

## Shri Vepa Kamesam: Payment and settlement systems

Inaugural address by Shri Vepa Kamesam, Deputy Governor of the Reserve Bank of India, at the Seminar on Payment and Settlement Systems organised by Fixed Income Money Market and Derivatives Association of India (FIMMDA), Mumbai, 6 May 2003.

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The Payment and Settlement System is an essential part of the financial system of a vibrant economy. Consolidation, Development and Integration of the financial infrastructure and reforms in the payment and settlement systems of the country that address the twin issues of safety and efficiency have been engaging the attention of the Central Bankers and Financial Institutions the world over. Payment and Settlement Systems are no longer the backwaters of either the banks or the Central Banks.

The Reserve Bank has taken up the mission critical approach to the establishment of an integrated payment and settlement system in the country. A number of initiatives have either already been implemented or are in an advanced stage on the drawing board. Identification and classification of the Systemically Important Payment System (SIPS) have been done and various measures have been initiated to facilitate real time or near real time large value inter-bank funds transfer in secured environment.

### Recent initiatives:

- (1) The PDO/NDS/SSS project, comprising inter alia the Negotiated Dealing System (NDS) is an initiative, which provides for an electronic platform for facilitating trading in Government Securities and Money Market Instruments. The System has been operational for over a year now and the manner in which you have used the System is laudable. We have been actively fine-tuning the PDO-NDS system, based on your feedback and we will continue to do so in the interest of the banking community. The Securities Settlement System (SSS) will, in the near future, provide on-line depository services for the Government Securities.
- (2) The Clearing Corporation of India Ltd., established at the behest of the Reserve Bank, has established itself as a Central Counterparty and is presently extending guaranteed settlement for trades done in the Government Securities Market and the Forex market. The number of products launched by CCIL in its short duration of existence speaks volumes of both the CCIL and the financial sector. The forex trading platform, offered by CCIL, for taking care of the settlement of inter-bank rupee-US dollar deals, provides for a deep, liquid and transparent forex trading facility. This will help in improving market efficiency and integrity.
- (3) Special EFT has been introduced to facilitate funds settlement on T+0 basis thrice a day. This facility is available from 2500 bank branches located in 500 centres.
- (4) The Centralised Funds Management System is one such initiative, which provides for a Centralised Funds Enquiry System to the treasury branches of the banks in the first phase and the Centralised Funds Transfer System in the second phase, allowing the banks to do an optimal deployment of funds. I am sure that most of you have already been actively using the funds enquiry module of CFMS as a platform for having a bird's eye view of your account balances at various RBI locations. Very shortly, you will be in a position to use this platform to do a near real time transfer of funds between your accounts in pursuance of your day-to-day funds management exercise.

### Real time gross settlement system:

The Real Time Gross Settlement System is the key critical element and provides the missing link in the process of the setting up of the Integrated Payment and Settlement System in the country. The Real Time Gross Settlement System has now, the world over, been the preferred mode of the settlement of large value inter-bank payments, with more and more countries moving towards it. In the SAARC region, we are now being joined by Sri Lanka, which has also decided to move over to RTGS.

RTGS, as a settlement process, minimizes settlement risks by settling individual payments in real time in the books of account, held at the Central Bank. Under RTGS, the practically instant settlement ensures fast, secure, final and irrevocable settlement of payment transactions.

The Real Time Gross Settlement System on implementation will be a defining moment in the history of the Payment and Settlement Systems in the country. It will be, in fact, a significant step towards the creation of an integrated, robust, safe, secure and modern Payment and Settlement System and I am sure all of you are looking forward to be part of the revolution.

Let me apprise you of the roadmap for the implementation of the RTGS System. In June 2003, we will have a demonstrable RTGS package for testing and familiarization. It will be like an induction platform for the banks to the RTGS Standalone System, which will be delivered in October 2003. After completion of testing and acceptance, RTGS system will become operational before year-end.

We have been building up awareness about the RTGS System. Already a series of Workshops and Seminars have been organized for your Treasury and IT Heads. We have also organized a 'Seminar on Liquidity Management in RTGS Environment' to apprise you of the challenges that you may face on the operationalisation of the RTGS System and the manner in which you have to control and co-ordinate your liquidity management measures to derive optimal benefits from the RTGS System.

