

Q.1. What is Electronic Clearing Service (ECS)?

Ans : ECS is an electronic mode of payment / receipt for transactions that are repetitive and periodic in nature. ECS is used by institutions for making bulk payment of amounts towards distribution of dividend, interest, salary, pension, etc., or for bulk collection of amounts towards telephone / electricity / water dues, cess / tax collections, loan instalment repayments, periodic investments in mutual funds, insurance premium etc. Essentially, ECS facilitates bulk transfer of monies from one bank account to many bank accounts or vice versa. ECS includes transactions processed under National Automated Clearing House (NACH) operated by National Payments Corporation of India (NPCI).

Q.2. What are the variants of ECS? In what way are they different from each other?

Ans : Primarily, there are two variants of ECS - ECS Credit and ECS Debit.

ECS Credit is used by an institution for affording credit to a large number of beneficiaries (for instance, employees, investors etc.) having accounts with bank branches at various locations within the jurisdiction of a ECS Centre by raising a single debit to the bank account of the user institution. ECS Credit enables payment of amounts towards distribution of dividend, interest, salary, pension, etc., of the user institution.

ECS Debit is used by an institution for raising debits to a large number of accounts (for instance, consumers of utility services, borrowers, investors in mutual funds etc.) maintained with bank branches at various locations within the jurisdiction of a ECS Centre for single credit to the bank account of the user institution. ECS Debit is useful for payment of telephone / electricity / water bills, cess / tax collections, loan installment repayments, periodic investments in mutual funds, insurance premium etc., that are periodic or repetitive in nature and payable to the user institution by large number of customers etc.

Q.3. At how many places in the country is ECS Scheme available?

Ans : Based on the geographical location of branches covered, there are three broad categories of ECS Schemes – Local ECS, Regional ECS and National ECS. These schemes are either operated by RBI or by the designated commercial banks. NACH is also one of the form of ECS system operated by NPCI and further details about NACH is available at NPCI web site under the link http://www.npci.org.in/clearing_faq.aspx.

Local ECS – this is operating at 81 centres / locations across the country. At each of these ECS centres, the branch coverage is restricted to the geographical coverage of the clearing house, generally covering one city and/or satellite towns and suburbs adjoining the city.

Regional ECS – this is operating at 9 centres / locations at various parts of the country. RECS facilitates the coverage all core-banking-enabled branches in a State or group of States and can be used by institutions desirous of reaching beneficiaries within the State / group of States. The system takes advantage of the core banking system in banks. Accordingly, even though the inter-bank settlement takes place centrally at one location in the State, the actual customers under the Scheme may have their accounts at various bank branches across the length and breadth of the State / group of States.

National ECS – this is the centralized version of ECS Credit which was launched in October 2008. The Scheme is operated at Mumbai and facilitates the coverage of all core-banking enabled branches located anywhere in the country. This system too takes advantage of the core banking system in banks. Accordingly, even though the inter-bank settlement takes place centrally at one location at Mumbai, the actual customers under the Scheme may have their accounts at various bank branches across the length and breadth of the country. Banks are free to add any of their core-banking-enabled branches in NECS irrespective of their location. Details of NECS Scheme are available on the website of Reserve Bank of India at http://www.rbi.org.in/scripts/bs_viewcontent.aspx?Id=2345

The list of centres where the ECS facility is available has been placed on the website of Reserve Bank of India at <http://www.rbi.org.in/Scripts/ECSUserView.aspx?Id=26>. Similarly, the centre-wise list of bank branches participating at each location is available on the website of Reserve Bank of India at <http://www.rbi.org.in/scripts/ECSUserView.aspx?Id=27>

ECS (CREDIT)

Q.4. Who can initiate an ECS Credit transaction?

Ans : ECS Credit payments can be initiated by any institution (called ECS Credit User) which needs to make bulk or repetitive payments to a number of beneficiaries. The institutional User has to first register with an ECS Centre. The User has to also obtain the consent of beneficiaries (i.e., the recipients of salary, pension, dividend, interest etc.) and get their bank account particulars prior to participation in the ECS Credit scheme.

ECS Credit payments can be put through by the ECS User only through his / her bank (known as the Sponsor bank). ECS Credits are afforded to the beneficiary account holders (known as destination account holders) through the beneficiary account holders' bank (known as the destination bank). The beneficiary account holders are required to give mandates to the user institutions to enable them to afford credit to their bank accounts through the ECS Credit mechanism.

Q.5. How does the ECS Credit Scheme work?

Ans : The User intending to effect payments through ECS Credit has to submit details of the beneficiaries (like name, bank / branch / account number of the beneficiary, MICR code of the destination bank branch, etc.), date on which credit is to be afforded to the beneficiaries, etc., in a specified format (called the input file) through its sponsor bank to one of the ECS Centres where it is registered as a User.

The bank managing the ECS Centre then debits the account of the sponsor bank on the scheduled settlement day and credits the accounts of the destination banks, for onward credit to the accounts of the ultimate beneficiaries with the destination bank branches.

