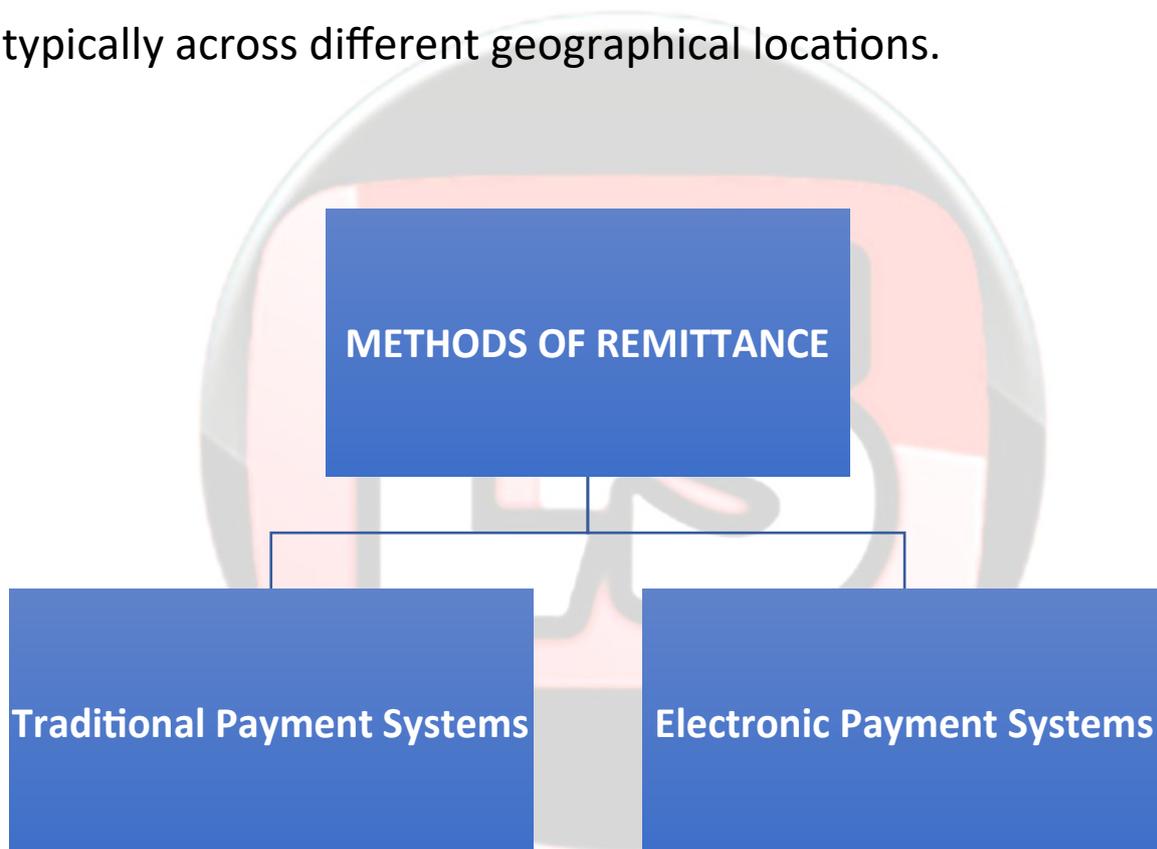


REMITTANCE PRODUCTS

REMITTANCE PRODUCTS

These are financial product designed to facilitate the transfer of money from one person or entity to another, typically across different geographical locations.



TRADITIONAL PAYMENT SYSTEMS

Cheques

Customers can **write cheques to transfer funds from their account to the recipient's account**. The recipient can then deposit the cheque into their bank account.

Bank Drafts

Bank drafts are like **cashier's cheques issued by a bank**. They are used for making **payments or transferring money**, and they are considered more secure.

