

## 5. Payment Systems Vision 2005-08: Perspectives

The approach to be followed for payment and settlement systems is best captured in the Mission Statement which encompasses Safety, Security, Soundness and Efficiency (the **Triple-S and E**) as its vital components.

**Safety** in payment and settlement systems relate to the avoidance of risks in these systems. Payment Systems, by their nature are risk prone and the need for addressing these risks assumes significance. Sound designs, rules, and risk-management practices promote the safety of payments for financial institutions and their users. Effective entry and exit criteria, regular monitoring, guaranteed settlements through introduction of central counter parties, risk mitigation measures through clearly defined and enforceable loss sharing procedures in the unlikely event of default are the standard ways to ensure safety of payment systems.

**Security** pertains to the confidence among the users of the payment and settlement systems. Confidence in the integrity of the basic paper payment instruments and payments systems in India was built over a very long period of time. New systems based on modern technology are increasingly being implemented. Prudent users will demand new systems to inspire confidence with strong evidence that these systems will meet their needs in both normal

and exceptional circumstances. The process of building confidence can take years, and payment service providers realize that confidence is an asset to be guarded zealously.

**Soundness**, which indicates the well rooted foundation for the payment and settlement systems is another pillar in the payment systems edifice. All the systems are required to be on sound footing, with adequate legal backing, firm operational procedures and transparency norms.

**Efficiency** is the key word for all the new initiatives and this would be achieved by leveraging the benefits of technology so as to result in cost effective solutions, and optimal turn around timings for the systems.

Thus the payment system policy goals will continue to be “to foster a safe, secure, sound and efficient payment systems for the country”. Keeping this in view, for the period 2005-08, the focus will be on the following major themes:

- i. A new institutional structure for retail payment systems
- ii. National Settlement System
- iii. Sound legal base
- iv. Continuation of risk mitigation efforts
- v. Efficiency enhancements
- vi. Rural Sector facilitation ;and
- vii. Customer facilitation and protection

Details of the approach and the measures proposed to be initiated to achieve the above goals are given in Part II of this document. A Roadmap for implementation of the action points with milestones to be achieved at the end of each of the three years is given in the Annex.