



भारतीय राष्ट्रीय भुगतान निगम
NATIONAL PAYMENTS CORPORATION OF INDIA

NPCI/NFS/OC NO.30/2011-12

Date: 15th July, 2011

To

All Member Banks of National Financial Switch (NFS)

Dear Sir / Madam,

Inclusion of RRBs, UCBs and Smaller Co.Op. Banks into NFS Network through Sponsor Bank Model

In order to make ATMs a meaningful service delivery channel, Regional Rural Banks and Urban Co-operative Banks have been showing interest in joining the National Financial Switch. However, as per the eligibility criteria approved by Reserve Bank of India, the applicant bank needs to be a RTGS member with a Current Account in the books of RBI. Therefore the only way to facilitate participation of Regional Rural Banks and the large number of non-scheduled cooperative banks to join NFS can be through a sponsor bank which is already a NFS member.

Accordingly a scheme was proposed to RBI for including such RRBs and Co-operative Banks under a 'Sponsor Bank' Model. Under this model the sponsor bank manages the risks pertaining to its sub member.

RBI vide their letter No. DPSS/CO/PD/66202.07.01/2010-11 dated 27th September 2010 accorded the approval. We have started a pilot with two Urban Co-operative Banks with HDFC and ICICI Bank as their sponsor. The pilot has been a success and the customers of the sub-members are now in position to access ATMs of the 57 member banks.

Member banks should take a note of the development and explore possibility of offering the sponsorship services to the RRBs, UCBs and smaller Co-operative Banks. The approach paper is enclosed for your ready reference. In case of more information is required, members may get in touch with the following officials:

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Kindly acknowledge receipt of the circular.

M Balakrishnan
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Appendix

Sponsor Bank Model to include RRBs, UCBs, and Smaller Co. Op. Banks into NFS

Background:

Following numbers clearly show the growth potential for NPCI to expand the NFS Network to these Banks in India.

Sr	Type of Banks	Nos. (Approx.)
1	District Central Co-op. Banks (DCCBs)	368
2	Urban Co-op. Banks (UCBs)	1,721
3	Regional Rural Banks (RRBs)	88

** Source NABARD & RBI

Due to limited resources & know how the Coop Banks have tie-ups with various Application service providers (ASP). These ASPs provide core banking solution, MICRO ATMS terminals & ATMs to these co-operative banks. With the help of these technology Service Providers, co-operative Banks are automating their inter branch network, establishing MICRO ATMs, ATMs & issuing Debit/ATM cards to their customers. But still there is a need of providing these customers a larger ATM Network.

For creating this linkage we propose an ATM tie-up with co-operative banks. The arrangement will have a switch to switch tie-up between The NFS Member Bank switch with Any Application Service Provider (ASP) Switch, where by these Probable Banks' Customers will be able to withdraw cash/do balance enquiry at any ATM of The NFS Member Bank. Also, The NFS Member Bank will be the Settlement Banker for these Probable Banks.

This will lead to creation of a micro payment infrastructure reaching out to the deeper country side which in turn will lead to financial inclusion of the rural population in the true sense.

IIN (BIN) Issuance:

NPCI would arrange to issue the IIN (BIN) to the RRBs, Co. Op. Banks, UCBs etc. within 24 Hrs. of receipt of the completed application form. This IIN (BIN) would be issued to the Banks "Free of Cost". All the Banks need to use these IIN (BIN) only for their Sponsor Bank Scheme.

Card Issuance by Sub-Members:

Co-operative Banks provide branded ATM/Debit cards (called Sub-Member) to their customers. These are PIN Based Magnetic stripe cards which work on co-operative banks' internal branch network. Apart from automation of their branches, these co-operative banks are now feeling the need of providing their customers a larger ATM Network. Application Service providers of these co-operative banks will set up linkage between co-operative bank switch & NFS Member Bank switch for routing of transactions. All the Cards would be launched ONLY on "RuPay" Scheme / Logo.

ATM with Sub-Member Banks for rural micro-payment infrastructure

Under this Scheme, a linkage will be established between Probable Banks ASP switch & NFS Member Bank switch. Probable Bank customers will be having cards containing their unique BIN/ IIN no. So they can be uniquely identified while transacting at NFS Member Bank ATMs.

