



# **NPCI - PFMI Disclosure Report**



### **Responding institution**

*National Payments Corporation of India (NPCI)*

*Registered Office: 1001A, B wing, 10th Floor, The Capital, Bandra-Kurla Complex, Bandra (East),  
Mumbai - 400 051*

### **Jurisdiction(s) in which the FMI operates**

*NPCI operates in India. For International alliances, NPCI operates through its wholly owned subsidiary, NPCI International Payments Limited (NIPL).*

### **Authority regulating, supervising, or overseeing the FMI**

*Reserve Bank of India (RBI)*

The date of this disclosure is 31<sup>st</sup> March, 2022.

This disclosure can also be found at <https://www.npci.org.in/who-we-are/risk-management/risk-management-npci>.

For further information, please contact us at <https://www.npci.org.in/get-in-touch>

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## 1. Executive Summary

*FMI (Financial Market Infrastructures) play a critical role in the financial system and the broader economy. In April 2012, the Committee on Payment and Settlement System (CPSS) and Technical Committee of the International Organisation of Securities Commission (IOSCO) published the report “Principles for Financial Market Infrastructures (PFMI)”, which establishes new international standards for payment systems that are systemically important, central securities depositories, securities settlement systems, central counterparties, and trade repositories.*

*The assessment methodology provides guidance to assessors for evaluating observance of the 24 principles and five responsibilities set forth in the PFMI. The disclosure framework and assessment methodology are designed to promote greater transparency, objectivity, and comparability of assessments of observance of the PFMI.*

*NPCI is an umbrella organization for operating retail payment system, offering a wide range of online and offline payment products. NPCI is incorporated under Section 25 of the Companies Act 1956 (now section 8 of the Companies Act 2013) and duly authorized by the Reserve Bank of India (RBI) to operate retail payment systems thus, is governed by the relevant statutes of the Payment and Settlement Systems Act 2007 [PSS Act]. Further, the Reserve Bank of India in its oversight framework document, released on 13<sup>th</sup> June 2020 has designated NPCI as System Wide Important Payment System (SWIPS) and mandated NPCI to assess itself against the applicable PFMIs.*

## 2. Summary of major changes since the last update of the disclosure

*This is the first publication of the PFMI disclosure report by NPCI. Summaries of any major changes from this update will be included in subsequent publications.*

### 3. General Background on the FMI

*NPCI is an institution for retail payment systems in the country and the primary jurisdiction for NPCI's activities is in India. The organization was formed with an objective to integrate and consolidate the various retail payment systems into nationwide uniform standard business processes for all retail payments systems thereby facilitating simple, safe, secure, affordable, available, accessible and acceptable payment systems promoting financial inclusion across the country. NPCI offers a range of products and services as a retail payment system operator based on approval under the Payment and Settlement Systems Act 2007 [herein after referred to PSS Act].*

*Under Section 3 of the PSS Act, 2007, The Reserve Bank is the designated authority for the regulation and supervision of payment systems. Under section 10, Reserve Bank is authorized to prescribe standards to be complied by the payment systems. Accordingly, the organizational and governance structure of NPCI has a sound legal basis. NPCI's governance policies, governance structure and management structure are formalized with adequate Board oversight and regulatory supervision by the Reserve Bank of India.*

*NPCI is focused on bringing innovations in the retail payment systems through the use of technology for achieving greater efficiency in operations and widening the reach of payment systems.*

## 4. Scope

*The general applicability of principles to specific type of FMIs are specified in the Principles for Financial Market Infrastructures (PFMI) as well as in the RBI oversight framework document. Accordingly, not all principles are relevant for NPCI.*

*Since NPCI operates a payment system, the following principles are not applicable and hence are not assessed:*

- *Principle 6: Margin*
- *Principle 10: Physical deliveries*
- *Principle 11: Central securities depositories*
- *Principle 14: Segregation and portability*
- *Principle 20: FMI links*
- *Principle 24: Disclosure of market data by trade repositories*

*In addition, Principle 5 and Principle 12 does not apply to NPCI.*

*Principle 5: Collateral - NPCI collects the collateral in the form of members' contribution towards Settlement Guarantee Fund (SGF) as per the RBI approved settlement policy. It does not involve collateral collection towards providing exposures from its participants.*

*Principle 12: Exchange-of-value Settlement systems - This principle applies only to FMIs that settle transactions that involve the settlement of two linked obligations. NPCI does not settle these types of transactions.*

