



Secure end-to-end bulk electronic payment processing for banks and institutions

National Automated Clearing House



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1. Background

Bringing national uniformity to electronic clearance systems

For a considerable period of time, the Indian banking sector operated with multiple Electronic Systems (ECS) that had disparate standards and faced geographic and local area challenges. With the pace of automation and digital technology, there was a growing recognition for a more unified system that was better integrated and offered standardisation across India's banking sector.

In 2016, National Payments Corporation of India launched the National Automated Clearing House (NACH) service as centralized system to enable automated clearing of inter-bank, high volume electronic transactions. The NACH system was developed to unify and standardise interoperability of all electronic transactions with rules and compliances across all banking and transaction related services.



2. Introduction

India's unified national clearing service towards a better connected banking system.

Launched with the aim of consolidating multiple ECS systems in operation across the country, the National Automated Clearing House (NACH) is a centralised clearing service offered by the National Payments Corporation of India (NPCI) to banks, financial institutions, Corporates and Central and State Governments.

The NACH service facilitates electronic automation of inter-bank high volume, low value debit and credit transactions, which are frequent and repetitive in nature, through the NPCI platform. It provides a unified and standardised framework of best practices that eliminates bottle-necks and challenges to electronic transmission for core banking services, at the local and national level.

Currently, the NACH service is used for:

- ▶ Bulk interbank debit/credit transactions
- ▶ Bulk distribution transactions: subsidies, dividends, interest, salary, pensions
- ▶ Bulk collection transactions like utilities payments (telephone/electricity/water), loan
- ▶ EMI, mutual fund SIPs, insurance premiums.

3. Business Uses

Business uses of the NACH service

- 1) End-to-end processing of bulk electronic payment instructions.
- 2) Standardised national electronic clearance system for banks, corporates, government agencies and qualified participants to route debit / credit instructions.
- 3) Smoother and effective support for Core-Banking Solution (CBS) of participating banks with centralized posting of inward debit / credit transactions.

- 4) Direct Corporate Access (DCA) for select Corporates/ Government Departments, major user institutions and third parties to NACH.
- 5) Enables processing of the Indian government's Direct Benefit Transfer (DBT) related transactions.
- 6) File warehousing - Sponsor banks can upload files up to 7 days prior to the settlement date. All the future dated transactions will be validated and warehoused.
- 7) Trade Receivable Discounting System (TReDS) - RBI has authorized NPCI for settlements on TReDS which is designed to bring the stakeholders and participants together for discounting, trading and settlement of the invoices.
- 8) Aadhaar Payment Bridge System (APBS) - built to validate the Aadhaar numbers provided in the transaction file at the time of upload and route them to destination banks as per the IIN mapping done with NPCI in the Aadhaar mapper.
- 9) Income Tax Refunds - Central Board of Direct Taxes (CBDT) is in the process of migrating the processing of income tax refunds on to the digital platform.
- 10) Mandate Management System (MMS) - Allows for automated processing and exchange of mandate information electronically with well defined timelines for acknowledgement/confirmation. Allows processing of e-mandates as well as paper mandates, where e-mandates would consist of data file upload while paper mandates would consist of mandate image and Data file uploads.
- 11) eSign Electronic Signature Service (Digitally signed mandate using Aadhaar based authentication) - an innovative initiative by the Government of India to enable easy, efficient and secure signing of electronic documents by authenticating the signatory using UIDAI. Any Aadhaar holder can digitally sign an electronic document without having to obtain a physical digital signature certificate on the crypto device or dongle. Electronic Signatures facilitated through the eSign service are legally valid under the provisions of Second Schedule of the Information Technology Act and Guidelines issued by the Controller of Certifying Authorities, Ministry of Information Technology, and Government of India.

4. Business Benefits

Business benefits of the NACH service

For Banks

- Lower cost of dedicated point-to-point infrastructure as the unified NPCI platform leverages the network's Core Banking infrastructure across India.
- Single set of rules (operating and business) compliant with different routing codes like IFSC Code / MICR Code / IIN Code for all banks in India, enables smooth interoperability.
- Best in class security features, cost efficiency and payment performance (STP) coupled with multi-level data validation facility accessible to all participants across the country.
- Sound mechanism for revocations, holidays management, settlement, exceptions handling, processing of returns, rejects, reversals, refunds, unwinding and dispute handling.
- Maintains a robust Aadhaar number with Institution Identification Number (IIN) mapper with related governance mechanism
- Enables banks to design and empower their own products through the service.
- Quicker transaction processing across India with instant, near real time or shorter cycle times as compared to traditional processes.
- Automation based cost savings over manual reconciliation, verification and paper document transmission.
- Refined Mandate Management System (MMS) and an online Dispute Management System (DMS) coupled with strong information exchange and customised MIS capabilities.
- Robust and scalable with capability of processing lakhs of transactions per cycle.
- MMS images and document archival of mandates beyond the predefined retention period for 90 days.



For Corporate/ Large institutions

- ▶ Large repetitive transactions can be instantly processed without need for paper transmission across geographical distances.
- ▶ Lower legal exposure and cost risk due to clear rules, compliance and process integrity.
- ▶ Improved customer, vendor transaction (debit /credit) cycles for better goodwill and relationship management.
- ▶ No deadline tracking effort or delays across multiple data points and geographies as the process is automated.
- ▶ Lower process workload for employees who can be more profitably employed elsewhere in the organisation.
- ▶ Corporate portability where a member banks can handle the transactions of any corporate irrespective of the sponsor bank through which the mandate has been presented and registered.
- ▶ E-Mandate acceptance and process automation - reduces the burden of processing on the destination bank with end-to-end process automation including auto submission of authenticated mandates.