ELECTRONIC PAYMENT SYSTEMS

NATIONAL ELECTRONIC FUND TRANSFER (NEFT)

- **In November 2005**, NEFT was introduced for **facilitating one-to-one funds transfer**.
- NEFT is transfer funds **without any minimum or maximum amount limitations**.
- NEFT has a straight through process which **operates in 48 half-hourly batches**
- **Service available 24* 7*365**, with effect from December 16, 2019.

NEFT - Process Flow

Step 1. An individual/firm/corporate intending to **originate a transfer of funds through NEFT** has to **fill out an application form providing details of the beneficiary** and the amount to be remitted.

Step 2. The **originating bank branch prepares a message and sends the message to its pooling centre** (also called the NEFT Service Centre).

Step 3. The pooling centre forwards the **message to the NEFT Clearing Centre** to be included in the next available batch.

Step 4. The Clearing Centre **sorts the fund's transfer transactions destination bank-wise** and prepares to **account entries** to receive funds from the originating banks (debit) and give the funds to the destination banks (credit).

Step 5. The destination banks receive the **inward remittance messages from the Clearing Centre** and pass on the **credit to the beneficiary customers' accounts.**

NEFT - RIGHTS AND OBLIGATIONS OF CUSTOMERS AND BANKS

- Every participating **bank or institution shall maintain the security, integrity, and efficiency of the system.**
- **Funds transfer instructions** shall be issued by the customer in a **manner prescribed by the participant bank.**
- The **customer** shall be responsible for the **accuracy of the particulars given in the payment instruction.**
- The **customer** shall ensure the **availability of funds in his account** while issuing the payment instruction to his bank.
- The payment **instruction shall become irrevocable** once it is executed by the bank.
- In the event of any delay in the completion of the Funds Transfer bank's liability shall be limited to the extent of **payment of interest at the Bank Rate for the period of delay.**
- Any loss on account of error in the **execution of the Funds Transfer the bank's liability** shall be limited to the **extent of refund of the amount together** with interest at the Bank Rate up to the date of refund

ADVANTAGES

- The remitter need not send the physical cheque or Demand Draft to the beneficiary.
- The beneficiary need not visit his/her bank for depositing the paper instruments.
- Remitter can initiate the remittances from his home/place of work using internet banking also.
- Near real-time transfer of the funds to the beneficiary account in a secure manner.
- NEFT is available 24*7*365 days w.e.f.16th January 2019.

REAL TIME GROSS SETTLEMENT (RTGS)

- RTGS can be defined as the instant (real-time) settlement of funds transfers individually on an order-by-order basis (without netting).
- It this system when you make a payment from your bank account using RTGS money will be instantly transferred in the electronic form to the beneficiary's account.

FEATURES

- Real Time Gross Settlement (RTGS) was introduced in the year 2004
- RTGS is available 24x7x365 with effect from December 14, 2020.
- The minimum amount to be remitted through RTGS is ₹ 2,00,000/- with no upper or maximum ceiling.
- From July 01, 2019, the Reserve Bank has waived the processing charges levied by it for RTGS transactions.
- If at all Banks want to levy charges, RBI has set the cap at Rs.50 for each transaction.

RTGS - PROCESS FLOW

Step 1 The customer would request his banker to debit his account and pay the money to the beneficiary providing all details of the bank account of the beneficiary.

Step 2 The originating bank would debit the account as per the mandate and create a structured message under RTGS.

Step 3 The message after due authentication would be communicated to the payment system gateway of the bank.

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Step 4 The messages would be routed through a central hub which will receive the messages in a queue and forward the message to the gateway of the other bank.