*All other principles are assessed.*

## 5. Principle-by-principle summary narrative disclosure

| PFMI Principle                                                                                                                                                                                                                                                                                                               | Approach to observing the Principle                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>PRINCIPLE 1: LEGAL BASIS</b></p> <p>An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.</p>                                                                                                                   | <p>The Payment and Settlement Systems Act, 2007 ["PSS Act"] designates the Reserve Bank of India (RBI) for the regulation and supervision of payment systems in India. Under this, certificate(s) of authorization were issued by the RBI to NPCI, for setting up and operating payment systems in India. NPCI operates as per the legal and regulatory framework of this Act.</p> <p>NPCI executes Service Level Agreements (SLAs) with entities desirous of participating in the payment systems/products/services offered by NPCI. The SLAs define the terms of the arrangement between the parties to the agreement and are legally binding &amp; enforceable in the court of law.</p> <p>NPCI has entered network-to-network arrangements with international network partners for internationalization of the products outside India. These arrangements are undertaken and managed by NPCI International Payments Limited (NIPL), a wholly owned subsidiary of NPCI.</p> |
| <p><b>PRINCIPLE 2: GOVERNANCE</b></p> <p>An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.</p> | <p>NPCI operates under established framework that places high priority on the safety and efficiency of NPCI and supports financial stability and other relevant public interest considerations.</p> <p>NPCI has defined roles and responsibilities of the Board and the Management and has documented governance arrangements in the form of policies and procedures that assigns clear responsibility and accountability.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <p><b>PRINCIPLE 3: FRAMEWORK FOR THE COMPREHENSIVE MANAGEMENT OF RISKS</b></p> <p>An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks</p>                                                                                               | <p>NPCI has an Enterprise Risk Management (ERM) framework that aims to assist it in achieving the organizational strategic objectives by bringing a systematic approach for identifying, measuring, analyzing / evaluating, mitigating, monitoring, and reporting risk &amp; controls. The ERM framework and the Risk Management policies enable NPCI to comprehensively monitor and manage legal, credit, liquidity, operational and other risks faced by it.</p> <p>The Organization's Risk Management framework and policies are subject to periodic review by the Board.</p>                                                                                                                                                                                                                                                                                                                                                                                               |
| <p><b>PRINCIPLE 4: CREDIT RISK</b></p> <p>An FMI should effectively measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes. An FMI should maintain sufficient</p>                                                                          | <p>NPCI has necessary policies in place to identify, measure, mitigate, monitor, and report credit risk exposures. NPCI manages its credit risk from current and potential future exposures through Settlement Guarantee Mechanism (SGM) as approved by RBI.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |



| PFMI Principle                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Approach to observing the Principle                                                                                                                                                                                                                                                                                                                                                  |
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| financial resources to cover its credit exposure to each participant fully with a high degree of confidence.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                      |
| <p><b>PRINCIPLE 7: LIQUIDITY RISK</b></p> <p>An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.</p> | <p>NPCI identifies, measures, mitigates, monitors, and reports liquidity risk arising from its settlement operations through various procedures/processes defined in its Enterprise Risk and Settlement Risk Management policies.</p> <p>Liquidity exposures on account of settlement with participants in the eco-system, across all products is managed as per the SGM policy.</p> |
| <p><b>PRINCIPLE 8: SETTLEMENT FINALITY</b></p> <p>An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time.</p>                                                                                                                                                                                                                                                                                                                                                         | <p>NPCI's Procedural Guidelines for each product provide the details of settlement process, settlement cycles and value date for each transaction cycle. These Guidelines are in-line with the PSS Act, 2007.</p> <p>For international alliances, the settlement finality is defined based on the applicable regulations as documented in the network-to-network agreement.</p>      |
| <p><b>PRINCIPLE 9: MONEY SETTLEMENTS</b></p> <p>An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimise and strictly control the credit and liquidity risk arising from the use of commercial bank money.</p>                                                                                                                                                                                                                                                                                                   | <p>NPCI conducts settlement in central bank money as per RBI regulations.</p> <p>International alliances are undertaken and managed by NPCI International Payments Limited (NIPL), a wholly owned subsidiary of NPCI. NIPL through its forex partner manages the currency conversion and remits the amount to the Network Partner.</p>                                               |

| PFMI Principle                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Approach to observing the Principle                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
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| <p><b>PRINCIPLE 13: PARTICIPANT-DEFAULT RULES AND PROCEDURES</b></p> <p><i>An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.</i></p>                                                                                                               | <p><i>NPCI has defined Settlement Guarantee Mechanism policy to meet and manage its obligations in the event of a participant default (temporary and/or permanent). The policy also defines key parameters such as maintenance of Settlement Guarantee Fund, Loss Sharing Mechanism, etc. and outlines the roles and responsibilities of parties involved.</i></p> <p><i>NPCI carries out preparedness exercises along with participants' involvement to test its default handling procedures periodically as a part of Table Top exercise.</i></p> |
| <p><b>PRINCIPLE 15: GENERAL BUSINESS RISK</b></p> <p><i>An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialise. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.</i></p> | <p><i>NPCI identifies, measures, mitigates, monitors, and reports general business risks through various procedures/processes defined in the Enterprise Risk Management policy of the Organization.</i></p> <p><i>NPCI manages its general business risk by holding sufficient liquid net assets.</i></p>                                                                                                                                                                                                                                           |
| <p><b>PRINCIPLE 16: CUSTODY AND INVESTMENT RISKS</b></p> <p><i>An FMI should safeguard its own and its participants' assets and minimise the risk of loss on and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market, and liquidity risks.</i></p>                                                                                                                                                                           | <p><i>NPCI's Investment policy is aligned with its overall risk management strategy. The Investment policy defines the restricted and approved investment products, exposure limits, etc. On a quarterly basis, the existing and new investments details are submitted to Investment Committee for the review.</i></p> <p><i>A disclosure of NPCI's investments is shared as part of its publicly available Financial Statements on its website.</i></p>                                                                                            |
| <p><b>PRINCIPLE 17: OPERATIONAL RISK</b></p> <p><i>An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate</i></p>                                                                                                                                                                                                                                                                   | <p><i>NPCI has an Operational Risk Management policy that aims to assist it in identifying, measuring, analyzing/evaluating, mitigating, monitoring, and reporting operational risks arising from both internal and external factors for all Units across the organization.</i></p>                                                                                                                                                                                                                                                                 |