Flow of Transaction

- Sub-Member will issue cards to its customers which will carry their Unique BIN / IIN Nos. If require, NPCI would issue the IIN (BIN) to these Sub-Members.
- Sub-Member Customer having card will transact at NFS Member Bank ATM for a Withdrawal or Balance Inquiry.
- The transactions done by Sub-Member's Customers on NFS Member Bank ATM will be routed to ASP switch.
- There will be a limit check by the Liquidity Manager (LM) which would be controlled and hosted at NPCI Data Centre (DC) or Switch before the transaction get approved/declined: "Sub-Member Bank Limit"
- NPCI's Switch will run a "Liquidity Manager" (wherein NFS Member Bank/ Sponsor Bank will confirm the figures of Limit to be input & control the Bank level limits). The transaction at NFS Member Bank will first be checked against availability of the Sub-Member level limit.
- Transactions will be declined by NPCI, if amount exceeds Sub-Member's available limit in Liquidity Manager.
- If there is sufficient "Sub-Member limit" available, the transaction will be routed to the Bank's Customer database and checked against the available balance in the account through ASP Switch..
- If there is sufficient "Customer Balance" then the transaction will be approved and sent back to NFS Member Bank Switch for payment.

Maintenance of Limits in "Liquidity Manager"

- "Liquidity Manager" would be run in NPCI's DC.
- Sub-Member will maintain a required amount with The NFS Member Bank, which will be used to cover the settlements that The NFS Member Bank will do on the Sub-Member's behalf.
- Based on float amount, The NFS Member Bank will assign a Bank limit in the Liquidity Manager.
- Sponsor Bank would inform NPCI to maintain the Limits into the Liquidity Manager (LM) and NPCI would maintain the same and confirm back to the Sponsor Bank,.

Card Design for Sub-Member's Customers

The card will be issued to customers by Sub-Member with the help of their technology provider under the brand name "RuPay". It is proposed to have four logos on the card designed. There will be a main logo of Sub-Member along with logo of ASP & The NFS Member Bank, if required.

Grievance Management

If there is any complaint regarding cash withdrawal on The NFS Member Bank ATM Network, then customer will lodge a complaint with respective Sub-Member. In turn Sub-Member will forward the complaint to Sponsor Bank/ NFS Member Bank. As NFS Member Bank already have Grievance Redresses mechanism in place. Complaint will be solved as per normal procedure & solution will be provided to PB within defined TAT. (All present RBI Guidelines would be applicable)

NPCI would issue a Set of One User IDs and Password for the Sponsor Bank Model in DMS.

Scope of Different Entities involved

A. NFS Sub-Member:

1. In ITM System, NFS Sub-Member needs to be clearly identified to link with Sponsor Bank
2. Limits with respect to the Sub-Member need to be informed by NFS Sponsor Bank to NPCI to further capture into LM.
3. Any Limits reached to limit should be informed to the NFS Sub-Member immediately through email.
4. Sub-Member needs to be tagged with Application Service Provider (ASP)
5. NFS Sub-Member can change the relationship with NFS Sponsor Bank and ASP.
6. NFS Sub-Member would act as Issuer and Acquirer also.