Step 5

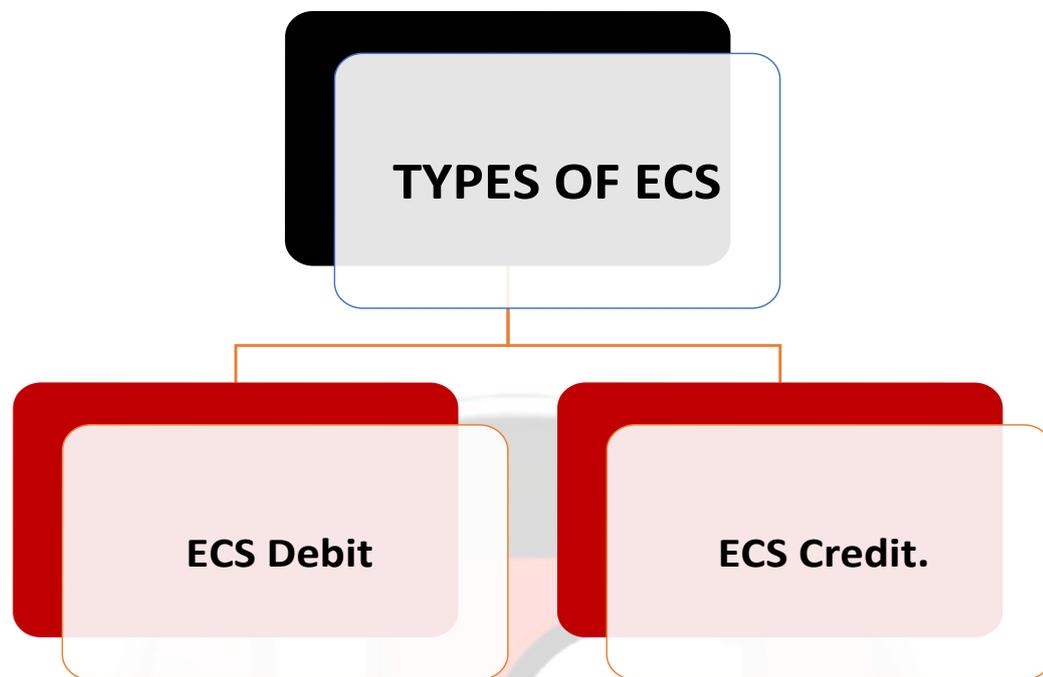
After authentication, the message will be processed and debited from the sender's bank and credited to the beneficiary bank.

Step 6

The beneficiary bank will then transmit the message to the beneficiary branch for credit of the beneficiary account with the branch.

ELECTRONIC CLEARING SERVICES (ECS)

- ECS is used for transactions that are repetitive and periodic in nature.
- ECS is used by institutions for making bulk payment or bulk collection of amounts.
- ECS includes transactions processed under the **National Automated Clearing House (NACH)**



