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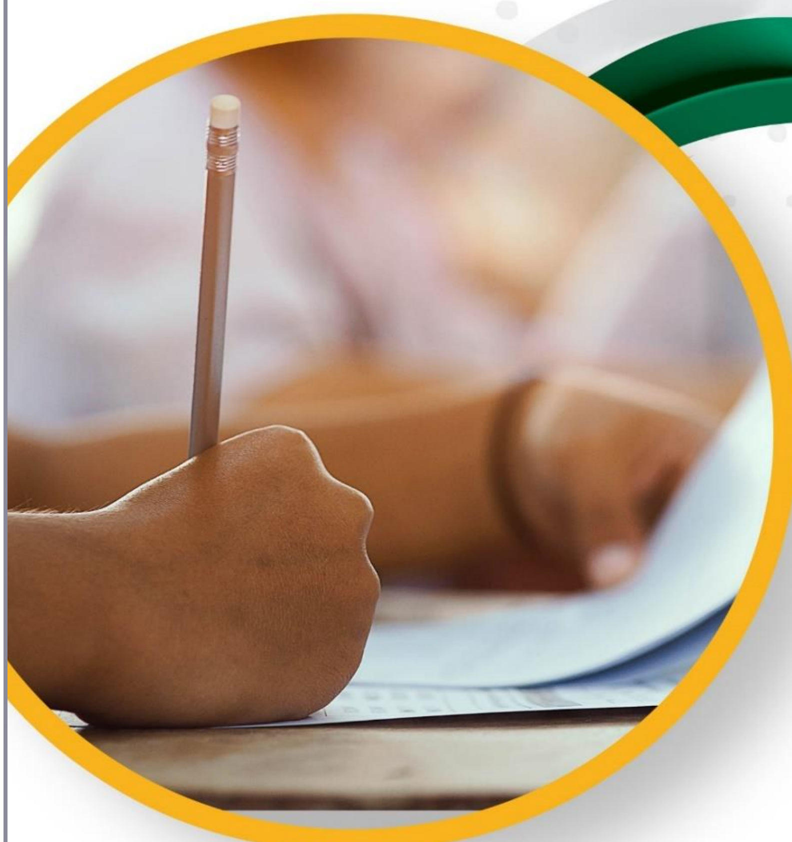
SUMMARY SHEET



Changing Landscape in Banking Sector and Recent Developments in Financial Sector

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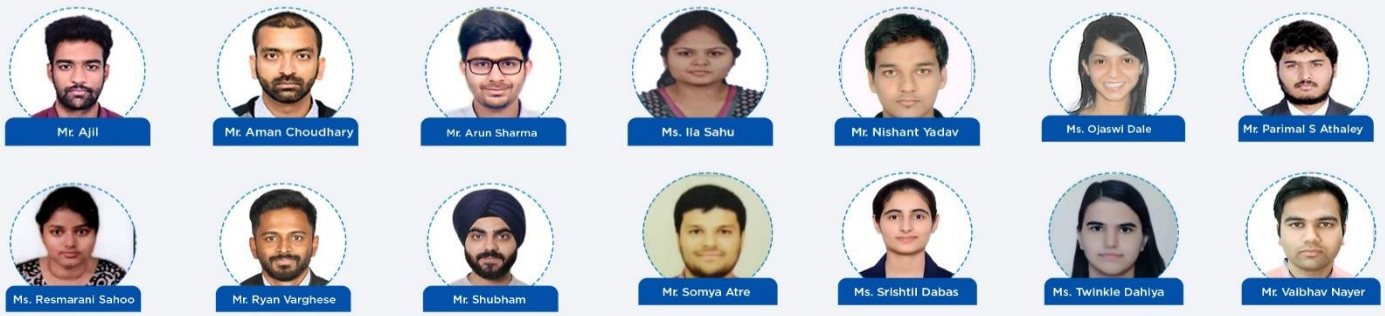

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Changing Landscape in Banking and Recent Developments in Financial Sector

Important Points

1. This Summary Sheet shall only be used for Quick Revision after you have read the Complete Notes
2. For Building Concepts along with examples/concept checks you should rely only on Complete Notes
3. It would be useful to go through this Summary sheet just before the exam or before any Mock Test
4. Questions in the exam are concept based and reading only summary sheets shall not be sufficient to answer all the questions

1 Introduction

The Indian banking sector has witnessed some dynamic changes under the influence of the financial sector reforms initiated during the early 1990s. We will discuss following changes in this chapter.

- First one would be the changes which have happened from the starting from 1990 and till 2010.
- Second one would be the changes which are the recent changes and are in true sense impacting the banking landscape in the past some years

2 Changes Impacting Banking Landscape till 2010

Few changes in policies or in form of reforms which have changed the Landscape in the last two decades are

1. **Statutory Preemptions**: In the pre-reforms phase, the Indian banking system operated with a high level of statutory preemptions, in the form of both the Cash Reserve Ratio (CRR*) and the Statutory Liquidity Ratio (SLR*). The SLR was as high as **25 percent** in 1997. The legislative changes proposed by the Government in the Union Budget, 2005-06 to remove the limits on the SLR and CRR are expected to provide freedom to the Reserve Bank in the conduct of monetary policy and lend further flexibility to the banking system in the deployment of resources.

   *Cash reserve ratio (CRR) which is portion of deposits to be set aside with the central bank and statutory liquidity ratio (SLR) is the portion of deposits to be invested in government securities.

2. **De-regulation of Interest Rate Structure**: Deregulation of interest rates has been one of the key features of financial sector reforms. After the interest rate deregulation, banks became free to determine their own lending interest rates. As advised by the Indian Banks' Association (a self-regulatory organization for banks), commercial banks determine their respective BPLRs (benchmark prime lending rates). Competition is being fostered by permitting new private sector bank which will further help in competitive interest rates for customers

3. **Exposure Norms**: The Reserve Bank has prescribed regulatory limits on banks' exposure to individual and group borrowers to avoid concentration of credit, and has advised banks to fix limits on their exposure to specific industries or sectors (real estate) to ensure better risk management

4. **Non-Performance Asset (NPA) Management:**
   A. The promulgation of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (**SARFAESI**) Act, **2002** and its subsequent amendment have strengthened the position of creditors. Under this Act, a lender can take possession of the property or mortgaged assets after giving the borrower a 60-day notice. It is applicable only to secured loans and allows lenders to auction the property that is mortgaged with them to recover dues from borrowers who have turned in non-performing assets (NPA)
   B. **IBC: IBC** stands for **Insolvency and Bankruptcy code, 2016.** IBC provides for a time-bound process to resolve insolvency. When a default in repayment occurs, creditors gain control over debtor's assets and must take decisions to resolve insolvency. Though this was enacted in 2016 but we are discussing it here to have a complete picture
   Sarfesai and IBC may look to be the same. But they are different in 2 aspects

      I. SARFAESI Act, 2002 provides a safety net to s**ecured financial creditors (banks and financial institutions)** by empowering them to enforce their security interests without the intervention of any court. On the other hand, under IBC, the rights, and interests of all types of creditors (Secured or Unsecured) have been taken into consideration and IBC is not limited to financial institutions only
      II. **Section 14(1)(c) of the** Insolvency and Bankruptcy Code, 2016 **clearly provides that during the insolvency resolution process as defined in the Code, the Code takes precedence over the SARFAESI Act.**

   C. Another significant measure has been the setting-up of the **Credit Information Bureau** for information sharing on defaulters and other borrowers. The role of Credit Information Bureau of India Ltd. (**CIBIL**) in improving the quality of credit analysis by financial institutions. With the enactment of the **Credit Information Companies (Regulation) Act, 2005**, the legal framework has been put in place to facilitate the full-fledged operationalization of CIBIL and the introduction of other credit bureaus

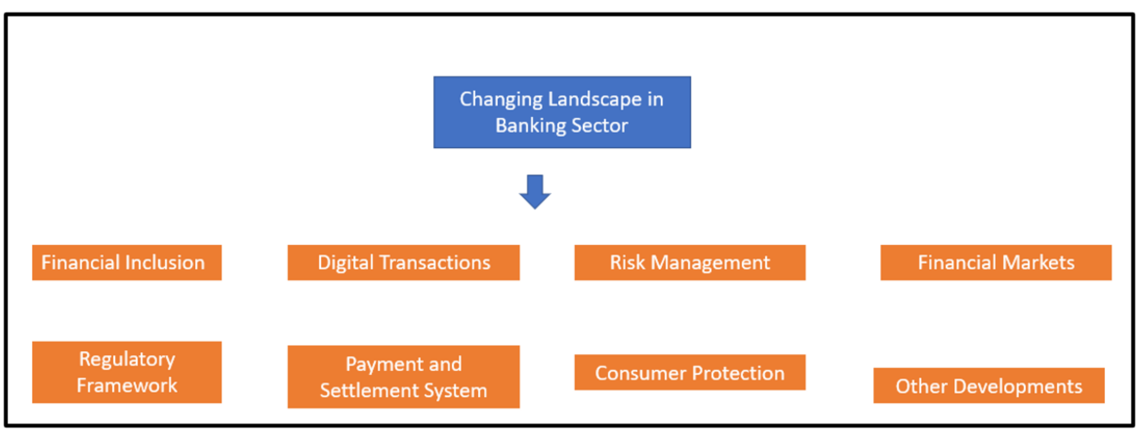
5. **Risk Management**:
   a. An independent Board for Financial Supervision (**BFS**) under the aegis of the Reserve Bank has been established as the apex supervisory authority for commercial banks, financial institutions, urban banks and NBFCs. The Board's focus is on offsite and on-site inspections and on banks' internal control systems to manage risk

   b. Emphasis has been put on Risk Management using **CAMEL's** framework
   Note: For more details on CAMELS framework, BFS etc. please read the Unit on '**Risk Management'.**