It cannot be disputed that that the technological innovations, in general, have been at the core of the reform process in the services sector globally and the financial sector, in particular. For the last so many decades, it has been driving the business re-engineering process in our banking industry. We, at the RBI, have been actively studying these developments and readying ourselves to provide for a technology framework and operating environment, conducive to the banks. Let me share with you some of the initiatives that we have undertaken.

A reliable communication backbone to facilitate improvement in financial services, the Reserve Bank of India has, through IDRBT, set up the INFINET - a 'Closed User Group' network as the exclusive domain for the applications of the entities in the banking and financial sector. As you all know, the INFINET is a blend of VSAT technology and terrestrial leased line technology based Wide Area Network. INFINET provides for the robust and reliable communication backbone for the implementation of all the Systemically Important Payment System Applications.

Reserve Bank's concerns and focused attention on the twin issues of security over the INFINET and message standards for intra/inter-bank applications have led to the development and implementation of the Structured Financial Messaging System (SFMS), a standard messaging protocol, which would be riding on the INFINET communication backbone. SFMS has adequate in-built security and with Public Key Infrastructure (PKI), provides for a security solution of international standards. SFMS will also act as an alternative for accelerating the integration of the branches of the banks.

Secondly, a state-of-the-art, robust and secure platform - IBM S-390 System with a complete standby installation - has been made operational in Mumbai centre to ensure the availability of the requisite technical infrastructure, capable of robustness, operational resilience and redundancies to ensure Business Continuity. The Disaster Recovery Site is being set up at a geographically distanced location from Mumbai.

You will all agree that these efforts are incomplete without the total involvement and participation of the end-users of the payment and settlement system. The proverbial "last mile" problems will have to be resolved. In order that the benefits, as conceived of under the Integrated Payment Systems Architecture in the country, cascade down to the smallest branch of every bank and to every customer, you will have to be in an extremely high level of preparedness in terms of systems and operational processes, technology and human resources, to make the most of these and the newer opportunities, arising due to the fast changing canvas.

In the area of Information Technology, specific attention will have to be paid to the TEN Core Issues, which we have now been advocating for sometime. These are fundamental to the participation and realization of optimal advantages from the RTGS System round the corner.

A Payment System Gateway as the Single Point of Interface with the INFINET for participation in the Systemically Important Payment System Applications:

- (a) Connectivity between the Payment System Gateway and the Primary Site and Standby Site of the RBI.
- (b) Computerisation of bank branches with Connectivity.

- (c) Setting up of intra-bank intra-city leased line network.
- (d) Connectivity with the Hub at each RBI site under the 21-centre Intercity Leased Line Network of the INFINET.
- (e) Synchronous Systems across the bank - Hardware, Operating System and Communication Platform.
- (f) IDRBT CA CPS, Implementation of PKI and Creation of Registration Authority.
- (g) Uniformity in Message Format for Inter/Intra bank Applications across the banking sector and Implementation of SFMS.
- (h) Internal Applications of the bank and Interface with the RTGS System.
- (i) Development, Documentation and Implementation of the Information Systems Security Policy in the bank.

I am aware that quite a few of the above requirements have already been met by the majority of the banks present here. I urge upon those, who have not yet met them or partially met them to do the same urgently. Most important and critical among these are the Connectivity and Security Issues. Unless all your branches are networked, the benefits of a secured and modern Payment System will not percolate to the end-users of the banking system i.e. the ordinary public. Further, unless the security features of the entire Transaction Cycle are enhanced to the level of international standards (which is being sought to be achieved through the implementation of the PKI and use of Digital Certificates), the common man will not repose his full confidence in the Electronic System of Funds Transfer. That is why, the RBI has been emphasizing 'Connectivity' and 'Security' as the Core and Critical Pre-requisites, to be duly addressed by the banking sector for participation in the RTGS System.

The RTGS system will be a mode for large value inter-bank settlement, to be widely used, for enhancing your risk control measures, for faster and efficient settlement of your liabilities and for better customer services for the ultimate users in the value chain. The success of this system will be one more step towards realizing our objectives of a modern, secure, resilient and Integrated Payment and Settlement System in the country. We are sure that all of us will be partners in this step forward.