



# RBI's Planned 'Lightweight' Payments and Settlement System

## Why in News?

The [Reserve Bank of India \(RBI\)](#) recently announced plans to introduce a 'Lightweight' Payment and Settlement System (LPSS) for emergencies which was proposed in RBI's annual report for 2022-23.

- The lightweight system **aims to provide resilience and continuity of payment and settlement systems** while ensuring efficiency during emergencies.

## What is RBI's Planned LPSS?

- **About:**
  - LPSS is independent of conventional technologies and wired networks that underlie existing payment systems such as [UPI](#), [NEFT](#), and [RTGS](#).
- **Background:**
  - As a part of the '[Utkarsh 2.0](#)' initiative, RBI will put in place a resilient framework for oversight of **Centralized Payment Systems — NEFT and RTGS**.
  - It will also look to upgrade the RTGS system, including improvements to the existing ones and the introduction of new functionalities.
- **Enhancing Payment System Resilience:**
  - LPSS for emergencies ensures **resilience and continuity of payment and settlement systems** during extreme and volatile situations.
  - Conventional payment systems like UPI, NEFT, and RTGS are **vulnerable to disruptions** caused by **natural calamities or war** due to their dependence on complex wired networks and advanced IT infrastructure.
    - Disruptions in existing systems can **affect liquidity pipeline** and hamper essential payment services.
  - Lightweight system provides a **portable and easily activated solution that can be operated remotely with minimal resources**.
  - It serves as a **backup option for critical transactions**, maintaining stability and ensuring the availability of essential payment services.
- **Working Procedure:**
  - **Minimal Staff:**
    - The system will have a **bare minimum of trained staff who will handle payment** and settlement operations securely and efficiently. They will also **coordinate with government agencies, financial institutions, market participants, and service providers**.
  - **Focus on Essential Transactions:**
    - The system will process only those transactions that are crucial for maintaining the stability of the economy, such as **government and market-related transactions**.
    - Retail or individual transactions that can be deferred or conducted through alternative modes **will not be handled**.
  - **Simplified Authentication and Verification:**

- The system will employ a simplified mechanism to **ensure the integrity and validity of transactions**. It will also maintain transaction records for **reconciliation and audit purposes**.

▪ **Benefits:**

- Ensures **near-zero downtime of the payment** and settlement system during emergencies.
- Facilitates uninterrupted functioning of essential payment services, including **bulk payments, interbank payments, and provision of cash to participant institutions**.
- Enhances **public confidence in digital payments** and financial market infrastructure.
- Acts as a **deterrent against malicious attacks or sabotage attempts** on existing payment systems.

▪ **Challenges:**

- Requires **careful planning and coordination** among stakeholders for readiness and effectiveness.
- Requires **testing and validation of functionality, security, and reliability before deployment**.
- Requires **regular training and capacity building of staff**.
- Requires **constant monitoring and evaluation of performance** and impact.

## UPSC Civil Services Examination, Previous Year Question (PYQ)

### Q1. With reference to digital payments, consider the following statements: (2018)

1. BHIM app allows the user to transfer money to anyone with a UPI-enabled bank account.
2. While a chip-pin debit card has four factors of authentication, BHIM app has only two factors of authentication.

#### Which of the statements given above is/are correct?

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

**Ans: (a)**

### Q2. Which of the following is a most likely consequence of implementing the 'Unified Payments Interface (UPI)'? (2017)

- (a) Mobile wallets will not be necessary for online payments.
- (b) Digital currency will totally replace the physical currency in about two decades.
- (c) FDI inflows will drastically increase.
- (d) Direct transfer of subsidies to poor people will become very effective.

**Ans: (a)**

### Q3. Consider the following statements: (2017)

1. National Payments Corporation of India (NPCI) helps in promoting the financial inclusion in the country.
2. NPCI has launched RuPay, a card payment scheme.

#### Which of the statements given above is/are correct?

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

Ans: (c)

[Source: IE](#)

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