rules consistent with the broad framework provided by the Regulations. The Uniform Rules and Regulations represent a significant step forward in providing a formal institutional framework for the payment system in the country.

The Board for Payment and Settlement Systems

In order to strengthen the institutional framework for the payment and settlement systems in the country, the Reserve Bank constituted, in 2005, a Board for Regulation and Supervision of Payment and Settlement Systems (BPSS) as a Committee of its Central Board. The Board is chaired by the Governor, RBI while all the four Deputy Governors and two external Directors of the Central Board are its members. The role of the BPSS is to lay down policies relating to the regulation and supervision of all types of payment and settlement systems, set standards for existing and future systems, approve criteria for authorisation of payment and settlement systems, and determine criteria for membership to these systems, including continuation, termination and rejection of membership. Thus, the BPSS is the highest policy making body in regard to the payment and settlement systems in the country and encompasses electronic, non-electronic, domestic and cross-border payment and settlement systems which affect the domestic transactions. In its relatively short span since its inception, the BPSS has provided valuable guidance in shaping the emerging contours of the payment and settlement system in the country and has helped widen the reach of the payment services of the banks to the hinterland areas.

Payment and Settlement Systems Act 2007

It is internationally acknowledged that payment and settlement systems should function on a well-founded legal basis. This entails among other things, proper authorisation requirement for setting up and payment systems, legal recognition for netting, settlement finality, providing for regulation and oversight of the payment and settlement systems. Many countries have either provided for these requirements in their central bank statutes or have drafted separate and comprehensive laws for this purpose. In India where the economy is growing at a fast pace increasingly large volumes and values are being handled by payment systems. Non-bank entities who are outside the explicit regulatory purview of the central bank are running/ are likely to run important payment systems. A number of innovative payment instruments/systems have been introduced by unregulated entities. While large payment systems which are unregulated present risks to the stability of the financial systems, unauthorised retail payment systems without proper management and operational structures can undermine public confidence in the efficacy of the payment systems as a whole. The Reserve Bank and the Government felt that there should be an explicit law to regulate the payment and settlement systems. The Parliament has enacted the Payment and Settlement Systems Act in December 2007. This Act empowers the Reserve Bank to regulate and supervise the payment and settlement systems and provides a legal basis for multilateral netting and settlement finality. The Act empowers the Reserve Bank to lay down the policies for regulation and supervision of the payment and settlement systems, authorise their setting up/continuance, for issuing directions, laying down standards, calling for information/data, initiating prosecution/levying penalties for violation of the provisions of the Act, its regulations and directions etc. The Act will come into operation very shortly.

Umbrella organisation for retail payments

In India the retail paper-based and electronic clearing is carried out by about 1089 clearing houses all over the country run by RBI, State Bank of India, its associate banks and other public sector banks. The multiplicity of local operators and diverse local practices which determine the conduct of clearing quite often compromises safety and efficiency of the clearing operations besides not giving due importance to customer service. This situation limits the scope for product innovation and expanding the reach of the payment systems. The Reserve Bank in its Vision Document (2005-08) for the Payment Systems in India, expressed its intention to move away from the operation of the retail payment systems and concentrate on operating the RTGS system, regulating and overseeing the payment systems and providing the settlement accounts for important payment systems. It also envisaged the setting up of an institution at the national level to own and operate all retail payment systems in the country. The setting up of this umbrella organisation would bring greater efficiency by way of uniformity and standardisation in retail payments, expand its reach and bring innovative payment products to augment customer convenience. The Indian Banks Association set up a Working Group which examined this issue and suggested the modalities for setting up this organisation. This organisation to be known as the National Payments Corporation of India (NPCI) will be an entity registered under the Companies Act and will be owned by banks and financial institutions. NPCI will be a Section 25 company, which will not distribute its profits as dividend, but will plough it back for the improvement and expanding the reach of the retail payment systems. The ownership of the company will be suitably diverse with no bank or group of banks having shareholding exceeding 10% of the total shareholding. The Payment and Settlement Systems Act 2007 has laid down that such not less than 51% of the equity of this company will be held by public sector banks. The work relating to the setting up of NPCI is in progress.

Let me now say a few words about the RBI's initiatives in the area of electronic payment system.