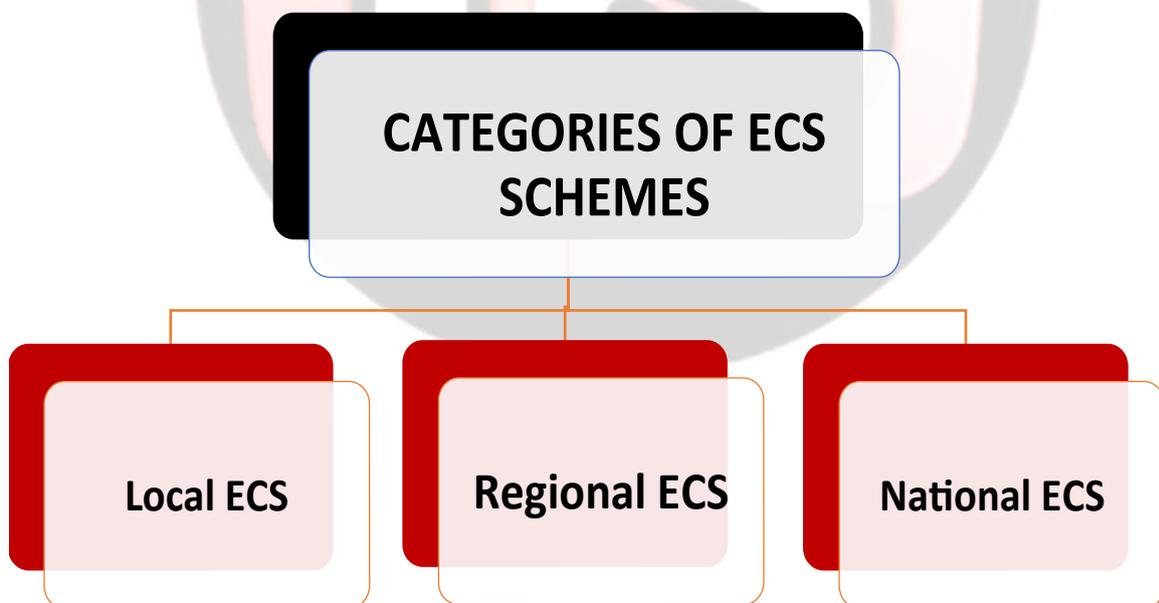
ECS Debit

- It is used wherein a user of any utility service like telephones, electricity, and gas, etc. has to make regular and periodic payment to the service provider.
- Service provider obtains an authorisation from the customer, to debit his bank account.
- The service provider then submits this letter of authority to the Banker.
- The service provider at the stipulated interval raises a debit on the customer for the service provided.

ECS Credit

- It is applicable to **instances** where a **company is required to make payments** to the large number of shareholders/investors
- In this case the **company obtains a letter of authority to pay** the dividend interest electronically.
- A single account is debited on **regular intervals to credit multiple accounts.**

CATEGORIES OF ECS SCHEMES



Local ECS

It is operating at **81 centres/locations** across the country. They generally cover one city and/or satellite towns and suburbs adjoining the city. These are operated either by RBI or designated banks.

Regional ECS (RECS)

It is **operating at 9 centres/locations** in various parts of the country. RECS facilitates the coverage of all core-banking-enabled branches in a **State or group of States**. **These are operated by RBI.**

National ECS (NECS)

- The scheme is **operated in Mumbai** and facilitates the coverage of all core-banking-enabled branches located anywhere in the country. **This is operated by RBI.**

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NATIONAL AUTOMATED CLEARING HOUSE (NACH) SYSTEM

- **National Payments Corporation of India (NPCI)** has implemented “National Automated Clearing House (NACH)” on **May 1, 2016**, for **Banks, Financial Institutions, Corporates and Government**.
- It is a **web-based solution to facilitate interbank, high volume, electronic transactions** which are **repetitive and periodic in nature**.
- NACH System can be used for **making bulk transactions towards the distribution of subsidies, dividends, interest, and collection of payments** pertaining to **telephone, electricity, water, loans, investments in mutual funds, insurance premiums, etc.**
- NPCI intends to provide a **single set of rules, open standards, and best industry practices** for **electronic transactions** by implementing of NACH system.

BENEFITS TO CUSTOMER

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- **Convenient and automated way** to make recurring payments.
- Ensures timely payments and **reduces the risk of late fees.**
- **Enhanced safety and security** with robust authentication measures.
- **Saves time and effort** by eliminating the **need for manual transactions.**
- **Easy tracking of transaction history** for better financial management.

BENEFITS TO BANK

- Better customer service, faster payment processing, and **stronger ties with associated organisations.**
- **Increased transaction volume** leading to higher **revenue opportunities.**
- No need to **rely on checks or paperwork.**
- Payment, and collection of EMI, loans, and advances are all done in a **hassle-free manner.**
- Because no manual processes are involved, there **are fewer errors and a smoother workflow than before.**

- **Improved risk management** with secure authentication measures.

IMPORTANT TERMS IN NACH

SPONSOR BANKS

It is the bank that will **forward the mandate given by their corporate customer** through NPCI to the Destination Bank for approval of the mandate.