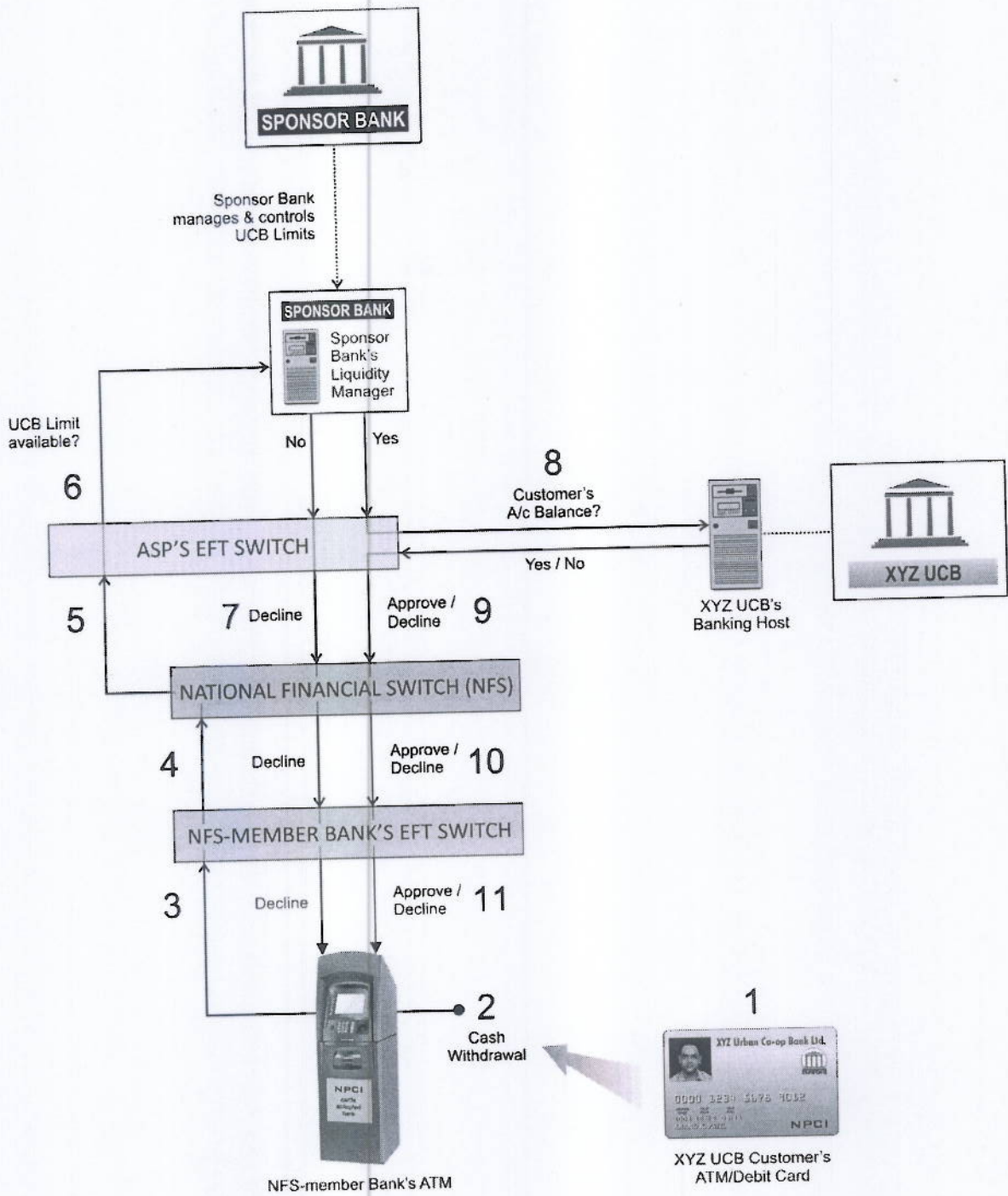
B. Application Service Provider (ASP) Switch Provider for PBs

1. ASP Switch to be connected to NFS
2. Proper UAT for Network and Application Level testing to be done before put them into production system.
3. Any transactions sent to ASP have to be routed first through LM and only successful transactions would be sent to ASP.
4. ASP would be certified by the 3rd party SISA Auditor for IS related matters and their compliance should be handled like any other connection in NFS.
5. ASP would be sponsored by the NFS Sponsor Bank.
6. Technical Certification for the NFS connectivity would be done by NPCI.
7. ASP should be tagged with Sponsor Bank and Sub-Member in all the Reports of DMS/ITM.

C. NFS Member Bank (Sponsor)

1. NFS Sponsor Bank would be tagged to NFS Sub-Member and ASP into ITM/DMS
2. Separate DMS Reports for Net Settlement and other reports to be generated for the Sponsor Bank as per Sub-Member.
3. LM Limits would be captured as per the request recd. From Sponsor Bank and inform them the confirmation mail / message.
4. Separate DMS IDs to be created for Sponsor Bank to capture their DMS related issues for the multiple Sub-Members.
5. Provide the technical support for Sponsor Bank with respect to Sub-Member and ASP.