Reserve Bank's initiatives for electronic payments and banking

As part of its public policy objective of promoting a safe, secure, sound and efficient payment system, the Reserve Bank has taken several initiatives to develop and promote electronic payments infrastructure. Towards this end, the RBI introduced the Electronic Clearing Service (ECS) and the Electronic Funds Transfer (EFT) system in 1995, the Real Time Gross Settlement (RTGS) system in March 2004, the National Electronic Funds Transfer (NEFT) system in November 2005 and Cheque Truncation System (CTS) in February 2008. Let me present a brief overview of these payment-system products launched by the RBI.

Electronic Clearing Service

With a view to upgrading our payment system to the international standards, the Reserve Bank took the initiative and set up Electronic Clearing Service in India, in the mid 1990s, which is the counterpart of the automated clearing house (ACH) system in certain other countries. It has two variants – ECS - Credit Clearing and ECS - Debit Clearing. While the

Credit Clearing operates on the principle of 'single debit-multiple credits' and is used for making payment of salary, pension, dividend and interest, etc., the Debit Clearing functions on the principle of 'single credit-multiple debits' and is used for collecting payments by utility service providers like electricity, telephone bills as well by banks for receiving principal / interest repayments for housing and personal loans from the borrowers. At present, about 18 million transactions flow through the ECS system every month. This facility is currently available at 70 centers in the country. Settlement takes place on T+1 basis and the cycle gets completed on T+1. RBI is also in the process of developing a National ECS system – about which I will talk a little later.

Internet banking

It may be recalled that pursuant to advent of internet-based banking in India, the RBI had appointed a *Working Group on Internet Banking* in 2001 to address the issues relating to technology and security, legal aspects, and the regulation and supervision of the internet banking activities of the banks. The recommendations of the Group were accepted for phased implementation and detailed guidelines on internet banking were issued by the RBI to the banks in June 2001, for adoption by the banks offering internet banking facilities. Even though the Group had made the recommendations in the context of the internet banking, these were to be applicable, in general, to all forms of electronic banking, to the extent relevant. The banks are now permitted to offer internet banking facilities based on the Board-approved internet banking policy and no longer require prior RBI approval. The product portfolio to be offered through internet banking is also no longer confined to only the local currency products but even foreign exchange services, for the permitted underlying transactions, can be offered through internet banking. Operations on the Vostro accounts of the overseas banks and exchange houses, maintained with the banks in India, are also permitted through the internet-based operations. Needless to say, the overarching concern in providing internet banking would be the effective management of the incremental operational risks acquired by the banks in using this new delivery channel for the banking services.

Real Time Gross Settlement System

The payment system in the country largely follows the deferred net settlement regime, under which the net amount is settled between the banks, on a deferred basis. Such a dispensation entails an element of settlement risk. Hence, as a step towards risk mitigation in the large value payment systems, the RTGS was operationalised by the RBI in March 2004, which enables settlement of transactions in real time, on a gross basis. Almost all the inter-bank transactions in the country and many time-critical customer transactions are now settled through this system. RTGS is fully secured electronic funds transfer system where banks and customers can receive payments on real time basis. The outreach of RTGS transactions has also grown geographically. Out of about 75,000 bank branches in the country, more than 48,300 bank branches now accept requests for remittance through RTGS system for customer transactions as well as inter-bank transactions. A minimum threshold of rupees one lakh has been prescribed for customer transactions to ensure that RTGS system is used only for large value transactions and retail transactions take an alternate channel of electronic funds transfer. The daily average of transactions is over 34,000 by volume and over Rs.2 lakh crore by value. The RBI also provides collateralised Intra-Day-Liquidity (IDL) support to the member banks for the RTGS operations. With the progressive expansion of the RTGS volume, a view needs to be taken on the continued need and relevance of the high-value clearing system – since the two systems have a functional overlap on account of the same value threshold and the target clientele.

National Electronic Funds Transfer System

Yet another product innovation by the RBI was the National Electronic Funds Transfer System, which was introduced in November 2005 as a more secure, nation-wide retail electronic payment system to facilitate funds transfer by the bank customers, between the networked bank branches in the country. It is a deferred net settlement system and is an improvement over other modes in terms of security and processing efficiency. It provides six settlement cycles a day and enables funds transfer to the beneficiaries account on T+0 basis. This facility is currently available at over 46,300 bank branches throughout the country. The daily average of the transactions is over 80,000 by volume and over Rs.500 crore by value. It is envisaged that all the RTGS-enabled bank branches would also be NEFT-enabled and the customer would have a choice between the RTGS or the NEFT systems, based on time criticality, value of the transaction and willingness of the customer to pay different charges for the two systems. With the introduction of NEFT, the Electronic Funds Transfer system, introduced in 1994 for retail funds transfer, is now available only for Government payments. Let me also mention that using the NEFT infrastructure, the system of one-way remittance from India to Nepal has been implemented by the RBI since 15th May 2008.