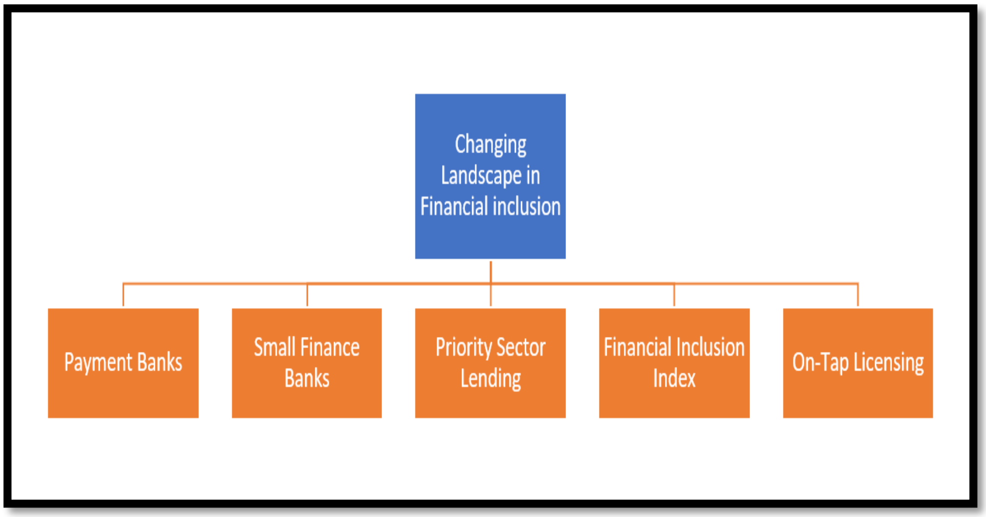
   c. The scheme **of Prompt Corrective Action (PCA)** is in place for attending to banks showing steady deterioration in financial health. Financial indicators such as capital **to risk-weighted assets ratio (CRAR), net non-performing assets (net NPA) and Return on Assets (RoA)** have been identified with specific threshold limits. When the indicators cross certain levels, the PCA scheme envisages certain structured/discretionary actions to be taken by the regulator. More Details on Prompt Corrective Action can be found in the Unit '**Risk Management'.**

3 Recent Changes Impacting Banking Landscape

The banking sector in India has witnessed a paradigm shift, especially in the last 20 years. It has revolutionized quite a lot in terms of asset quality, regulations, and technology as well. The Reserve Bank of India (RBI) and the Government of India are trying to bring about change in many domains



4 Recent Changes in Area of Financial Inclusion



4.1 Payment Banks

- A payment bank is a differentiated bank that will undertake only certain **restricted banking** functions that the Banking Regulation Act of 1949 allows. These activities include acceptance of **deposits, payments and remittance services but cannot lend money**. Remittance is nothing but transferring money like a person in Delhi wants to send money in a village in Uttar Pradesh
- RBI in August 2016 gave licenses to 11 entities that can operate as Payment banks.
- Every Payment bank must have the words – payment bank -- in its name
- Most of the payment banks will use mobile as a mode of depositing and transferring the money. So, using mobile one can transfer the money to other mobile of relative, transfer the money to the bank, transfer the money to a retail shop. Suppose an auto driver in Delhi wants to transfer money to his father in village in UP. Then he can transfer money using his mobile to his father's mobile and his father can then go to a local agent who will convert this into cash. You would be thinking why auto cannot drive deposit money in the bank account itself. He can but then in rural areas the banks are far away, but these payment banks have good coverage and have agents in almost every village. This process is also called **remittance**
- Payment banks can accept **deposits restricted to Rs. 2 lakh per customer**, and can pay customers interest on the money that is being deposited
- Payment banks **cannot lend money** to the people. However, it will be able to offer financial products like loans, insurance, mutual funds, pension funds etc. by partnering with other financial institutions and banks.
- Payment banks can issue ATM cards **but cannot issue credit cards.** They can have their own ATM's
- As per RBI rules, **75**% of the deposits generated by payment banks must be invested in **government securities** and the remaining maximum of **25% as deposits** (**including fixed deposits**) with scheduled commercial banks

4.2 Small Finance Banks:

1. On 16 September, RBI gave in-principal licenses to 10 entities to set up so-called small finance banks in a move towards expanding access to financial services in rural and semi-urban areas. Small finance banks will offer **basic banking services, accepting deposits and lending to unserved and underserved sections, including small business units, small and marginal farmers, micro and small industries, and entities in the unorganized sector**. They will not be able to offer all the products serviced by the Commercial banks
2. The main objective of Small finance banks also is to increase financial inclusion. Though payment banks can only accept deposits, small finance banks can also lend money and therefore can change millions of lives in the rural area where people depend on credit for earning a livelihood
3. Every small finance bank must have the words -- small finance bank -- in its name. They can accept deposits and lend money also
4. They can issue both **credit and Debit cards and can have their own ATM's. They can also issue passbooks**
5. The maximum loan size and investment limit exposure to single and group obligators cannot be more than **10 per cent and 15 per cent** of its capital funds, respectively.
6. **Seventy-five percent** of the credit advanced by small finance banks will need to go to sectors that are considered part of the so-called priority sector, which includes agriculture, small enterprises, and low-income earners.
7. Small finance banks will also have to ensure that **50%** of their loan portfolio constitutes advances of up to **Rs.25 lakh**. Advances are short term lending whereas loans are long term lending. No interest is charged on advances unlike on loans
8. Small banks can undertake financial services like distribution of mutual fund units, insurance products, pension products, and so on, but not without prior approval from the RBI
9. Small Finance banks can convert into Universal banks like ICICI, SBI etc. over a period subject to approval from RBI
10. The small finance banks would face challenges as these entities will incur significant costs in the early years, along with significant investments needed in information technology, risk management and other operational aspects of running a bank, which will raise their cost of operations and dent profitability.
11. The initial paid-up **voting equity share capital/net worth required to set up a small finance bank, currently, it is Rs 200 crore.**

Update regarding the initial paid-up capital of Small Finance banks (SFB)

RBI has constituted an Internal Working Group (IWG) to review the extant guidelines on ownership and corporate structure for Indian private sector banks, **under the chairmanship of Dr. Prasanna Kumar Mohanty**.

One of the key recommendations of the committee was to increase minimum initial capital requirement for licensing of **Small Finance banks (SFB). Thereby the committee recommended to increase the** initial paid-up voting **equity share capital/ net worth required to set up a new SFB, may be increased to ₹300 crore (from present ₹200 crore).**

Note – Although RBI has accepted the above-mentioned recommendations, however neither RBI has released any official notification, nor does RBI have amended any of its master circular.

4.2.1.1 Regulations for Small Finance Banks

Capital Adequacy Framework

Minimum Capital Requirement	15%
Common Equity Tier 1	6%
Additional Tier I	1.5%
Minimum Tier I capital	7.5%
Tier 2 capital	7.5%
Capital Conservation Buffer	Not Applicable
Counter-cyclical capital buffer	Not applicable
Pre-specified Trigger for conversion of AT1	CET1 at 6% up to March 31, 2019, and 7% thereafter

Branch Resitrictions

At least 25 percent of the total number of 'Banking Outlets' opened during a financial year should be opened in unbanked rural centers.

4.2.2 Difference between Payment and Small Finance banks

PAYMENTS BANK	SMALL FINANCE BANK
Can accept deposits, but only up to ₹2 lakh per individual customer	Allowed to take deposits of any amount
Can't lend in any form	Can lend but the focus will be on small lending
Can open small savings accounts	Can finance small business units, small and marginal farmers, micro and small industries and unorganised sector entities
Can provide remittance services	Can provide remittances as well as credit cards
Allowed to issue automated teller machine (ATM) or debit cards	Allowed to issue ATM or debit cards
Not allowed to issue credit cards	Has to ensure that 50% of loan portfolio constitutes advances of up to ₹25 lakh
Can distribute products such as mutual funds, insurance and third-party loans	Can distribute financial products such as mutual funds, insurance and pension

4.3 On-Tap Banking License

Gone are the days when RBI use to open a certain window for the aspiring entities to apply for bank license. They do not need to wait for specific announcement from the RBI or government on a brief window for bank licensing like that happened in 1993, 2001 and later in 2013. **In 2001 RBI have license to Yes Bank and Kotak Mahindra Bank**. **In 2013 RBI gave license to Bandhan and IDFC Bank**

Now RBI has made this process ongoing i.e., whenever anyone who wants to apply for bank license can do so. This ongoing process of applying for a bank license is called **on-tap licensing**. From this point onwards, any eligible banking aspirant, individual or entity, can walk to the central bank with an application to start a full-service bank at any point.

<u>Guidelines</u>

1. The big highlight of 'on-tap licensing' norm is that **corporate biggies are out of the race**. The central bank's final guidelines clearly say that 'large industrial houses are excluded as eligible entities but are permitted to invest in the banks up to 10 percent'. The logic behind this move is that RBI does not want to take chances of private corporations misusing that money for related party lending.

