



## NEFT & RTGS Direct Membership for Payment System Operators

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### Why in News

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Recently, the **Reserve Bank of India (RBI)** has **proposed to enable**, in a phased manner, **payment system operators** to take **direct membership in RTGS and NEFT**.

- **Real Time Gross Settlement System (RTGS)** and **National Electronic Fund Transfer (NEFT)** are the **Centralised Payment Systems (CPSs) of the RBI**.
- **Non-bank payment system operators**, regulated by the RBI, will be allowed to take direct membership in CPSs.

### Centralised & Decentralised Payment Systems

The **centralised payment systems** will include **Real Time Gross Settlement (RTGS) System and National Electronic Fund Transfer (NEFT) system** and any other system as may be decided by RBI from time to time.

- **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.

### Key Points

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- **Direct Membership of NEFT & RTGS to Payment System Operators:**
  - **About:**
    - This is **expected to minimise settlement risk in the financial system and enhance the reach of digital financial services** to all user segments.
    - These entities will, however, **not be eligible for any liquidity facility** from RBI to facilitate settlement of their transactions in these **Centralised Payment Systems (CPSs)**.
    - This will be **subject to an overall limit of Rs. 2 lakh for non-banks**.
  - **Non- Bank Entities becoming the Members of CPS:**
    - **Prepaid Payment Instrument (PPI)** issuers, Card Networks, **White Label ATM** operators, **Trade Receivables Discounting System (TReDS)** platforms are going to become members of CPS.
    - **Mobile wallets** like Google Pay, Mobikwik, etc. can provide NEFT and RTGS facilities etc to their customers.  
Transfer will be allowed only to **KYC (know your customer)-compliant entities**.
- **Facility of Cash Withdrawal:**
  - RBI has also **proposed to allow the facility of cash withdrawal**, subject to a limit, to non-bank entities — full-KYC PPIs of non-bank PPI issuers.
  - **Currently, cash withdrawal is allowed only for full-KYC PPIs issued by banks** and this facility is available through ATMs and Point of Sale terminals.
  - Holders of such **PPIs, given the comfort that they can withdraw cash, are less incentivised to carry cash and consequently more likely to perform digital transactions**.

- **Advantages:**
  - **Increase Digital Transactions:**
    - Just as use of **Unified Payment Interface (UPI)** increased over the last 4-5 years since it was opened to third-party aggregators, opening the payment system to non-banks would increase digital payments and transactions significantly.
    - It will **enable non-banks to go for full KYC** compliance and interoperability.
  - **Better Record of Transactions:**

It will prepare a **digital trail of all individuals doing digital transactions on channels outside the banking system**, which could help the overall financial system.
  - **Increase in Market Size:**

Interoperability of the PPI wallet will **expand the market size and will be beneficial to the end consumers.**
  - **Financial Inclusion:**

This will **open new opportunities for PPI issuers** as they will be able to provide RTGS and NEFT services to the wallet users. Overall, this will take financial inclusion deeper in the country.
- **Concerns:**
  - The opening up of fund transfer and cash withdrawal through non-banks is certainly a sign of a changing banking horizon. **Traditional brick-and-mortar banking is slowly disappearing** with non-banks entering the space.
  - The RBI says **India is on the way to becoming Asia's top FinTech hub with an 87% FinTech adoption rate as against the global average of 64%.**

**Fintech (Financial technology)** refers to the integration of technology into offerings by financial services companies in order to improve their use and delivery to consumers.
  - The FinTech market in India was valued at **Rs. 1.9 lakh crore in 2019 and is expected to reach Rs. 6.2 lakh crore by 2025** across diversified fields such as **digital payments, digital lending, peer-to-peer (P2P) lending, crowdfunding, block chain technology**, distributed ledgers technology, **big data**, RegTech and SupTech.

## Way Forward

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In a world where FinTech companies are leading in terms of the volume of digital transactions and playing a more active role in the banking and finance industry, **it is important that commercial banks adapt to the technological changes and work in tandem with these entities** so that in future they are part of the ecosystem rather than competing with FinTech companies for business.

**Source:IE**