Further details about the ECS Credit scheme are contained in the Procedural Guidelines and available on the website of Reserve Bank of India at <http://www.rbi.org.in/Scripts/ECSUserView.aspx?Id=1>

Q.6. What is a MICR Code?

Ans : MICR is an acronym for Magnetic Ink Character Recognition. The MICR Code is a numeric code that uniquely identifies a bank-branch participating in the ECS Credit scheme. This is a 9 digit code to identify the location of the bank branch; the first 3 characters represent the city, the next 3 the bank and the last 3 the branch. The MICR Code allotted to a bank branch is printed on the MICR band of cheques issued by bank branches.

Q.7. How does a beneficiary participate in ECS Credit Scheme?

Ans : The beneficiary has to furnish a mandate to the user institution giving consent to avail the ECS Credit facility. The mandate contains details of his / her bank branch, account particulars and authorises the user institution to afford credit to his / her account with the destination bank branch.

Q.8. Is it necessary for user institutions to collect the mandates from beneficiaries?

Ans : Yes, in addition to the consent of the beneficiaries, the mandate also provides important information related to bank account details etc. which are useful for the user institution to transfer funds to the right accounts . A model mandate form has been prescribed for the purpose and is available in the ECS Credit Procedural Guidelines.

Q.9. Is there scope for the beneficiary to alter the mandate under the ECS Credit Scheme?

Ans : Yes. In case the information / account particulars contained in the mandate undergo any change, the beneficiary has to notify the changes to the User Institution so that the correct information can be incorporated in its records. This will ensure that transactions do not get rejected at the beneficiary's bank branch due to inconsistencies/ mismatch in the data sent by the user institution.

Q.10. Can ECS be used to transfer funds to Non Resident External (NRE) and Non Resident Ordinary (NRO) accounts?

Ans: Yes. ECS can be used to transfer funds to NRE and NRO accounts in the country. This, however, is subject to the adherence to the provisions of the Foreign Exchange Management Act, 2000 (FEMA) and Wire Transfer Guidelines.

Q.11. Will beneficiaries be intimated of credits afforded to their account under the ECS Credit Scheme?

Ans : It is the responsibility of the user institution to communicate to the beneficiary the details of credit that is being afforded to his / her account, indicating the proposed date of credit, amount and related particulars of the payment. Destination banks have been advised to ensure that the pass books / statements given to the beneficiary account holders reflect particulars of the transaction / credit provided by the ECS user institutions. The beneficiaries can match the entries in the passbook / account statement with the advice received by them from the User Institutions. Many banks also give mobile alerts / messages to customers after credit of such funds to accounts.

Q.12. What will happen if credit is not afforded to the account of the beneficiary?

Ans: If a Destination Bank is not in a position to credit the beneficiary account due to any reason, the same would be returned to the ECS Centre to enable the ECS Centre to pass on the uncredited items to the User Institution through the Sponsor Bank. The User Institution can then initiate payment through alternate modes to the beneficiary.

In case of delayed credit by the destination bank, the destination bank would be liable to pay penal interest (at the prevailing RBI LAF Repo rate plus two percent) from the due date of credit till the date of actual credit. Such penal interest should be credited to the Destination Account Holder's account even if no claim is lodged to the effect by the Destination Account Holder.

Q.13. What are the advantages of the ECS Credit Scheme to the beneficiary

Ans : ECS Credit offers many advantages to the beneficiary –

- The beneficiary need not visit his / her bank for depositing the paper instruments which he would have otherwise received had he not opted for ECS Credit.*
- The beneficiary need not be apprehensive of loss / theft of physical instruments or the likelihood of fraudulent encashment thereof.*
- Cost effective.*
- The beneficiary receives the funds right on the due date.*

Q.14. How does the ECS Credit Scheme benefit User Institutions?

Ans : User institutions enjoy many advantages as well. For instance,

- Savings on administrative machinery and costs of printing, dispatch and reconciliation of paper instruments that would have been used had beneficiaries not opted for ECS Credit.*
- Avoid chances of loss / theft of instruments in transit, likelihood of fraudulent encashment of paper instruments, etc. and subsequent correspondence / litigation.*
- Efficient payment mode ensuring that the beneficiaries get credit on a designated date.*
- Cost effective.*

Q.15. Are there any advantages of the ECS Credit Scheme to the banking system?

Ans : Yes, the banking system too benefits from ECS Credit Scheme such as –

- Freedom from paper handling and the resultant disadvantages of handling, presenting and monitoring paper instruments presented in clearing. Ease of processing and return for the destination bank branches.*
- Smooth process of reconciliation for the sponsor banks.*
- Cost effective.*

Q.16. Is there any limit on the value of individual transactions in ECS Credit?

Ans : No. There is no value limit on the amount of individual transactions.

Q.17. What are the processing / service charges levied under ECS Credit?

Ans : The Reserve Bank of India has deregulated the charges to be levied by sponsor banks from user institutions. The sponsor banks are, however, required to disclose the charges in a transparent manner. With effect from 1st July 2011, originating banks are required to pay a nominal charge of 25 paise per transaction to the Clearing house and destination bank respectively. Destination bank branches have been directed to afford ECS Credit free of charge to the beneficiary account holders.