Cheque Truncation System (CTS)

The latest electronic payment product introduced by the RBI is the Cheque Truncation System, which was launched, on a pilot basis, in the National Capital Region of New Delhi on February 1, 2008, with the participation of 10 banks. At present all the banks are participating in the system through 53 direct member banks. The main objective of the CTS is to improve the efficiency and substantially reduce the cheque processing time in the system. The traditional clearing system requiring the physical presentation of cheques in the clearing house for payment and settlement, inevitably entails consequential inefficiencies in terms of clearing time and infrastructure required. The enormity of the logistics needed for physical cheque clearance can be gauged from the fact that we cleared about 1.46 billion cheques in the country during the year April 2007 to March 2008. In contrast, the main advantage of cheque truncation is that it obviates the physical presentation of the cheque to the clearing house; instead, the electronic image of the cheque would be sent to the clearing house. The CTS would enable the realisation of cheques on the same day, and provide a more cost-effective mode of settlement than manual and MICR clearing. Smaller banks, which may find it unviable to set up the infrastructure, could utilise the services of service bureaus set up for this purpose by a few larger banks.

Once the CTS become fully operational, the system would be the largest in the world and would leapfrog the country from the paper-based instruments to a fully electronic mode of payment and settlement. Necessary amendments have been made to the Negotiable Instruments Act, 1881, which provides legal recognition to the electronic image of the truncated cheque. These amendments provide a legal basis for the cheque truncation system.

National Electronic Clearing Service (NECS)

The National ECS is a product being developed by the RBI to enable centralised processing of the ECS transactions, in contrast to the existing ECS system that has decentralised operations at 70 locations, spread all over the country. Under the National ECS, the processing of all the ECS transactions would be centralised at the National Clearing Cell at Nariman Point, Mumbai and sponsor banks would need to only upload the relative files to a web server, with online data validation facility. Destination banks would receive their inward clearing data/file at a central location, through the web server. The National ECS would leverage the Core Banking platform of the commercial banks, to enable around 50,000 core-banking-enabled branches of the various banks, to avail of this service. The system would facilitate end-to-end seamless posting of the NECS transactions in a straight-through-processing (STP) environment. This would help the users and member banks to send, receive and process the data files at one centralised place, thereby improving the efficiency of the payment system.

Mobile banking

As you are no doubt aware, with the rapid growth in the number of mobile phone subscribers in India, the banks have been exploring the feasibility of using mobile phones as an alternative channel of delivery of banking services. A few banks have also started offering, through the mobile phone, information-based services like balance enquiry, stop-payment instruction of cheques, record of last five transactions, etc. Considering that the use of this technology for the banking services is relatively new and calls for appropriate safeguards to ensure security of financial transactions, the Reserve Bank has formulated the 'Draft Operating Guidelines for Mobile Payments in India', through a consultative process and placed them on the RBI's website in June 2008 for public comments. It is expected that the guidelines when operationalised, would help strengthen the operating environment for mobile banking in the country.

Satellite banking

The availability of reliable communication network is an important prerequisite for facilitating electronic modes of payment. However, the non-availability of the terrestrial communication link in many parts of the country, particularly the hinterland and hilly areas, poses a major constraint in securing greater penetration of electronic payment services in such areas. For such difficult terrain, which is not connected by terrestrial links, the satellite connectivity is considered to be the appropriate mode of connecting the branches in these areas, as also as a fallback system. In this background, a paper was prepared by a member of the Board for Payment and Settlement Systems of the Reserve Bank on the use of satellite communication technology to facilitate penetration of payment services to the rural areas which are denied these facilities due to non- availability of reliable communication links. A Technical Group constituted by the Reserve Bank has since examined the proposal and recommended the use of satellite connectivity as it would facilitate integration of the rural branches with the core banking solution platform of the banks and help them providing efficient funds-transfer facility to their customers.