DESTINATION BANKS

It is the bank that will **authorize/reject the mandate sent to them** and **will make payment** of the amount as per the approved mandate. As part of the mandate approval process, the **bank should validate the customer details given in the mandate.**

USERS

The **Corporates/Government Departments** will have to indicate the names of the **Sponsor Banks** with whom they are maintaining accounts to facilitate the **settlement on their behalf.**

SETTLEMENT FINALITY

The settlement shall be final and irrevocable, as defined in **Section 23** of the "Payment and Settlement Systems Act 2007" and will be handled as per the RBI Guidelines on Settlement and Default Handling Mechanism.

MANDATE MANAGEMENT SYSTEM (MMS)

- It is a solution designed according to the guidelines of NPCI that **helps in creation, amendment and cancellation of mandates** for NACH debit and credit transactions.
- Each **mandate is uniquely identified by Unique Mandate Reference Number (OMERN)** which makes tracking of multiple mandate details easier for customers.
- MMS would allow the processing of **Debit and Credit mandates, E-mandates as well as paper mandates.**

MANDATE AMENDMENTS AND MANDATE CANCELLATIONS

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- The customer will send mandate amendment/**cancellation requests through the sponsor bank**, and the same will reach the destination bank through NPCI.
- **Mandate records would need to get updated** post-validation of customer details at the respective bank end.

PENALTY ON THE MANDATES PENDING

NPCI levy penalty on the mandates pending beyond the agreed TAT.

Mandates below ₹3 Lakh		
Days	Incentive	Penalty
Pending for 0 to 7 days	₹5 per mandate	No penalty
Pending for 8 to 10 days	No incentive	No penalty
Pending beyond 10 days	No incentive	₹10 per mandate
Mandates above ₹3 Lakh		
Pending for 0 to 7 days	₹5 per mandate	No penalty

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Pending beyond 10 days	No incentive	₹10 per mandate

Mandate processing charges

NPCI levies mandate processing charges of NACH with effect from 01.01.2018.

Type of service	NPCI Charges	Remarks
Mandate Initiation	₹1.50 per mandate	₹1.00 on
Mandate Modification		initiating bank
Mandate Cancellation		₹0.50 on receiving bank

Settlement of clearing transaction

T+0 Credit/Debit

- The Sponsor Bank should **debit the beneficiary account on the same day** for **NACH (Debit)** and the Destination Bank should **credit the beneficiary account for NACH (Credit)** on receipt of funds into their settlement account.

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T+1 Credit/Debit

- NPCI will be debiting/crediting the **settlement account of the Destination Bank/Sponsor Bank**, as applicable, **only on the next working day** on which the settlement bank should post the settlement files.

AADHAAR-ENABLED PAYMENT SYSTEM

- It is a system in which bank customer to **use Aadhaar as his/her identity to access his/ her respective Aadhaar enabled bank account.**
- It helps to perform basic banking transactions like cash deposit, cash withdrawal, Intrabank or interbank fund transfer, balance enquiry and obtain a mini statement through a **Business Correspondent.**
- It is an **initiative by the Government of India and the National Payments Corporation of India (NPCI)** to promote financial inclusion.
- This needs a **KYC compliant bank account** in which **Aadhaar has been linked.**

PROCESS OF AADHAAR-ENABLED PAYMENT SYSTEM (AEPS)

Linking Bank Account

The individual's Aadhaar number must be **linked to their bank account**. This can be done by **visiting the bank branch or through online/mobile banking services**.

Transaction Request

To initiate an AePS transaction, the customer **provides their Aadhaar number to the banking agent or Micro ATM**.

Biometric Authentication

The customer's **fingerprint or iris scan is captured** through the **biometric scanner linked to the Micro ATM**. This serves as the authentication for the transaction.

Transaction Validation

The **Micro ATM sends the biometric data and Aadhaar number to NPCI for validation**. The NPCI verifies the authenticity of the information with UIDAI.