ECS (DEBIT)

Q.18. Who can initiate a ECS Debit transaction?

Ans : ECS Debit transaction can be initiated by any institution (called ECS Debit User) which has to receive / collect amounts towards telephone / electricity / water dues, cess / tax collections, loan installment repayments, periodic investments in mutual funds, insurance premium etc. It is a Scheme under which an account holder with a bank branch can authorise an ECS User to recover an amount at a prescribed frequency by raising a debit to his / her bank account.

The User institution has to first register with an ECS Centre. The User institution has to also obtain the authorization (mandate) from its customers for debiting their account along with their bank account particulars prior to participation in the ECS Debit scheme. The mandate has to be duly verified by the beneficiary's bank. A copy of the mandate should be available on record with the destination bank where the customer has a bank account.

Q.19. How does the ECS Debit Scheme work?

Ans : The ECS Debit User intending to collect receivables through ECS Debit has to submit details of the customers (like name, bank / branch / account number of the customer, MICR code of the destination bank branch, etc.), date on which the customer's account is to be debited, etc., in a specified format (called the input file) through its sponsor bank to the ECS Centre.

The bank managing the ECS Centre then passes on the debits to the destination banks for onward debit to the customer's account with the destination bank branch and credits the sponsor bank's account for onward credit to the User institution. Destination bank branches will treat the electronic instructions received from the ECS Centre on par with the physical cheques and accordingly debit the customer accounts maintained with them. All the unsuccessful debits are returned to the sponsor bank through the ECS Centre (for onward return to the User Institution) within the specified time frame.

For further details about the ECS Debit scheme, the ECS Debit Procedural Guidelines – available on the website of Reserve Bank of India at <http://www.rbi.org.in/Scripts/ECSUserView.aspx?Id=25> may be referred to.

Q.20. What are the advantages of ECS Debit Scheme to the customers?

Ans : The advantages of ECS Debit to customers are many and include,

- *ECS Debit mandates will take care of automatic debit to customer accounts on the due dates without customers having to visit bank branches / collection centres of utility service providers etc.*
- *Customers need not keep track of due date for payments.*
- *The debits to customer accounts would be monitored by the ECS Users, and the customers alerted accordingly.*
- *Cost effective.*

Q.21. How does the ECS Debit Scheme benefit user institutions?

Ans : User institutions enjoy many benefits from the ECS Debit Scheme like,

- *Savings on administrative machinery and costs of collecting the cheques from customers, presenting in clearing, monitoring their realisation and reconciliation.*
- *Better cash management because of realisation / recovery of dues on due dates promptly and efficiently.*
- *Avoids chances of loss / theft of instruments in transit, likelihood of fraudulent access to the paper instruments and encashment thereof.*
- *Realisation of payments on a uniform date instead of fragmented receipts spread over many days.*
- *Cost effective.*

Q.22. What are the advantages of ECS Debit Scheme to the banking system?

Ans : The banking system has many benefits from ECS Debit such as –

- *Freedom from paper handling and the resultant disadvantages of handling, receiving and monitoring paper instruments presented in clearing.*
- *Ease of processing and return for the destination bank branches. Destination bank branches can debit the customers' accounts after matching the account number of the customer in their database and due verification of existence of valid mandate and its particulars. With core banking systems in place and straight-through-processing, this process can be completed with minimal manual intervention.*
- *Smooth process of reconciliation for the sponsor banks.*
- *Cost effective.*

Q.23. Can the mandate once given by a customer be withdrawn or stopped?

Ans : Yes. Any mandate in ECS Debit is on par with a cheque issued by a customer. The customer has to maintain adequate funds in his / her account with the destination bank branch to ensure the ECS Debit instructions are honoured when presented. In case of any need to withdraw or stop a mandate, the customer has to give prior notice to the ECS user institution well in time, so as to ensure that the input files submitted by the user do not continue to include the ECS Debit details in respect of the mandates withdrawn or stopped by customers. The process flow to be followed for withdrawing / stopping mandates is detailed in ECS Debit Procedural Guidelines.

Q.24. Can a customer stipulate any ceiling on the amount of debit, purpose or validity period of the mandate under the ECS Debit Scheme?

Ans : Yes. It is left to the choice of the individual customer and the ECS user to decide these aspects. The mandate can contain a ceiling on the maximum amount of debit, specify the purpose of debit and validity period of the mandate.

Q.25. Is there any limit on the value of Individual transactions in ECS Debit?

Ans : No. There is no value limit on the amount of individual transactions that can be collected by ECS Debit.

Q.26. What are the processing / service charges levied under ECS Debit?

Ans : The Reserve Bank of India has deregulated the charges to be levied by sponsor banks from user institutions. The sponsor banks are, however, required to disclose the charges in a transparent manner. With effect from 1st July 2011, originating banks are required to pay a nominal charge of 25 paise and 50 paise per transaction to the Clearing house and destination bank respectively. Bank branches do not generally levy processing / service charges for debiting the accounts of customers maintained with them.