For Customers

- ▶ Removes effort of tracking due dates for debit transactions and can avail government subsidies.
- ▶ Assurance of transaction fulfilment based on automated authentication.
- ▶ Less paperwork and need to manually redo repetitive transactions such as Mutual Fund SIPs or insurance premium payments.

For the Government

- ▶ Enables greater financial inclusion and banking services coverage by providing support to Aadhaar based transactions.
- ▶ Creates a network for Direct Benefit Transfer that eliminates process cost, raises efficiency and ensures recipient beneficiary's authenticity.

- Saves expenditure on creation of dedicated distribution processes and infrastructure.
- Raises efficiency, transparency and security of transactions.
- Ensures on-time poverty alleviation and financial support for economically weaker sections without geography and transmission delays.
- Enables simultaneous wide-area pan-India transaction for government employees and citizens' benefit.

5. Participants in the NACH ecosystem

Sponsor Banks

Banks in India that are members of any Payment System / Channel approved by the Reserve Bank of India, and who intend to enter into a mutual service level agreement (SLA) with NPCI are permitted to originate transactions in the NACH system, as 'Sponsor Banks'.

Destination Banks

Banks in India who are members of any Payment System / Channel approved by the Reserve Bank of India are allowed to participate on NACH system as 'Destination Banks', on submission of necessary Agreement. These banks would be allowed to process transactions through NACH, process debit Mandates and update the Aadhaar Mapper.

Corporates/ Government Departments

The NACH service is open to Corporates/ Government Departments who indicate the names of the Sponsor Bank with whom they are maintaining accounts to facilitate settlement on their behalf. They are allowed to participate on the NACH system as 'Users', on submission of necessary Agreement, through their Sponsor Bank.

Government Departments/Corporates can choose to become direct participants having Direct Corporate Access (DCA) for the purpose of submission/receipt of the Transactions. This is provided the request for participation is recommended by the

Sponsor Bank and the Departments/Corporates comply with applicable NPCI guidelines.

Other participants

Other approved Payment System Solution Providers would also be allowed to participate on NACH on completion of necessary Registration formalities with NPCI. The Indian Postal Department is also eligible to participate as a NACH member.

Roles and Responsibilities

NPCI

It will undertake the task of management, auditing, operation and maintenance of NACH on its own or it may use the services of a third-party service provider for this purpose.

It will also provide the framework for Steering Committee for ACH, member on-boarding/de-boarding, notifications, settlement cycles, process flow, risk mitigation and dispute resolution.

NPCI will provide a unified and standardised framework of best practices that eliminates bottle-necks and challenges to electronic transmission for core banking services.

Onboarding

Banks willing to participate in NACH need to comply with the prescribed system requirements including:

- ▶ Executing all Onboarding Documents as specified by NPCI and required by RBI and Indian Banking Laws.
- ▶ Establishing network connectivity
- ▶ Procuring Digital Signature Certificates, Signing Tool and Public Static IP Address
- ▶ Undergoing UAT for file format testing
- ▶ Initiating On-us Transaction for testing

De-boarding

National Payments Corporation of India reserves the right to terminate the membership of Promoter Bank or a Non-Promoter Bank or a Special Invitee nominated by an entity to a Steering Committee at any time on grounds that NPCI deems fit.

In addition, any representative from Promoter Bank, or a Non-Promoter Bank or a Special Invitee nominated by an entity to a Steering Committee stands terminated with immediate effect in the case the Promoter Bank, or the Non-Promoter Bank or the entity nominating the Special Invitee terminates any existing agreement with National Payments Corporation of India which pertain to any business or activity performed by National Payments Corporation of India.

Steering committee members can also choose to voluntarily withdraw from the steering committee by notifying NPCI in writing.

6. Use Cases

How NACH services can be used?

NACH has been developed by NPCI to seamlessly connect banks, corporates and government bodies who wish to utilise efficient online clearing services for bulk transactions. The service is available to participants in the following ways:

1) Bulk salary credits pan India

A large manufacturing and retail corporate has branches and factories located across the country with over 35000. To manage its finances effectively, it has set a salary disbursement cycle date on the 29th of every month. To ensure that its employees receive their salary on time, no matter where they are located in India, it has created a mandate with its bank to make the bulk salary transaction using the NACH service.

2) Government Direct Benefit Transfer to farmers

A state government notices that millet crop in Rabi season is showing a declining trend due to high input cost. To ensure adequate minimum cropping during the season, the state government creates a subsidy scheme for eligible farmers. On participation by the farmer and verification, the state government authorises a DBT to the farmers account.

3) Mutual Fund SIP collections

A digitally friendly Asset Management Company (AMC) opens an online SIP avenue for its Mutual Fund. To ensure its ability to collect the SIPs of various amounts from investors across India, the AMC provides a mandate to its bank whereby the SIPs can be collected using the NACH service post Aadhaar verification of the investor.

4) Automated debit for insurance premium

If a customer applies for a health insurance from a Health Insurance provider, through the NACH facility with a bank, the frequently payable premiums will automatically be paid from the customer's account by due date, without customer having to initiate or track the payment deadline.

7. Acts

Payment and Settlement System Act 2007

Information Technology (IT) Act:

Section 3A (2) provides for non-repudiation of electronic signatures

Section 4 of the IT Act provides legal recognition of electronic records

Section 5 provides legal recognition of electronic signatures which are to be accepted at par with handwritten signatures

Second Schedule IT Act on 27th January, 2015

Indian Evidence Act, 1872

The Bankers Book of Evidence Act, 1891

Reserve Bank of India Act 1934