2. The initial minimum paid-up voting equity capital for a bank should be Rs 500 crore

Update regarding the initial paid-up capital required for Universal Banks

RBI has constituted an Internal Working Group (IWG) to review the extant guidelines on ownership and corporate structure for Indian private sector banks, **under the chairmanship of Dr. Prasanna Kumar Mohanty**.

One of the key recommendations of the committee was to increase minimum initial capital requirement for licensing of **Universal Banks, Thereby the committee recommended to increase the** initial paid-up voting **equity share capital/ net worth required to set up a new Universal Banks, may be increased to ₹1000 crore (from present ₹500 crore).**

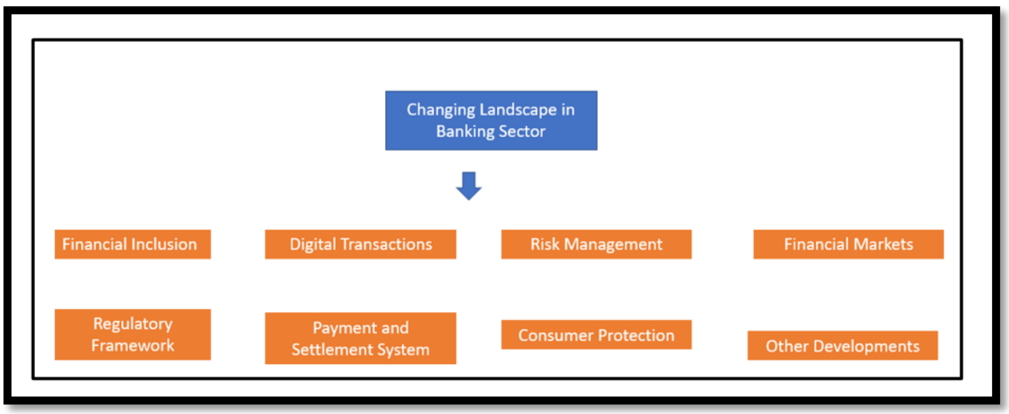
Note – Although RBI has accepted the above-mentioned recommendations, however neither RBI has released any official notification, nor does RBI have amended any of its master circular.

4.4 Priority Sector Lending and Financial Inclusion Index

We have already covered Financial Inclusion Index, National Strategy for Financial inclusion (NSFI), National Strategy for Financial Education (NSFE) and other recent initiatives related to financial inclusion in earlier part of the course

Likewise, we have covered Priority Sector Lending (PSL) Norms in current affairs section.

5 Recent Changes in Area of Digital Transactions



Let us discuss them one by one

5.1 PPI's

PPI's are prepaid instruments which are charged by paying some certain amount and post that they can be used to do some transactions. PayTM is one such example

Official Definition: The RBI guidelines define prepaid payments instruments as – "Pre-paid payment instruments are payment instruments that facilitate **purchase of goods and services, funds transfer and remittances** against the value stored on such 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 instruments can be issued as **smart cards, magnetic stripe cards, internet accounts, internet wallets, mobile accounts, mobile wallets, paper vouchers** and any such instrument, which can be used to access the pre-paid amount (collectively called Prepaid Payment Instruments)

PPI's in India are regulated by RBI under the **Payment and Settlement Systems Act (PSS), 2007**

5.1.1 Types of PPI's

Prepaid payment systems can be classified as –

1. **Closed ended systems** – The instruments, which can be used only at the issuer's location of the instrument are called Closed System Payment Instruments. These are not recognized by third parties and the same are not classified as payment systems by the RBI and not regulated by RBI. **For example**: metro smart cards are recognized by the metro railway only.

2. **Other than Close ended systems - There are PPIs which are not closed and rather could be used at all or large amount of places.** These are equally to currency and are recognized at large by all merchants, traders, and business houses. **For example**: traveler's card These are classified into two types
   a. **Small PPIs -** Issued by banks and non-banks after obtaining minimum details of the PPI holder. They shall be used only for purchase of goods and services. Funds transfer or cash withdrawal from such PPIs shall not be permitted. Small PPIs can be used at a group of clearly identified merchant locations / establishments which have a specific contract with the issuer (or contract through a payment aggregator / payment gateway) to accept the PPIs as payment instruments

   b. **Fully KYC Compliant KYCs -** Issued by banks and non-banks after completing Know Your Customer (KYC) of the PPI holder. These PPIs shall be used for purchase of goods and services, funds transfer or cash withdrawal.

RBI only regulates other than closed systems. Only Banks and NBFC's can issue such Prepaid Payment Instruments. Other than this anyone can take special permission from the RBI

5.1.2 Reloadable and Non-Reloadable

Reloadable are the PPI's which can be reloaded again and again with cash. For example - Delhi Metro Card. Non-Reloadable are the one is which cannot be loaded again and again. Suppose you buy the gift card from a branded chain, and you gift it to someone. Once used this cannot be loaded again. It must be thrown

5.1.3 Regulation Related to PPI's

5.1.3.1 Eligibility

1. Banks which comply with the eligibility criteria, including those stipulated by the respective regulatory department of RBI, shall be permitted to issue PPIs after obtaining approval from RBI.

2. Non-bank entities which comply with the eligibility criteria, including those stipulated by the respective regulatory department of RBI, shall be permitted to issue PPIs, after obtaining authorization from RBI. **All non-bank entities seeking authorization from RBI under the PSS Act shall have a minimum positive net worth of Rs. 5 crores as per the latest audited balance sheet at the time of submitting the application.** Thereafter, by the end of the third financial year from the date of receiving final authorization, the entity shall achieve a minimum positive net worth of **Rs. 15 crore which shall be always maintained**.

3. **Foreign Exchange PPIs:** Entities authorized under the Foreign Exchange Management Act (FEMA) to issue foreign exchange denominated PPIs are outside the purview of this Master Direction.

5.1.3.2 Loading and reloading of PPI's

1. PPI issuers shall ensure that no interest is payable on PPI balances.
2. PPIs shall be permitted to be loaded / reloaded in INR only
3. Cash loading to PPIs shall be limited to Rs. 50,000/- per month subject to overall limit of the PPI.
4. The PPIs may be issued as cards, wallets, and any such form / instrument which can be used to access the PPI and to use the amount therein. PPIs in the form of paper vouchers shall no longer be issued
5. The use of INR denominated PPIs for cross border transactions shall not be permitted except as under some special circumstances

5.1.3.3 Small PPIs

PPIs up to Rs. 10,000/- by accepting minimum details of the PPI holder but with Cash Loading facility

a. Bank and non-bank Issuers shall be permitted to issue these PPIs after obtaining minimum details of the PPI holder.
b. The minimum details shall include mobile number verified with One Time Pin (OTP) and self-declaration of name and unique identification number of any of the 'officially valid document
c. These PPIs shall be reloadable in nature and issued only in electronic form, including cards.
d. The amount loaded in such PPIs during any month shall not exceed Rs. 10,000/- and the total amount loaded during the financial year shall not exceed Rs.1,20,000/-.

e. The amount outstanding at any point of time in such PPIs shall not exceed Rs. 10,000/-
f. The total amount debited from such PPIs during any given month shall not exceed Rs. 10,000/-.

<u>PPIs up to Rs.10,000/ by accepting minimum details of the PPI holder with loading only from bank account (no cash loading)</u>

a. Such PPIs shall be issued by bank and non-bank PPI Issuers after obtaining minimum details of the PPI holder.
b. The minimum details shall necessarily include a mobile number verified with One Time Pin (OTP) and a self-declaration of name and unique identity / identification number of any 'mandatory document' or 'officially valid document' (OVD) listed in the Master Direction on KYC, as amended from time to time.
c. These PPIs shall be reloadable in nature and issued in card or electronic form**. Loading / Reloading shall be from a bank account and / or credit card. (Such PPIs shall be reloadable in nature. Loading / Reloading shall be from a bank account / credit card / full-KYC PPI)**
d. The amount loaded in such PPIs during any month shall not exceed Rs.10,000 and the total amount loaded during the financial year shall not exceed Rs.1,20,000
e. The amount outstanding at any point of time in such PPIs shall not exceed Rs.10,000.

5.1.3.4 Fully-KYC PPIs

a. Bank and non-bank Issuers shall be permitted to issue these PPIs after completing KYC of the PPI holder
b. These PPIs shall be reloadable in nature and issued only in electronic form, including cards.
c. The amount outstanding shall not exceed Rs.2,00,000/- at any point of time.
d. Funds can be transferred to pre-registered beneficiaries up to a limit of 2,00000 per month per beneficiary and to non-registered beneficiaries up to 10,000 per month per beneficiary
e. In case of bank issued PPIs, cash withdrawal shall be permitted. However, cash withdrawal at PoS devices shall be subjected to a limit of Rs.2,000/- per transaction within an overall monthly limit of Rs.10,000/- across all locations

5.1.3.5 Specific Categories of PPI's

There are two other categories of PPI's as mandated by RBI

<u>PPI's Gift Instruments</u>

Banks and non-bank entities are permitted to issue prepaid gift instruments subject to the following conditions:

a. Maximum value of each prepaid gift instrument **shall not** exceed Rs. 10,000/-.

b. These instruments **shall not be reloadable**.
c. Cash-out or refund or funds transfer shall not be permitted for such instruments.

PPI's for Mass Transit System

a. These PPIs shall be issued by mass transit system operators after authorization to issue and operate such PPIs under the PSS Act.
b. The PPI-MTS shall necessarily contain the Automated Fare Collection application related to the transit service to qualify as PPI-MTS.

5.1.3.6 Validity and Redemption

All PPIs issued in the country shall have a minimum validity period of one year from the date of last loading / reloading in the PPI. PPI issuers are free to issue PPIs with a longer validity.