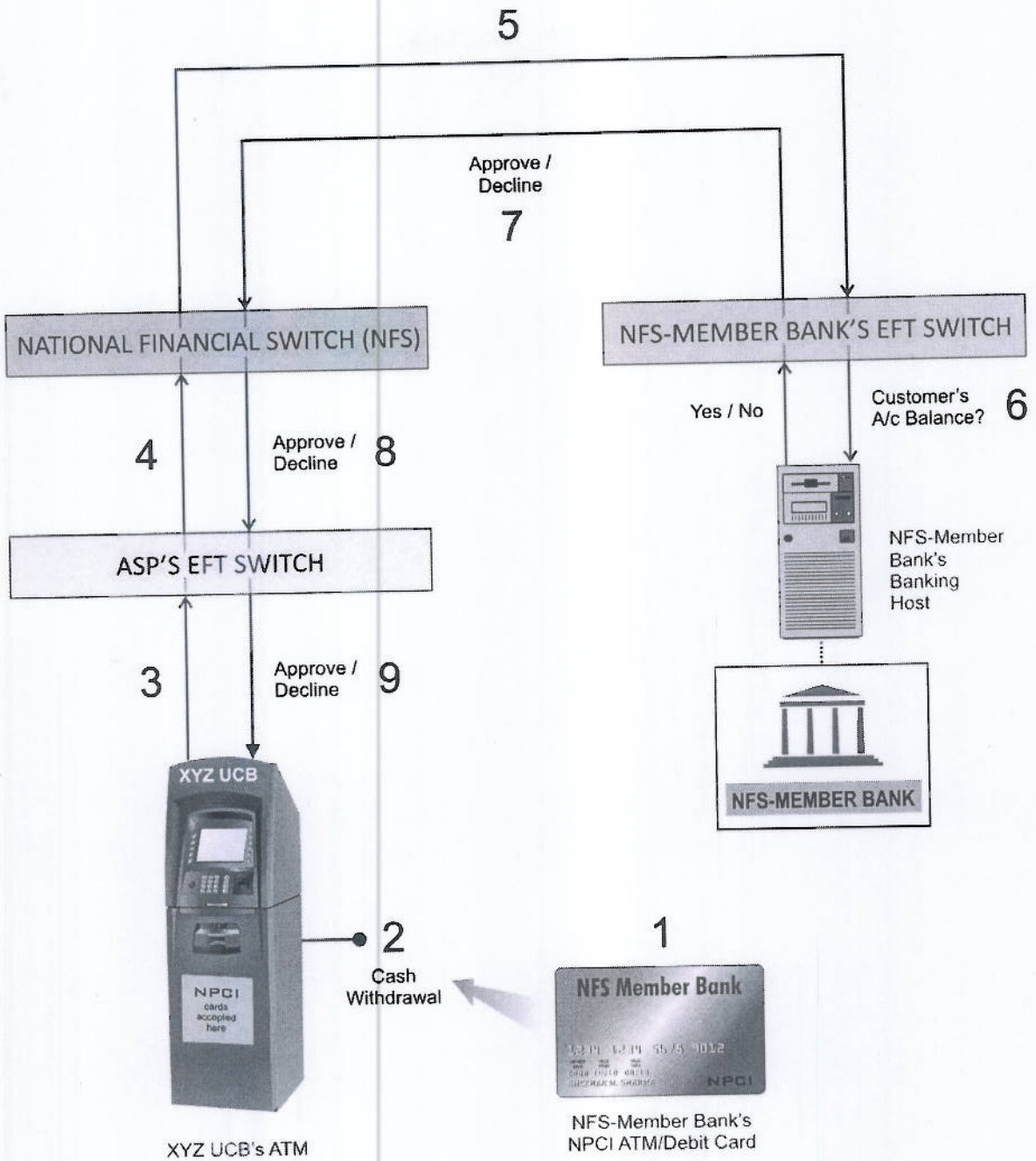
Process Flow for the NFS Member Bank as Acquirer



Process Steps:

1. UCB issues card with a Unique Bin No. to its customer.
2. UCB customer uses card to withdraw cash at ATM of NFS-member Bank.
3. Transaction of UCB customer at NFS-member Bank's ATM is sent to NFS-member Bank's Switch.
4. NFS-member Bank's Switch directs the transaction to NFS.
5. NFS directs the transaction to ASP's EFT Switch, which verifies Card and PIN.
6. ASP's EFT Switch checks UCB's Limit at Sponsor Bank's Liquidity Manager.
7. If amount exceeds UCB's Limit, transaction is declined by NFS Switch.
8. If UCB Limit is sufficient, transaction is routed to UCB's Banking Host and checked against available Customer's A/c Balance.
9. Based on available Customer's A/c Balance, ASP's EFT Switch sends approved/declined transaction response to NFS.
10. NFS sends the transaction response to NFS-member Bank's Switch.
11. NFS-member Bank's Switch sends appropriate instruction to Other Bank's ATM.

