

FAQ on ECS - Credit Clearing

1. What is ECS (Credit Clearing) ?

This is a new method of payment whereby the institutions having to make a large number of payments (such as interest / dividend) can directly deposit the amount into the bank accounts of the share-holders/ depositors/ investors without having to issue paper instruments.

2. What is the existing system and what are the difficulties ?

Bulk and repetitive payments like interest/dividend are mostly paper based involving printing of warrants (in costly MICR format) , dispatching them by post (most often by Regd. post) and reconciliation thereof after payment by the agency banks. The difficulties are :

- It requires an expensive administrative machinery for printing, dispatch and reconciliation
- Bunching of a large number of instruments in clearing results in operational bottlenecks and pressures on the cheque processing system
- Chances of loss of instruments in transit and their fraudulent encashment
- The customer has also to keep track of the receipt/non-receipt of the instrument and take efforts in depositing the instrument to the bank on receipt of the same ;
- Banks find processing of such a large volume of instruments not only error prone and monotonous, but also a strain on the cheque clearing system.

3. How does ECS (Credit Clearing) work ?

Step-1 : The corporate body institution (called "User") which has to make payments to a large number of customers/investors would prepare the payment data on a magnetic media (i.e., tape or floppy) and submit the same to its banker (Sponsor Bank).

Step -2 : The Sponsor Bank would present the payment data to the local Bankers' Clearing House (managed by Reserve Bank of India at 15 centres and by State Bank of India or Associate banks at other centres) authorising the Manager of the Clearing House to debit the Sponsor Bank's account and credit the accounts (Destination Bank) of the banks where the beneficiaries of the transactions maintain their accounts.

Step -3 : On receiving this authorisation, the Clearing House will process the data and work out an inter-bank funds settlement.

Step - 4 : The Clearing House will furnish to the service branches of the destination banks branch-wise credit reports indicating the beneficiary details such as the names of the branches where the accounts are maintained, the names of the beneficiaries, account type, account numbers and the respective amounts.

Step - 5 : The service branches will in turn pass on the advices to the concerned branches of their bank, which will credit the beneficiaries' accounts on the appointed date.

4. How does this Scheme benefit a corporate body / institution ?

- Savings in administrative cost presently being incurred for printing of paper instruments in MICR format and dispatching them by Registered Post.
- Loss of instruments in transit or fraudulent encashment thereof totally eliminated.
- Reconciliation of transactions is made automatic. By the time the ECS cycle is completed, the user institution gets an electronic data file from its bank with the date of payment and banker's confirmation thereon.
- Cash management becomes easier as arrangement for funds is required to be made only on the specified date.
- Ensuring better customer/investor service.
- Paying the way the best companies in the world pay to their share holders/ investors, customers

5. How does the Scheme benefit the beneficiary customer ?

- Payment on the due date
- Effortless receipt - No need for visiting the bank for depositing the dividend/interest warrant.
- Loss of instrument in transit or fraudulent encashment thereof and consequent correspondence with the company are totally eliminated

6. How would the Investor / Customer know from whom and when payment through ECS has been received ?

The responsibility of advising the Investor / Customer about the amount and due date of payment rests with the 'User' Institution. On crediting the Investor / Customer's account the destination bank-branch would indicate the source of credit in the Statement of account / pass book (eg. ECS-UTI ; ECS-Tata Finance ; ECS-ICICI; etc.)

7. At how many centres this service is available ?

Presently this service is made available by :

1. RBI at 15 centres, viz. Ahmedabad , Bangalore, Bhubaneswar, Calcutta, Chandigarh, Chennai, Guwahati, Hyderabad, Jaipur, Kanpur, Mumbai, Nagpur, New Delhi, Patna and Thiruvanthapuram.
2. SBI at 30 centres viz. Agra, Allahabad, Amritsar, Baroda, Bhopal, Cochin, Coimbatore, Dehradun, Durgapur, Faridabad, Gaziabad, Hubli, Jamshedpur, Kolhapur, Lucknow, Ludhiana, Madurai, Mangalore, Nasik, Panaji, Pune, Rajkot, Shimla, Siliguri, Surat, Trichy, Trichur, Vijayawada, Visakapatnam and Varanasi.
3. S. B. Indore at Indore.

For the details of the branches providing this facility click on "List of branches providing ECS facility " on earlier page.

8. What type of corporate institutions can benefit most from this Scheme ?

The corporate bodies / institutions who have periodic, large volume payments to a fixed group of investors/ beneficiaries.

9. What does Large Volume mean ? Any minimum on the number of transactions ?

The system is primarily designed for large volume payments - say, atleast 2,500 transactions per settlement. The stipulation on the minimum number may, however, be waived by the Clearing House concerned.

10. Any limit on the amount of Individual transactions ?

Yes. The present limit is Rs. 5,00,000/- (maximum). There is no minimum limit.

11. Is it necessary that a company having to pay at 10 centers would make submissions to clearing houses at 10 centers separately?

Presently - Yes. Reserve Bank is however, working out a procedure whereby the company can make a submission at one centre for payments at various centres having ECS (Credit) facility.

12. What are the service charges ? Is it a costly service ?

To promote electronic banking culture, a highly "concessional" service charge structure has been adopted. For the present user corporate / institution is required to pay to the Clearing House through the sponsor bank Rs.1.50/- per instrument of which Re.0.50 would remain with the Clearing House and Re.1.00/- would be credited to the destination bank. However, charges to be paid by the "User" to "Sponsor Bank" have to be mutually agreed.

13. Is the Investor / Customer required to pay any service charges ?

No charges would be levied by the destination bank-branch for crediting the Investor / Customer's account.

14. Is it necessary for the corporates/institutions to collect mandate from the investors?

Yes. A model mandate form has been prescribed for the purpose. It is no doubt a big job; but once the database is prepared, subsequent payment processing becomes easier. Considering that under the SEBI guidelines investors have been furnishing their account numbers in their share applications for printing the same on the interest/dividend warrants, collecting the account particulars and mandates may not pose much problem.

15. How and When a corporate / institution can start availing of the ECS (Credit Clearing) facility ?

If the corporate institution is making more than 1,00,000 payments in a year and most of the beneficiaries are located at the major cities in India - the time for joining ECS is **NOW**.

Corporates / institutions bodies interested to avail of the opportunity may contact their bankers for details. A booklet on ECS (Credit Clearing) containing the format of ECS Application is also available at Reserve Bank of India, Central Office, Department of Information Technology, Garment House, Dr. Annie Besant Road, Mumbai - 400 018 (Telephone : 022- 494 9582 / Fax - 022- 496 4269).