5.1.3.7 Limited Liability of Customer

Customer liability in case of unauthorised electronic payment transactions through a PPI

S. No.	Particulars	Maximum Liability of Customer
(a)	Contributory fraud / negligence / deficiency on the part of the non-bank PPI issuer, including PPI-MTS issuer (irrespective of whether or not the transaction is reported by the customer)	Zero
(b)	Third party breach where the deficiency lies neither with the non-bank PPI issuer nor with the customer but lies elsewhere in the system, and the customer notifies the non-bank PPI issuer regarding the unauthorised payment transaction. The per transaction customer liability in such cases will depend on the number of days lapsed between the receipt of transaction communication by the customer from the non-bank PPI issuer and the reporting of unauthorised transaction by the customer to the non-bank PPI issuer -	
	i. Within three days#	Zero
	ii. Within four to seven days#	Transaction value or ₹ 10,000/- per transaction, whichever is lower
	iii. Beyond seven days#	As per the Board approved policy of the non-bank PPI issuer
(c)	In cases where the loss is due to negligence by a customer, such as where he / she has shared the payment credentials, the customer will bear the entire loss until he / she reports the unauthorised transaction to the non-bank PPI issuer. Any loss occurring after the reporting of the unauthorised transaction shall be borne by the non-bank PPI issuer.	
(d)	Non-bank PPI issuers may also, at their discretion, decide to waive off any customer liability in case of unauthorised electronic payment transactions even in cases of customer negligence.	

Whenever there is a liability of the PPI, it shall credit back the money within 10 days from the date of such notification by the customer

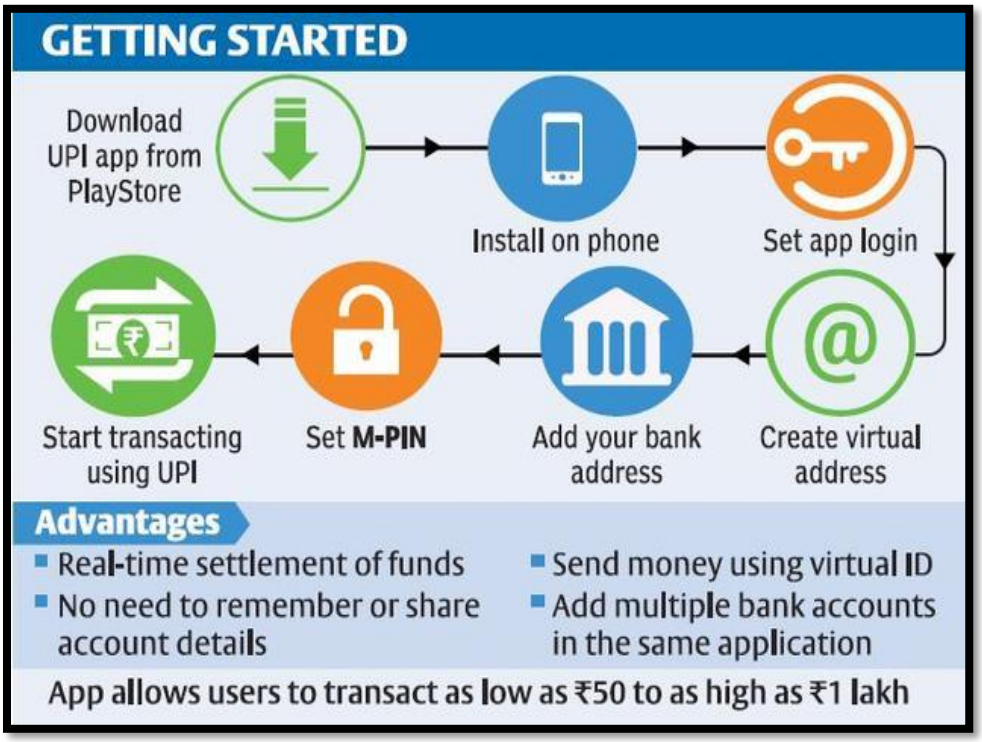
5.1.3.8 Interoperability of PPIs

The ability of customers to use a set of payment instruments seamlessly with other users within the segment are based on adoption of common standards by all providers of these services to make them inter-operable. PPI Issuers shall ensure adherence to the technical and operational requirements for such interoperability, including those relating to safety and security, risk mitigation.

5.2 UPI

UPI is an online payments solution which will facilitate the transfer of funds instantly between person and person (or peer to peer) using a smartphone. UPI can be used both to send and receive funds. The **National Payments Corporation of India (NPCI),** the umbrella organization for all retail payments systems in India, which was set up with the guidance and support of the RBI and Indian Banks' Association (IBA), is pushing the solution

5.2.1 How does it Works



1. Let us assume a person named 'Ram' must make payments using UPI (let us explain this with an example).
2. To make UPI money transfer, Ram needs 2 basic things:
    a. A smartphone with UPI application (app),
    b. A bank account.
3. Ram must download the UPI app and get a **UPI ID** by registering on the app with his bank details.
4. **UPI ID is a virtual identity** (a payment identifier) like an email address.
5. It can be a name or a mobile number along with the name of your bank. For example-
    a. Ram@sbi or Ram@icici
    b. 9900000099@hdfc or 9900000099@axis
6. The payment is verified instantly through the smart phone, without needing to rely on debit card payment or net banking.
7. Ram must buy a book online. He can initiate the e-commerce purchase by selecting UPI as the payment mode and providing his UPI ID Ram@sbi.
8. He then receives a pop-up notification on his smartphone through the 'UPI App' requesting confirmation of the payment.
9. He must enter his secure pin on the app to authenticate the purchase transaction.
10. He will then receive a confirmation of a successful online purchase from the merchant within seconds.

5.2.2 Features of UPI

- The United Payments Interface is a system for instant, electronic payments through your smart phone.
- It authenticates the identity using the phone as a tool instead of a separate cad
- It is an advanced version of Immediate Payment Service (IMPS) which was used to transfer money between bank accounts.
- Like IMPS, UPI will facilitate round-the-clock funds transfer service.
- It works 24×7, 365 days, unlike RTGS or NEFT services which have specific working hours.
- At present, the upper limit per UPI transaction is Rs.2 Lakhs.

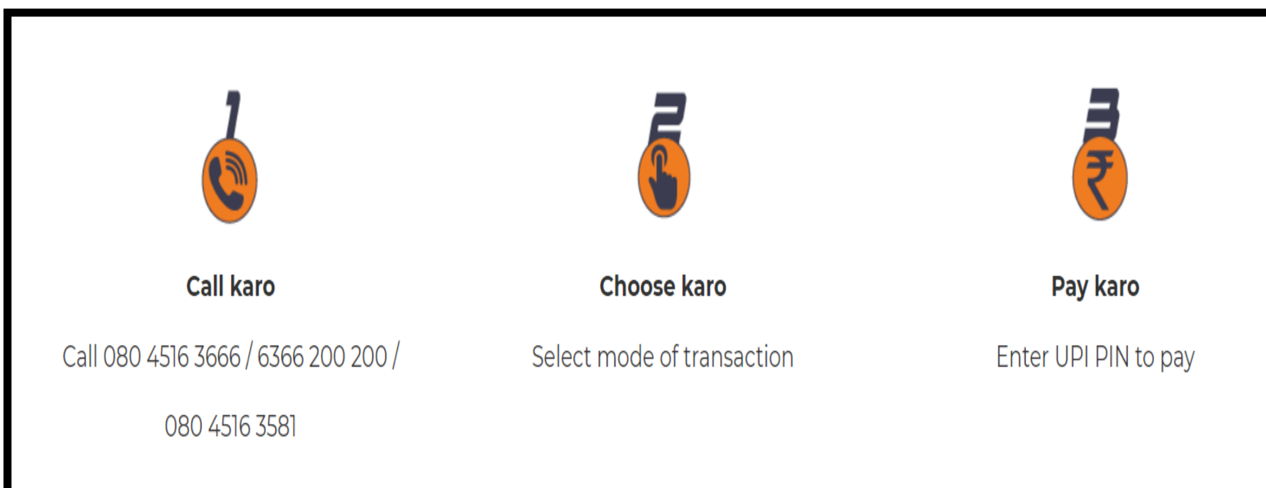
5.2.3 Increasing the scope of UPI

The success and growth of UPI have been unprecedented, following are some new dimensions which were added to enhance the growth of UPI in India.

5.2.3.1 Introduction of the UPI 123 Pay

UPI 123Pay is a newly launched instant payment system which will allow users to make UPI transactions without an internet connection. The feature is expected to benefit 40 crore feature phone users which will increase financial inclusion for rural areas of the country. NPCI has given the slogan – **Click karo, Pay karo**.

Transactions through UPI 123Pay can be done through IVR, missed call, sound-based and OEM-supported. The mode of operation through IVR is shown below which is step process – call, choose and Pay



5.2.3.2 UPI introduced for IPO investing

SEBI has proposed introducing Unified Payments Interface (UPI) as an alternative payment option for retail investors buying shares in an initial public offer (IPO). Proposed limit for UPI transfers is up-to Rs 5,00,000, earlier it was Rs. 2,00,000 only.

