Syllabus subtopic: Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

Prelims and Mains focus: about the difference between various payment systems like NEFT, RTGS and IMPS and their use

News: National electronic funds transfer (NEFT), a retail payment system operated by the Reserve Bank of India (RBI), became a 24x7 facility on 16 December. The facility will be available on all days of the year, including bank holidays.

How did NEFT function before 16 December?

Before 16 December, NEFT was available for customers from 8am to 7pm on all working days, except the second and fourth Saturdays of the month and other bank holidays. NEFT transactions do not happen in real time. They were settled in half-hourly batches through 23 settlements. Despite the time restrictions, NEFT handled 2.3 billion transactions valued at around Rs.228 trillion in 2018-19, up from 1.9 billion transactions valued at Rs.172 trillion in the previous year—a growth of 19.1% in terms of volume and 32.3% in terms of value. At the end of March, it was available through 144,927 branches of 209 banks.

What has changed now in the system?

RBI has now made the facility available 24 hours a day and 365 days a year. “It has been decided that NEFT shall be made available from December 16, 2019, with the first settlement taking place after 00:30 hours on December 16, 2019,” the banking regulator said. This is the second of two major changes implemented by RBI in the context of NEFT. In its July monetary policy review, the regulator decided to do away with processing charges levied by it for NEFT and real-time gross settlement (RTGS). RBI specified in November that this would come into effect for banks from January next year.

What other modes of fund transfer are available?

Two other systems of fund transfer are RTGS and immediate payment service (IMPS). Under RTGS, the minimum transfer amount is Rs.2 lakh and the facility is available only during working hours of banks. IMPS is a real-time payment service
available even on holidays with an upper limit on transactions of Rs.2 lakh, but no lower limit.

**What impact will this have on users?**

The change is part of RBI’s push to drive digital fund movement and increase usage by offering more convenience to users. RBI’s mandate to do away with charges on retail transactions through NEFT, RTGS and IMPS was also aimed at encouraging bank customers to adopt these digital facilities. Making NEFT available round the clock will further this agenda. With no upper limit on fund transfers, combined with no transaction cost or time barrier, NEFT is likely to become the most favoured payment method.

**What does this mean for digital payments?**

RBI joined an elite club of nations having payment systems that enable round-the-clock fund transfer and settlement of any value, the regulator tweeted after announcing the change. The club includes Hong Kong, the UK, South Korea, Singapore and China. RBI’s digital push may reduce the use of cash and cheque for fund transfer. It will also add to the impetus driving the rise in India’s digital payments transaction value, projected to more than double to $135.2 billion in 2023, according to an Assocham-PwC India study.