Transaction Authorization

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Upon successful validation, the **NPCI sends an authorization to the bank** for the transaction to be completed.

Transaction Completion

The customer can **perform various transactions**, including cash withdrawals, balance inquiry, fund transfers, and bill payments, based on the services offered by the bank and the banking agent.

SERVICES OFFERED BY AePS

- Cash Withdrawal
- Cash Deposit
- Balance Enquiry
- Aadhaar to Aadhaar Fund Transfer
- Mini Statement

BHARAT BILL PAYMENT SYSTEM (BBPS)

- It is a **one-stop payment platform for all bills** providing an interoperable and accessible "Anytime Anywhere" **bill**

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payment service to all customers across India with certainty, reliability, and safety of transactions.

- Bharat Bill Pay transactions can be initiated through **multiple payment channels** like Internet, Internet Banking, Mobile, Mobile-Banking, PoS (Point of Sale terminal), Mobile Wallets, MPoS (Mobile Point of Sale terminal), Kiosk, ATM, Bank Branch, Agents, and Business Correspondents.

KEY PARTICIPANTS BHARAT BILL PAYMENT SYSTEM

Bharat Bill Payment Central Unit (BBPCU)

- **National payment corporation of India (NPCI)** has been authorized by RBI as the BBPCU and is responsible for **setting business standards, rules, and procedures for technical and business.**
- The BBPCU undertakes **clearing and settlement activities related to transactions** routed through Bharat Bill Pay.

Bharat Bill Payment Operating Unit (BBPOU)

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It can be a Bank or a Non-Bank. BBPOU may choose to **integrate either with the customers, (COU: Customer OU) or with the billers (Biller OU)** or may wish to **participate as both** which means such BBPOU will be integrated with customers as well as billers.

Agent Institutions

- These are **banks or financial institutions** that act as **intermediaries between customers and the BBPS network.**
- These institutions **offer BBPS services through** their banking channels, such as **internet banking, mobile banking, and branches.**

Agents

- These are the **employees or representatives of Agent Institutions who assist customers** in making bill payments through BBPS.
- They help customers with **bill fetching, validation, payment authorization, and provide support** for any transaction-related issues.

Biller/Utility Company

- These are entities **that issue bills to customers for various services**, such as electricity, water, gas, telecom, and more.
- These companies get onboarded with BBPS through BBPOUs to offer their bill payment services under the BBPS network.



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PROCESS OF BILL PAYMENT THROUGH BBPS

Bill Fetching The customer provides **details of the bill**, such as the **account number or consumer ID**, to the **BBPS platform or payment agent**.

Bill Validation The BBPS platform **validates the bill details with the respective biller's database** to ensure accuracy.

Payment Authorization Once the bill details are validated, the customer selects the **preferred payment mode and authorizes the payment**.

Payment Settlement The BBPS platform processes the payment and settles the amount with the biller.

Confirmation and Receipt

The customer receives an **instant confirmation of the successful payment** along with a payment receipt.

BENCHMARKING INDIA'S PAYMENT SYSTEM

(RBI report July 01, 2022)

The Reserve Bank of India has released a **report on Benchmarking India's Payment System** providing a

comparative position of the payments ecosystem in India relative to other major countries.

The highlights of the present exercise are as below

- India was categorized as a **'leader' or 'strong'** in respect of **25 out of 40 indicators** and categorized as **weak** in respect of **8 indicators**.
- India has made **significant** and moved to a **leadership position in large value payments** and fast payments, which contributed to rapid growth in digital payments.
- Since the last exercise, India has **demonstrated improvement in digital payment options** available for **bill payments, ticketing systems for public transport, available channels for cross-border remittances** and decline in cheque usage.
- The exercise highlights that there is **scope for improvement in acceptance infrastructure i.e., ATMs and POS terminals**.
- The Payments Infrastructure Development Fund (PIDF) Scheme was **operationalized in 2021 to enhance the acceptance infrastructure and bridge the gap**.