5.2.4 Difference between IMPS, NEFT and UPI

In case you find the below figure difficult to read then zoom the view

Parameters	NEFT	IMPS	UPI
Transaction initiation point	Must be initiated from the Sender/Remitter bank's app	Must be initiated from the Sender/Remitter bank's app	Can be initiated from ***any*** bank's UPI app to debit the chosen Sender/Remitter bank account
Types of transfers possible	Only push transfers or Payment transactions possible	Only push transfers or Payment transactions possible	Both ***push & pull*** transfers possible i.e. both Payment & *Collect* transactions possible
Beneficiary details needed	Need Beneficiary bank account details such as IFS Code & Account Number	Need Beneficiary Mobile phone number and the MMID for the specific account	Need **only** the Beneficiary ***Virtual ID***!
Beneficiary addition	Pre-addition & bank approval of NEFT Beneficiary needed before transfer can be done	Pre-addition & bank approval of IMPS Beneficiary needed before transfer can be done (except for a few banks)	**No pre-addition or approval** of Beneficiary required; one can simply transfer to Beneficiary Virtual ID
Complexity of transfer details	The IFS Codes being bank & branch specific are particularly inconvenient to use	The MMIDs being bank issued & different for each account, are difficult to remember	The Virtual ID is ***user-generated***, so *easy to remember*! Also, ***multiple accounts*** can be linked to the ***same Virtual ID***!!
Speed of transfer	Batch processed at pre-set NEFT timings	Instantaneous, real-time	Instantaneous, real-time
2FA (Two Factor Authentication)	*First Factor:* Bank specific Internet/Mobile Banking Login ID & password *Second Factor:* OTP and/or Transaction Password/Debit Card Grid	*First Factor:* Bank specific Internet/Mobile Banking Login ID & password *Second Factor:* OTP and/or Transaction Password/Debit Card Grid	*First Factor:* ***UPI App*** *Login ID & Password* (common to multiple banks with the same registered mobile number) *Second Factor:* A ***user selected*** 4- or 6-digit ***M-PIN***; *no more waiting for OTP or fetching your Debit Card for grid values!*
Per transaction limit	Rs 10 lakhs	Rs 10,000 using MMID & Mobile Number; higher for transfers using IFS Code & Account number	Currently it's Rs. 2 Lakh

5.3 BHIM App

After demonetization, BHIM App was launched in India to promote digital transactions. BHIM Stands for Bharat Interface for Money and it was also dedicated to Bhimrao Ramji Ambedkar. BHIM is a digital payments solution app based on the Unified Payments Interface (UPI) from the National Payments Corporation of India (NPCI), the umbrella organization for all retail payments systems in India.

5.4 AEPS

Aadhaar Enabled Payment System (AEPS) is a way to get money from the bank account. This system of getting money neither requires your signature nor Debit card. You do not even need to visit a bank branch for getting money through the Aadhaar Enabled Payment System. Rather, it uses Aadhaar data for the authentication.

Services Provided by AEPS

The Aadhaar Enabled Payment System gives you banking facility on the go. However, it gives you only basic services. These 4 services can be done through the AEPS.

1. Balance Check
2. Cash Deposit
3. Cash Withdrawal
4. Aadhaar to Aadhaar Fund Transfer

Except Fund transfer, you can perform all the transactions through the banking correspondent of any bank. For fund transfer, you need the BC of your own bank

What does one require for AEPS?

Through the Aadhaar Enabled Payment System, you can get money without producing any paper or card. However, your Aadhaar number should be registered with your bank account. If you did not link your Aadhaar with a bank account, the Aadhaar Enabled Payment System would not be useful to you. For AEPS transaction, you need following information.

1. Aadhaar Number
2. Bank IIN or Name
3. Fingerprint

It means, you must only remember your Aadhaar number to do the bank transaction. It is just like remembering own mobile number.

5.5 USSD

The mobile banking has been used mostly by people having smartphones and poor people not having smart phones could not use this banking on mobile facility for many years. The answer to this problem is the USSD based mobile banking. One can dial the *99# and one can do all those things which are available to a person with smartphone and 3G data

What is USSD?

Did you ever try to get the mobile balance by dialing a certain code which starts with '*' (asterisk) and ends with # (hash)? These codes are the USSD codes. The codes which directly communicate with the server of Telecom Company are called as the USSD. **The meaning or full form of the USSD is unstructured supplementary service data**

How is USSD Used in Banking?

As USSD code connects to the telecom operator's server, it also connects to bank's server. Hence, it gives you access to your bank account and performs some transaction. The entry to your bank account is given based on registered mobile number. Thus, you must use registered mobile number to dial the USSD code

A special number ***99#** is fixed to access the banking services. This number works across the banks. This system of banking transaction is termed as the **NUUP**

5.6 Rupay

RuPay, a new card payment scheme launched by the National Payments Corporation of India (NPCI), has been conceived to fulfill RBI's vision to offer a domestic, open-loop, multilateral system which will allow all Indian banks and financial institutions in India to participate in electronic payments. RuPay is a competitor to Visa and Master Card

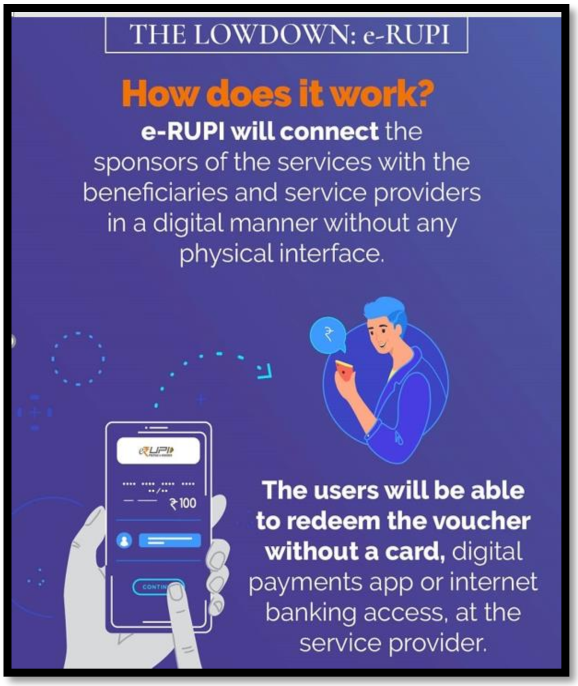
"RuPay", the word itself has a sense of nationality in it. "RuPay" is the coinage of two terms Rupee and Payment. The RuPay Visual Identity is a modern and dynamic unit. The orange and green arrows indicate a nation on the move and a service that matches its pace. Blue stands for the feeling of tranquility which is the people must get while owning a card of the brand 'RuPay'. The bold and unique typeface grants solidity to the whole unit and symbolizes a stable entity.

RuPay cards got a major boost through the Pradhan Mantri Jan Dhan Yojana as RuPay cards were issued to all Jan Dhan accounts. Despite the critics saying most accounts are dormant, RuPay cards are now widely used by Jan Dhan Card holders

5.7 E-RUPI

e-RUPI is a cashless and contactless instrument for digital payment. It is a QR code-based e-Voucher, which is delivered to the mobile of the beneficiaries. The users of this seamless one-time payment mechanism will be able to redeem the voucher without a card, digital payments app or internet banking access, at the service provider. It has been developed by National Payments Corporation of India on its UPI platform, in collaboration with the Department of Financial Services, Ministry of Health & Family Welfare and National Health Authority.

How does it work?



<u>How it is different from earlier DBT?</u>

While the earlier DBT scheme relies on the troika of Jan Dhan accounts, Aadhaar numbers — although Aadhaar is not mandatory — and mobile phones, the e-RUPI system will not require users' bank account details. The only requirement is for the beneficiary's mobile phone number. The DBT scheme notes that it relies on 100 crore mobile connections to reach aid to beneficiaries

5.8 Steps taken to Promote Digital Transactions

Since 2014 the Indian government has taken active participation in bringing digitalization by various measures. Some of major initiatives are discussed below -

5.8.1 Introduction of Digi-Saathi

DigiSaathi is a 24-hour information hotline built for the users of digital payments products and services. The helpline would offer information on various products and services offered across payment cards of all kinds (including debit, credit, and prepaid cards), UPI, QR-based payments, mobile or net banking, ATMs and more.

Besides this, it will also provide contact details of various payment system participants, both banks and non-banks.

There are two ways to get information from DigiSaathi.

A user can simply call on a toll-free number 14431 or 1800 891 3333. Besides this, they can also search its official website, digisaathi.info, for the same.

5.8.2 Introduction of the Payment Infrastructure Development Fund

To give a push to digital payments across the country, the Reserve Bank of India (RBI) is setting up a Payment Infrastructure Development Fund (PIDF) of Rs 500 crore.

The objective of PIDF is to increase the number of acceptance devices multi-fold in the country. The scheme is expected to benefit the acquiring banks/non-banks and merchants by lowering overall acceptance infrastructure cost.