| PFMI Principle                                                                                                                                                                                                                                                                                                                                                               | Approach to observing the Principle                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
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| <p>systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfilment of the FMI's obligations, including in the event of a wide-scale or major disruption.</p> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <p><b>PRINCIPLE 18: ACCESS AND PARTICIPATION REQUIREMENTS</b></p> <p>An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.</p>                                                                                                                                                                     | <p>NPCI has defined participation guidelines and criteria that allows uniform access to all present and prospective participants in its ecosystem (s). The participation requirements are risk based and ensure safety of NPCI as well as the ecosystem.</p>                                                                                                                                                                                                                                                                                                                     |
| <p><b>PRINCIPLE 19: TIERED PARTICIPATION ARRANGEMENTS</b></p> <p>An FMI should identify, monitor, and manage the material risks to the FMI arising from tiered participation arrangements.</p>                                                                                                                                                                               | <p>NPCI has defined rules and procedures which allow indirect participation by sub-members on satisfying the participation requirements. The sub-members/indirect participants are sponsored by the direct participants and a tripartite agreement is executed between NPCI, the direct participant/sponsor member and the indirect participant member which defines the roles and responsibilities of each party to the agreement/arrangement.</p> <p>NPCI also monitors the adherence to access requirements by the participant members (including indirect participants).</p> |
| <p><b>PRINCIPLE 21: EFFICIENCY AND EFFECTIVENESS</b></p> <p>An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.</p>                                                                                                                                                                                          | <p>NPCI through its Agreements and Procedural Guidelines documents various service level targets such as uptime of network infrastructure, settlement procedures, maintenance of infrastructure, etc. for itself. NPCI has defined operational and performance metrics for each of the target, which are monitored against pre-defined thresholds to bring efficiency and effectiveness.</p>                                                                                                                                                                                     |
| <p><b>PRINCIPLE 22: COMMUNICATION PROCEDURES AND STANDARDS</b></p> <p>An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient</p>                                                                                                                                          | <p>NPCI uses relevant internationally accepted communication procedures and standards, such as ISO 8583 &amp; XML messages, to facilitate efficient payment, clearing, settlement and recording. Every message has unique transaction ID (that spans across the organizations for same transaction) and unique message ID for every request-response pair. NPCI uses SFTP (Secure File Transfer Protocol) for transmission of files.</p>                                                                                                                                         |

| PFMI Principle                                                                                                                                                                                                                                                                                                                                                                                                      | Approach to observing the Principle                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
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| <p>payment, clearing, settlement, and recording.</p>                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <p><b>PRINCIPLE 23: DISCLOSURE OF RULES, KEY PROCEDURES, AND MARKET DATA</b></p> <p>An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed.</p> | <p>Information about the system's design and operations, rights and obligations of participants are detailed in agreements with participants and specified in Procedural Guidelines of the respective products. Further, to ensure that any modifications to the relevant rules &amp; key procedures are clearly communicated, NPCI issues circulars to the participants on a regular basis.</p> <p>NPCI currently discloses market data and relevant circulars on its website.</p> |

## 6. List of publicly available resources

1. *NPCI Website:* [NPCI - National Payments Corporation of India - Official Website](#)
2. *Board of Directors:* [Board of Directors | NPCI - National Payments Corporation of India](#)
3. *Management Team:* [Management Team | NPCI - National Payments Corporation of India](#)
4. *Risk Management:* [Risk Management @ NPCI | NPCI - National Payments Corporation of India](#)
5. *System Statistics:* [Statistics of NPCI - National Payments Corporation of India](#)
6. *Principles for Financial Market Infrastructures (PFMI):* <https://www.bis.org/cpmi/publ/d101a.pdf>
7. *RBI Oversight Framework:* [https://www.rbi.org.in/scripts/bs\\_viewcontent.aspx?Id=3864](https://www.rbi.org.in/scripts/bs_viewcontent.aspx?Id=3864)