However, reckoning the cost implications involved in creating satellite connectivity for the bank branches, the Reserve Bank is considering provision of financial incentive to the banks for adopting this technology. Under the proposal, the RBI would be bearing a part of the leased rentals for the satellite connectivity, provided the banks use it for connecting their branches in the North Eastern States and in the under-banked districts in the rest of the country. A discussion paper on this scheme was placed on RBI website in June 2008 for public comments.

I may add that the satellite communication link is the most disaster-proof, since the satellite, up in the sky, continues to function even in the face of major natural disasters on earth, such as floods or earthquakes. It is, therefore, ideally suited for use as a back-up communication link for the major centers in the country, where a disaster can otherwise disrupt the terrestrial connection.

The challenges ahead

We have no doubt covered considerable ground in modernising our payment and settlement system. The banking system too has made considerable investment in the related infrastructure to upgrade the payment system. However, there are several challenges that need to be effectively addressed if the full benefits of the achievements so far are to be reaped.

One of the main challenges in the payment system area is to promote large-scale use of the electronic modes of payment across the country and requires addressing the constraints that impede the adoption of this mechanism. To my mind, the primary reason for slow pace of adoption of the electronic modes of funds transfer, particularly in the retail segment, is the **lack of education** – particularly **on the part of the bank staff** at the branch level that have interface with the public. A survey conducted by one of the Regional Offices of the RBI in the recent past revealed that in the limited sample covered, there were several bank branches in the State which were not even aware of the National Electronic Fund Transfer system. The banks, therefore, need to make concerted efforts to increase the degree of awareness at the level of the branch staff so that the electronic fund transfer services percolate down to the level of the public in a significant manner.

The other side of the coin is the **lack of customer education** and awareness about the features and benefits of the EFT, which precludes wider adoption of this product and leads to carrying on with the traditional modes of payment. I would, therefore, like to urge upon the banks to launch a systematic educational campaign for their clients to educate them of the suite of electronic products offered by them. This would not only reduce the avoidable paper work in the operation of the banks but would also improve the quality of customer service and eventually, business volume.

In so far as the RBI is concerned, with a view to promoting the electronic payment culture and to make it more user-friendly, the RBI has intervened and mandated reasonability in pricing of transactions effected through ATMs and compulsory use of electronic mode for transactions above a specified threshold. The service charge levied on banks by the RBI for ECS, EFT / NEFT and RTGS transactions has been waived until March 2009, so that this benefit of reduced costs is passed on to customers, and the right incentive framework is created for the use of electronic retail payment products. Similarly, the limits set for ECS and EFT / NEFT transactions were also dispensed with in November 2004 with a view to expanding the user base. This, of course, is apart from various measures taken by the RBI for strengthening the payment systems infrastructure in a variety of ways.

Although the share of electronic payment products is improving in the overall retail segment, the **share of public sector banks** in this area is very low even as the number of branches offering the electronic payment facility is increasing. It is, therefore, necessary to **make these products available across all bank branches**. There is also a need to focus on expanding the geographical reach of the electronic payment services so as to include the segments of the population not yet touched by it. It is difficult to achieve financial inclusion without encompassing rural-India in the payment system out-reach and the banks that do so first, will reap the rewards of the 'first-mover advantage' in terms of higher market share, with the concomitant increase in business and revenues. And as we all know, the electronic payment medium is not only speedier and more efficient, but is also more environment friendly as it reduces the reliance on paper required for effecting payments. It is our vision that electronic products reach a level of 50% by volume and 95% by value of the aggregate payment system transactions in the country, by the end of March 2009.

Then, there are also some nagging **efficiency issues** in the payment system. Whilst the current clearing cycle of T+1 basis for the cheques payable locally, compares favourably with the best in the world, it is necessary to look into the entire cheque collection cycle – from the time a customer deposits a cheque at a branch till the point of realisation of credit in his account. There is perhaps scope for continuous improvement in **overall** collection cycle. Going by the number of complaints received, it appears that customer-service in this area is not very customer-centric.

Conclusion

The payment and settlement system constitutes the backbone of the financial sector and enables conclusion and settlement of financial contracts. The country has made phenomenal progress in enhancing the reach and improving the efficiency of the national payment system – in which the RBI and the banking system have been equal partners. Creating a world-class payment system in the country is a long, arduous but an exciting journey in which we have to constantly keep striving to better our past achievements. I am sure the banking community present here would make dedicated and systematic efforts in this direction to meet the challenges ahead and actively contribute to realising our vision for the payment system that we have set for ourselves.

Thank you.