Validity & Target for Scheme

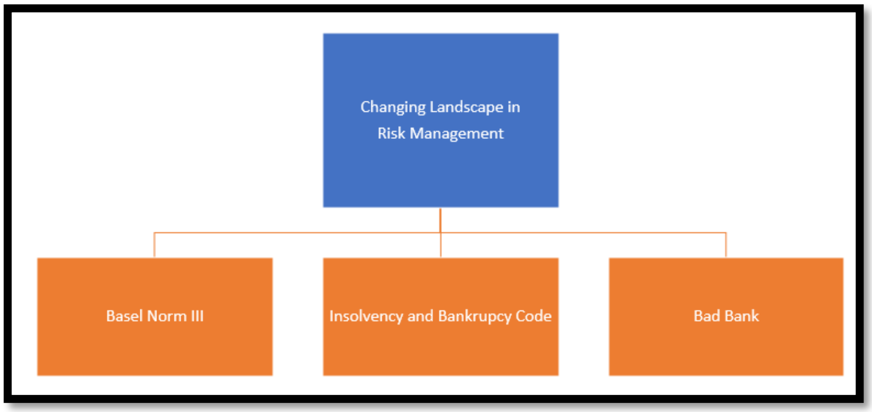
- The scheme is valid for three years, **starting from January 1, 2021, and maybe extended for another two years, if required**
- The primary focus shall be to create payment acceptance infrastructure in Tier-3 to Tier-6 centres, with a special focus on the **North-Eastern States**.
- Increasing payments acceptance infrastructure **by adding 30 lakh touch points – 10 lakh physical and 20 lakh digital payment acceptance devices every year**.
- PIDF shall be governed by an ex-officio Advisory Council (AC), headed by, B.P. Kanungo
- A subsidy of **30% to 50% of the cost of physical PoS and 50% to 75% subsidy for Digital PoS shall be offered**. This subsidy shall be granted on a half-yearly basis, after ensuring that performance parameters are achieved~~, including conditions for 'active' status of the acceptance device and 'minimum usage' criteria, as defined~~
- **At present, the PIDF corpus is Rs. 345 crores, of which Rs.250 crores has been contributed by the Reserve Bank of India and Rs.100 crore from the authorized card networks**

5.8.3 Current affairs section

There are many steps taken from time to time to promote digital Transactions such as Cash back on payments through apps, Lucky Draw offers etc. Any important news related to this will be covered in the current Affairs Section.

Reference Note Dear Students, please be informed that, we have covered the digital payment Index earlier in the course Kindly Refer to the same.

6 Recent Changes in Area of Risk Management or NPA's



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6.1 Basel 3

RBI has mandated Banks to implement Basel 3 norms by 2019. Basel 3 would help better risk management for the banks. Basel 3 is a big topic and we have covered the same it in detail in the 'Risk Management Topic'

6.2 Insolvency and Bankruptcy Code (IBC)

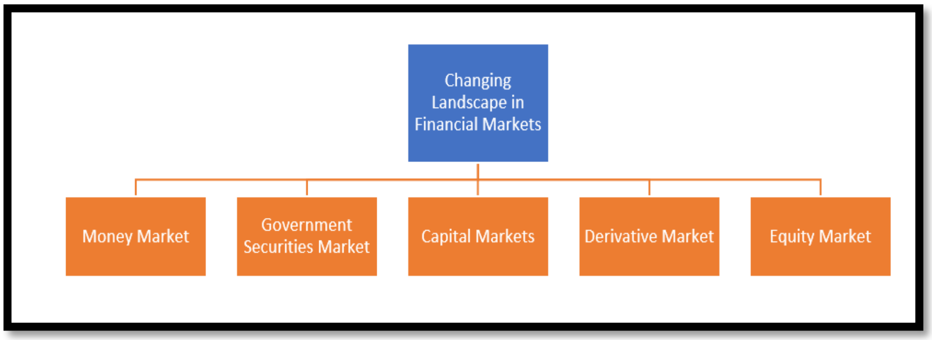
Insolvency and Bankruptcy Code is a major development in the banking sector which is bound to change the way banks used to recover the money from Non-Performing Accounts. Insolvency and Bankruptcy Code is covered under the current affairs Section

6.3 Bad Banks

A bad bank is a financial entity **set up to buy Non-Performing Assets** (NPAs), or Bad Loans, from banks. The aim of setting up a bad bank is to help ease the burden on banks by taking bad loans off their balance sheets and get them to lend again to customers without constraints. Within Bad-Bank, there are two new separate entities which are incorporated**, they are (1) National Asset Reconstruction Company Limited (NARCL) and (2) India Debt Resolution Company Ltd (IDRCL)**

- **National Asset Reconstruction Company Limited (**NARCL): NARCL has been incorporated under the Companies Act and has applied to the Reserve Bank of India for a license as an **Asset Reconstruction Company (ARC**). NARCL will acquire stressed assets worth about Rs 2 lakh crore from various commercial banks in different phases. **Public Sector Banks (PSBs) will maintain 51% ownership in NARCL. The NARCL will also be responsible for valuing bad loans to determine at what price would they be sold**.
- India Debt Resolution Company Ltd (IDRCL), IDRCL is a service company/operational entity **which will manage the asset and engage market professionals and turnaround experts**. Public Sector Banks (PSBs) and Public Financial Institution's will hold a **maximum of 49% stake and the rest will be with private sector lenders.**
- **Working of NARCL-IDRCL -** The NARCL will acquire assets by making an offer to the bank. Once NARCL's offer is accepted, then, IDRCL will be engaged for management and value addition.

7 Recent Development in Financial Markets



7.1 Recent Development of Money Market.

Following steps have been taken in development of money market over a period. Many terms are not explained here in detail since we have covered them in detail earlier in the course

1. **1980's**: Till 1980's Indian Money market was constrained by paucity of instruments, and it was regulated heavily about interest rates
2. **1985,1988**: Pursuant to the recommendations of committee to review the working of monetary system (Chairman: Suman Chakravarthy, 1985) and working group on money market (Shri. N. Vaghul, 1988), several measures were taken by RBI to strengthen the money markets
3. **1988**: The discount and Finance House of India Limited (DFHI) was set up in 1988.
4. Introduction of Commercial Paper in 1990 and Certificate of Deposit in 1989 as additional instruments in money markets
5. **Post 2000**-01: RBI took many steps which have contributed to growth of Indian Money market
    a. **Introduction of LAF from 5th June 2000**
    b. **Introduction of CBLO through CCIL from 20th Jan 2002**
    c. **Introduction of Negotiated Dealing System (NDS)**
    d. A screen-based quote driven system for all dealings in call/notice and term money market (**NDS-Call**) was operationalized with effect from 18th September 2006
    e. As per recommendations of Narasimhan Committee in 2005, the call/notice money market is restricted to banks now. This has been possible through development of Repo and Reverse repo market in which in even non-banks can participate

7.2 Development of Long-Term Government Securities Market

Following steps have been taken in development of Government securities market (long term) over a period. Many terms are not explained here in detail since we have covered them in detail earlier in the course

1. Some new instruments such as zero-coupon bonds, floating rate bonds, Capital Index Bonds to develop the securities market

2. **Establishment of STCI:** STCI's core activities comprise participation, underwriting, market making and trading in Government Securities. It was set up by Reserve Bank of India jointly with public sector banks and all-India financial institutions with the main objective of fostering the development of an active secondary market for Government securities and bonds issued by public sector undertakings.
3. **Establishment of Delivery Vs. Payment System**: **Delivery versus payment (DVP)** is a securities industry settlement method that guarantees the transfer of securities only happens after payment has been made. DVP stipulates that the buyer's cash payment for securities must be made prior to or at the same time as the delivery of the security
4. **Setting up of Primary and Satellite Dealers: A primary dealer is a firm that buys government securities** directly from a government, with the intention of reselling them to others, thus acting as **a market maker** of government securities. A market maker provides firm two-way quotes in the market i.e., both buy and sell executable quotes for the concerned securities. Satellite Dealers work in tandem with the Primary Dealers in the same way as franchisees and the sub brokers help the principal brokers to reach out for last mile marketing.
5. **Roll out of 'When-issued" Market for Govt. Securities**: A "when, as and if issued" (commonly known as 'when-issued') security refers to a bond whose issue has been announced but not yet taken place. By inference a `when-issued' market is one where such 'when-issued' instruments are traded

   Purpose of When-Issued Markets: Today, a bidder at a government security auction can only second guess what the demand for a bond will be. This uncertainty leads to a volatility whenever there is a large auction. A when-issued market will enable bidders to get an idea of how many investors are interested in buying. Reduced volatility will draw more investors and lead to further development of the bond market.

   How Does it work: In a when-issued market trade can take place only from the day an auction of government securities is notified up to the date of the auction? During this period there will be a kind of a book-building with buying and selling of the to-be-issued security going on simultaneously. Once the securities are issued through the auction there will be a settlement of all these buy-sell transactions that has taken place earlier.

7.3 Development of Capital Market

Following steps have been taken in development of Capital Market over a period. Many terms are not explained here in detail since we have covered them in detail earlier in the course

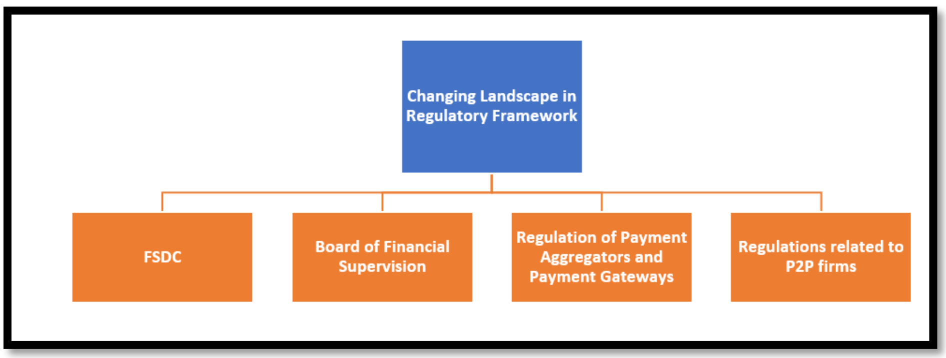
1. Setting up of depositories, clearing corporations, stock exchanges to facilitate online trading

2. On the recommendations of **Chandrate Committee** which were accepted by SEBI, Delisting norms have been made stricter now
3. All publicly issued debt instruments are presently required to be rated by credit agencies
4. All listed companies are also required to publish unaudited financial statements on quarterly basis
5. On the recommendations of **Kumara Mangalam Birla Committee** which were accepted by SEBI, listing norms have been modified to reflect code of corporate governance.

