



Non-Bank PSPs to Join Centralised Payment System

Why in News

Recently, the [Reserve Bank of India \(RBI\)](#) allowed non-bank Payment System Providers (PSPs) to participate in Centralised Payment Systems (CPS - RTGS and NEFT), as direct members.

Key Points

▪ Allowed in a Phased Manner:

- In the first phase, PSPs such as **Prepaid Payment Instruments (PPIs), card networks and White Label ATM (WLA) operators** will be allowed access.
 - ATMs set up, owned and operated by non-banks are called **WLAs**.
- Presently, **only banks and select non-banks** such as [NABARD](#) (National Bank for Agriculture and Rural Development) and **Exim Bank** (Export-Import Bank of India) are allowed access to CPS owned by RBI – NEFT and RTGS.

▪ Separate IFSC to Non-Banks:

- It means allotment of a separate [Indian Financial System Code \(IFSC\)](#) to non-banks, opening a current account with the RBI in its **core banking system (e-Kuber)** and maintaining a settlement account with the RBI.
 - **IFSC** represents the 11 digit character code that helps identify the individual bank branches that participate in the various online money transfer options like NEFT and RTGS.
 - **Core Banking System** is a solution that enables banks to offer a multitude of customer-centric services on a 24x7 basis.
- It will also mean **membership of Indian Financial Network (INFINET)** and **use of Structured Financial Messaging System (SFMS)** to communicate with CPS.
 - **INFINET** is a membership-only Closed User Group (CUG) Network that comprises the RBI, Member Banks and Financial Institutions.
 - **SFMS** is India's backbone for inter-bank financial messaging & CPS.

▪ Significance:

- **Minimizing risk of payment ecosystem:**
 - Direct access for non-banks to CPS lowers the overall risk in the payments ecosystem.
- **Reduction in cost of payments:**
 - It also brings advantages to non-banks like reduction in cost of payments, minimising dependence on banks, reducing the time taken for completing payments.
- **Mitigating failure or delay in fund execution:**

- Risk of failure or delay in execution of fund transfers can also be avoided when the transactions are **directly initiated and processed by the non-bank entities.**
- **Increasing efficiency and better risk management:**
 - Non-bank entities shall transfer funds from their Current Account to RTGS Settlement Account and vice versa during the operating hours.
 - It will increase efficiency, innovations, improve standards of data security as well as better risk management.

Centralised & Decentralised Payment Systems

- CPS in India are **Real Time Gross Settlement (RTGS)** and **National Electronic Funds Transfer (NEFT)** systems, both owned and operated by the Reserve Bank.
- **RTGS:** It enables **real-time transfer of funds to a beneficiary's account** and is **primarily meant for large-value transactions.**
 - Real time means the processing of instructions at the time they are received and gross settlement implies that settlement of funds transfer instructions occurs individually.
- **NEFT:** It is **an electronic fund transfer system in which the transactions received up to a particular time are processed in batches.**
 - It is generally used for fund transfers of up to Rs. 2 lakh.
- The **decentralised payment systems** will include **clearing houses managed by RBI (Cheque Truncation System (CTS) centres)** as well as **other banks (Express Cheque Clearing System (ECCS) centres)** and any other system as decided by RBI from time to time.

E-Kuber

- e-Kuber is the **Core Banking Solution of the Reserve Bank of India** which was introduced in 2012.
- The centralisation thus makes a **“one-stop” shop for financial services a reality.** Using CBS, customers can access their accounts from any branch, anywhere, irrespective of where they have physically opened their accounts.
- Almost **all branches of commercial banks**, including the Regional Rural Banks (RRBs), are brought into the core-banking fold.
- The e-kuber system can be accessed either **through INFINET or Internet.**

Source: IE

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