7.4 Development in Equity and Derivatives Market

We have covered all the recent initiatives taken in derivative and Equity Market, like the introduction of mandatory physical Settlement for futures and "T+1" settlement system has been discussed earlier in the course

8 Recent Development in Regulatory Framework for Indian Financial System



8.1 Board of Financial Supervision at RBI

Financial regulation and supervision are the two important functions of the RBI. Regulation is just stipulating rules in accordance with the laws framed by the government for the effective control over the financial system. There is the Banking Regulation Act to regulate banks.

Supervision is different from regulation. Here, the RBI goes to the headquarter of the bank to check whether the bank is complying with the rules and regulations.

RBI exercises its supervisory role over the financial system encompassing commercial banks, Urban cooperative banks, financial institutions, NBFCs, Primary dealers etc. through the Board of Financial supervision (BFS)

The board was constituted in **1994** as a committee to central board of directors of RBI. The BFS has been constituted as an autonomous body under the RBI.

<u>Constitution of the board:</u> It consists of

1. 4 directors form the central board of RBI serve as members of BFS for 2 years
2. Governor of RBI is the chairman of BFS
3. One of the deputy governors, usually the deputy governor is charge of banking regulation and supervision is nominated as the Vice-Chairman of **the BFS**
4. All other deputy governors are ex-officio members of this board

8.2 Regulation of Payment Aggregators and Payment Gateways

The Reserve Bank of India (RBI) has issues 'Guidelines on Regulation of Payment Aggregators and Payment Gateways'.

The key highlights of the guidelines are as follows:

Key Terms: **Payment Aggregators (PAs)** are entities that facilitate e-commerce sites and merchants to accept various payment instruments from the customers *without the need for merchants to create a separate payment integration system of their own*. They receive payments from customers, pool and transfer them on to the merchants after a time. **Payment Gateways (PGs)** are entities that provide technology infrastructure to route and facilitate processing of an online payment transaction without any involvement in handling of funds.

Applicability: While the guidelines and the technology related recommendations are mandatory for PAs, adherence to the technology related recommendations by PGs seems to be recommendatory. While cash on delivery (COD) based e-commerce transactions have been exempted, the circular also aims at bringing regulation of domestic leg of import and export related payments facilitated by PAs under its ambit.

Entity Structure: A non-bank PA must be a company incorporated under the Companies Act with the PA activity forming part of its objects.

Net-worth: Existing PAs must ensure a net worth of INR 15 crores by March 31, 2021, and INR 25 crores by March 31, 2023. For the new PAs, a net worth of INR 15 crores is required for making an application for grant of authorization and they must achieve a net worth of INR 25 crores by the third financial year-end occurring after the application is made. A net worth of INR 25 crores to be always maintained thereafter.

Risk management and general guidelines: PAs will cater for providing an infrastructure information and data security with systems for prevention and detection of frauds in place in accordance with Board approved information security policy. **PAs cannot store the customer card credentials within their database or in the server accessed by any merchant**. PAs will adhere to following the extant instructions for Merchant Discount Rate. While PAs cannot impose limits on transaction amount for any payment mode, the banks would be responsible for placing these limits. PAs also cannot provide ATM PINs as factor of authentication.

8.3 FSDC

Financial Stability and Development Council (FSDC) is an apex-level body constituted by the government of India. The idea to create such a super regulatory body was first mooted by the Raghuram Rajan Committee in 2008.

Finally in 2010, the then Finance Minister of India, Pranab Mukherjee, decided to set up such an autonomous body dealing with macro prudential and financial regularities in the entire financial sector of India. **An apex-level FSDC is not a statutory body**.

Objective of FSDC

1. There are various segments of financial institutions in India that look after the different sectors. **For example**, RBI looks out for NBFCs and commercial banks, SEBI takes care of the capital market, etc. FSDC ensures that there is better coordination between the financial sectors to ensure macro related supervisions of the Indian economy.

2. Furthermore, FSDC ensures better efficiency along with avoiding the conflicts between the functions of these institutions.

What is FSDC Composed of?

Chairperson: The Union Finance Minister of India

Members:

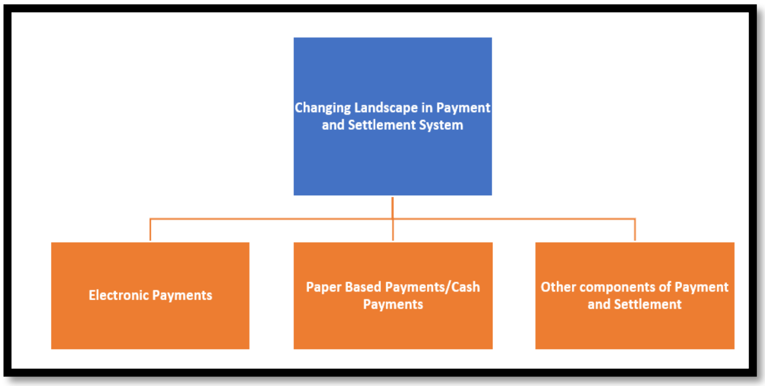
- Governor Reserve Bank of India (RBI),
- Finance Secretary and/ or Secretary, Department of Economic Affairs (DEA),
- Secretary, Department of Financial Services (DFS),
- Secretary, Ministry of Corporate Affairs,
- Secretary, Ministry of Electronics, and Information Technology,
- Chief Economic Advisor, Ministry of Finance,
- Chairman, Securities and Exchange Board of India (SEBI),
- Chairman, Insurance Regulatory and Development Authority (IRDA),
- Chairman, Pension Fund Regulatory and Development Authority (PFRDA),
- Chairman, Insolvency and Bankruptcy Board of India (IBBI),
- Additional Secretary, Ministry of Finance, DEA, will be the Secretary of the Council

The Chairperson may invite any person whose presence is deemed necessary for any of its meetings.

8.4 P2P lending

Please be informed that we have covered the regulation related to P2P firms has been covered earlier in the course

9 Recent Developments in Payment and Settlement System



RBI has been playing a major developmental role and has taken several initiatives to ensure safe, secure, and efficient payment system in the country

Board of Regulation and Supervision of Payment and Settlement System (BPSS), a sub-committee of the central board of the Reserve Bank of India is the highest policy making body on the payment system in the country.

In India, payment and Settlement systems are regulated by the Payment and Settlement Systems Act, 2007 (PSS Act). As per section 4 of the act, no person other than RBI can commence or operate a payment system in India unless authorized by RBI. Further to PSS Act, 2007, Payment and Settlement Systems Regulations 2008 have been framed under the PSS Act, 2007

A framework for recognition of a **Self-Regulatory Organisation (SRO)** for Payment System Operators has been put in place in October 2020 with a view to fostering best practices on security, customer protection and pricing, among others. The SRO will serve as a two-way communication channel between the players and the regulator/supervisor.

9.1 Initiatives by RBI

9.1.1 Paper Based Payments/Cash Payments

Use of Paper based instruments like cheques, drafts accounts for good volume of transactions in the country. Following measures has been introduced by RBI for Paper based payments

1. **MICR**: RBI introduced MICR (Magnetic Ink Character Recognition) technology for speeding up and bringing efficiency in processing of cheques. Each check is printed with a series of characters on the bottom of the document.
2. **Speed Clearing of Cheques:** Speed clearing of a cheque is a mechanism that involves collection of an outstation cheque (a cheque drawn on non-local bank branch) through the local clearing
3. **Cheque Truncation System**: Cheque Truncation System (CTS) is a cheque clearing system undertaken by the Reserve Bank of India (RBI) for quicker cheque clearance.

4. **CTS-2010 Standards**: All cheques carry standardized watermark called “CTS-INDIA” which can be seen when you held cheque against light. This feature will avoid fraudulent from photocopying or printing it
5. **Cash Payments – Automated Teller Machines:** ATM’s can be used for easy withdrawal of cash and avoiding hassle of going to the bank.
6. **White Label ATMS:** Non-bank entities incorporated in India under the Companies Act 1956 / 2013, are permitted to set up, own and operate Automated Teller Machines (ATMs) in India after authorization by RBI. Non-bank entities that intend setting up, owning and operating ATMs, are called "White Label ATM Operators" (WLAO) and such ATMs are called "White Label ATMs" (WLAs).

9.1.2 Electronic Payments

RBI has taken many steps starting mid-nineties to create a better technology-oriented payment transfer. Some of the major developments are listed below

1. **Electronic Clearing Service (Credit):** RBI introduced ECS (Credit) scheme in 1990s to handle bulk and repetitive payment requirements (like salary, interest, dividend) of corporates and other institutions.
2. **ECS Clearing Service (Debit)**: The ECS (Debit) Scheme was introduced by RBI to provide a faster method of effecting periodic and repetitive collections of utility companies such as electricity bills, mobile bills etc.
3. **NECS**: NECS stands for National Electronic Clearing Service which was launched in 2008. It is an initiative launched by Reserve Bank of India, as an improvement over the ECS –Electronic Clearing Service. It facilitates credits to beneficiary accounts with destination branches across country
4. **National Automated clearing house**: NACH is a centralized ECS system operated by NPCI which is an improvement over NECS. NECS usually had a lag of 2-3 days where is NACH is settled on same day. NACH was formed to consolidate multiple Electronic Clearing Service systems running across the country into one centralized system. It operates both NACH Credit and NACH Debit payment systems. NACH credit, like ECS credit, is used for making one-to-many credit transfers towards payment of dividends, interest, salary, pension, distribution of subsidies, etc. NACH Debit operates to collect payments from many accounts to one destination account e.g., collection of various utility payments pertaining to telephone, electricity, water, and gas charges etc. It also facilitates in collecting periodic instalments towards loans, investments in mutual funds, insurance premium etc.

5. **National Electronic Toll Collection** - National Payments Corporation of India (NPCI) has developed the National Electronic Toll Collection (NETC) program to meet the electronic tolling requirements of the Indian market.

It provides an electronic payment facility to customer to make the payments at national, state and city toll plazas by identifying the vehicle uniquely through a FASTag. **FASTag are Radio-Frequency Identification (RFID) stickers which are affixed on the vehicle windshield and enable the driver to make toll payments electronically while the vehicle is in motion without stopping at the Toll plazas by saving Fuel and Time**.

6. **NEFT**: 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 **48** batch settlements at **half-hourly intervals around the clock (24x7x365 basis)**, thus enabling near real-time transfer of funds. **There is no minimum or maximum amount limitations.**
7. **RTGS** is a funds transfer system where 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 and **Gross Settlement' means** that the settlement of funds transfer instructions occurs individually. Once processed, payments are final and irrevocable. This was introduced in in 2004 and settles all inter-bank payments. if it is not possible to credit the funds to the beneficiary customer's account for any reason, the funds received by the RTGS member bank will be returned to the originating bank **within one hour** of receipt of the payment at the Payment Interface. **Every RTGS Transaction has Unique Transaction Reference** (UTR) number which is a 22-character code used to uniquely identify a transaction in RTGS system.

   Min Amount – 2 lakhs
   Max Amount – No limit
   Timings: RTGS is available around the clock – 24*7*365 basis

8. **Immediate Payment Service (IMPS)** - IMPS is an innovative real time payment service that is available round the clock. This service is offered by National Payments Corporation of India (NPCI) that empowers customers to transfer money instantly through banks and RBI authorized Prepaid Payment Instrument Issuers (PPI) across India. The per transaction limit on IMPS is Rs. 5 lakhs.

9.1.3 Other Payments

1. **Mobile Banking System**: Mobile phones as a medium for providing banking services have been attaining increased importance. 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

2. **NPCI**: National Payments Corporation of India (NPCI), an umbrella organization for operating retail payments and settlement systems in India, is an initiative of Reserve Bank of India (RBI)

and Indian Banks' Association (IBA**) under the provisions of the Payment and Settlement Systems Act, 2007, for creating a robust Payment & Settlement Infrastructure in India**. Considering the utility nature of the objects of NPCI, it has been incorporated as a "Not for Profit" Company under the provisions of Section 25 of Companies Act 1956 (now Section 8 of Companies Act 2013), with an intention to provide infrastructure to the entire Banking system in India for physical as well as electronic payment and settlement systems.

National Payments Corporation of India (NPCI) was incorporated in 2008 as an umbrella organization for operating retail payments and settlement systems in India. NPCI is expected to bring greater efficiency by way of uniformity and standardization in retail payments. "Rupay" is country's own card payment system network developed by NPCI. UPI is also developed by NPCI.

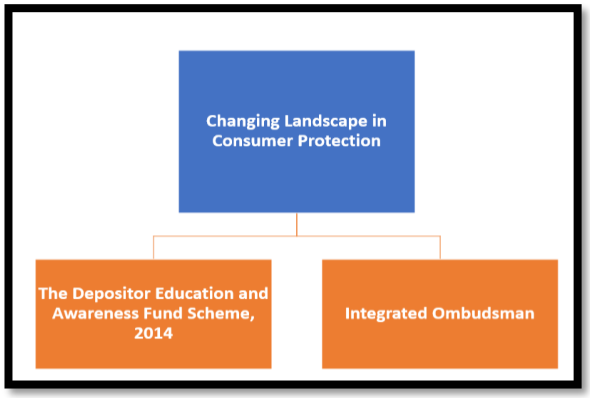
3. **CCIL**: CCIL was set up in April 2001 by banks, financial institutions, and primary dealers, to function as an industry service organization for clearing and settlement of trades in money market, government securities and foreign exchange markets. The Clearing Corporation plays the crucial role of a Central Counter Party (CCP) in the government securities, USD –INR forex exchange (both spot and forward segments) and Collateralized Borrowing and Lending Obligation (CBLO) markets.

   CCIL plays the role of a central counterparty whereby, the contract between buyer and seller gets replaced by two new contracts - between CCIL and each of the two parties. **This process is known as 'Novation'**. Through novation, the counterparty credit risk between the buyer and seller is eliminated with CCIL subsuming all counterparty and credit risks

4. **Bharat Bill Payment System**: Bharat Bill Payment System (BBPS) is an integrated bill payment system that offers interoperable and accessible bill payment services, providing convenience of 'anytime anywhere' bill payment to customers. BBPS facilitates collection of repetitive (monthly, bi-monthly, quarterly etc.) payments for everyday utility services provided by utility service providers in categories like electricity, telecom, DTH, gas, water bills, etc. and other repetitive payments like insurance premium, mutual funds, school fees, institution fees, credit cards, fastag recharge, local taxes, housing society payments, etc., at one single window.
5. **Trade Receivable Discount System:** Trade Receivables Discounting System (TReDS) is an initiative by RBI to facilitate the MSME receivable payment from corporates. It is a scheme for setting up and operating institutional mechanism for facilitating the financing of trade receivables of MSMEs from corporate and other buyers, including Government Departments and Public Sector Undertakings (PSUs), through multiple financiers.
6. **Payment Aggregators**: Payment Aggregators (PAs) are entities that facilitate e-commerce sites and merchants to accept various payment instruments from the customers for completion of their payment obligations without the need for merchants to create a separate

payment integration system of their own. In the process, they receive payments from customers, pool and transfer them on to the merchants after a time.

10 Changing Landscape in Consumer Protection



10.1 The Depositor Education and Awareness Fund Scheme, 2014

In 2014, Banking Regulation act was amended by inserting **section 26 A** to establish **Depositor Education and Awareness Fund**

Under the provisions of this section the amount to the credit of any account in India with any bank which has not been operated upon for a period of ten years or any deposit or any amount remaining unclaimed for more than ten years shall be credited to the Fund, within a period of three months from the expiry of the said period of ten years. The following types of accounts are included

i. savings bank deposit accounts.
ii. fixed or term deposit accounts.
iii. cumulative/recurring deposit accounts.
iv. current deposit accounts.
v. other deposit accounts in any form or with any name.
vi. cash credit accounts.
vii. loan accounts after due appropriation by the banks.
viii. margin money against issue of Letter of Credit/Guarantee etc., or any security deposit.

<u>Utilization of Funds</u>

The fund will be utilized for promotion of depositor's interest. The depositor however would be entitled to claim the funds even after such amount has been transferred to the Fund

In case of demand from a customer/ depositor whose unclaimed amount/deposit had been transferred to Fund, banks shall repay the customer/depositor, along with interest if applicable, and lodge a claim for refund from the Fund for an equivalent amount paid to the customer/depositor. The interest payable shall be **3%** per annum

10.2 Integrated Ombudsman Scheme

Please be informed that we have covered the integrated ombudsman scheme in the current affairs section.

11 Other Developments

11.1 FBIL- Financial benchmarks India Private Limited (FBIL)

Modern financial systems providing financial services depend on benchmarks for various parameters. **Financial benchmarks** are indices, values or reference rates used for the purpose of pricing, settlement, and valuation of financial contracts. Globally huge volumes of financial transactions are referenced to or valued using various such benchmarks. Financial benchmarks play a very critical role in promoting efficient and transparent financial markets and ensuring financial stability. **For example**, LIBOR is one such benchmarks which is used for reference for **determining interest rates for various debt instruments**. It is also used as a benchmark rate for mortgages, corporate loans, government bonds, credit cards, and student loans in various countries.

Manipulation of Benchmarks – A reason for setting up of FBIL

The **manipulation and complicity** involved in the method of computation of LIBOR and EURIBOR benchmarks in the recent period led to imposition of huge penalties on banks by regulators. It drew global attention to various aspects of the benchmark calculation and administration. In India also, Reserve Bank of India set up a Committee on Financial Benchmarks in June 2013 to review the existing systems governing major financial benchmarks in India. **The Committee headed by Shri Vijaya Bhaskar**, the then Executive Director, Reserve Bank of India made wide-ranging recommendations to reform the benchmark administration in India. These were accepted by the Reserve Bank of India in early 2014, who identified FIMMDA and FEDAI as the benchmark administrators for the Indian rupee interest rates and Forex benchmarks respectively. It was also suggested that they may set up separate entity (either jointly or separately) for administration of the benchmarks. **Thus, in December 2014, Financial Benchmark India Pvt. Ltd (FBIL) was established as an independent benchmark administrator for interest rates and foreign exchange. It is jointly owned by FIMMDA, FEDAI and IBA**.

What Benchmarks are administered by FBIL?

1. MIBOR
2. Reference Rates: For USD/INR, EURO/INR, GBP/INR and JPY/INR
3. G-Sec Valuation: the prices/YTM for Government of India Securities (G-sec) and State Development Loans (SDL).