Process Flow for a UCB as Acquirer for NFS-Member Bank



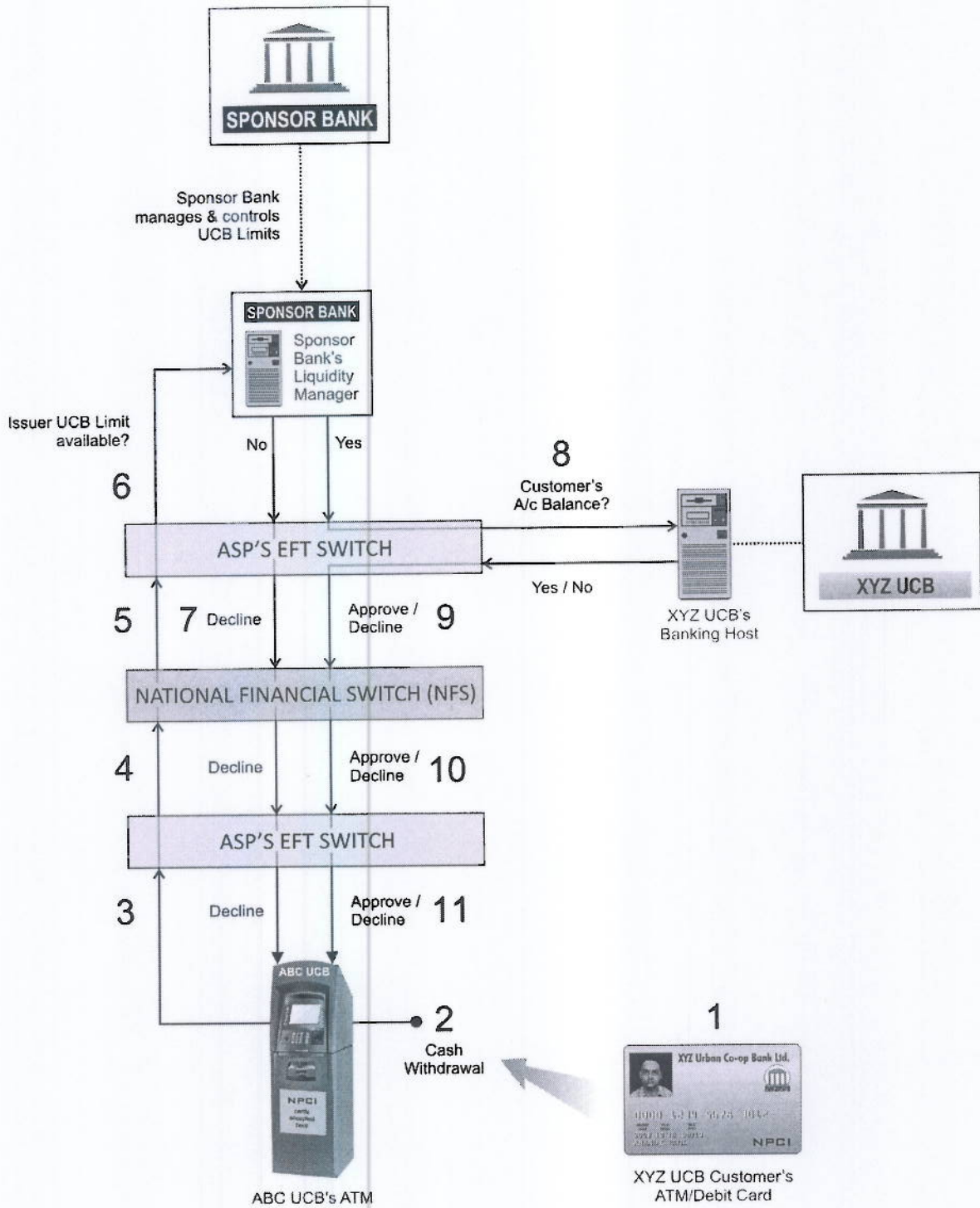
Process Steps:

1. NFS-Member bank issues card with a Unique Bin No. to its customer.
2. NFS-Member Bank customer uses card to withdraw cash at ATM of UCB.
3. Transaction of NFS-Member Bank customer at UCB's ATM is sent to ASP's EFT Switch.
4. ASP's EFT Switch directs the transaction to NFS.
5. NFS directs the transaction to NFS-Member Bank's EFT Switch, which verifies Customer's Card and PIN.
6. NFS-Member Bank's EFT Switch routes the transaction to NFS-Member Bank's Banking Host and checks against available Customer's A/c Balance.
7. Based on available Customer's A/c Balance, NFS-Member Bank's EFT Switch sends approved/ declined transaction response to NFS.
8. NFS sends the transaction response to ASP's EFT Switch.
9. ASP's EFT Switch sends appropriate instruction to UCB's ATM.

NOTE:

1. NFS will send a Daily Settlement Report to the Sponsor Bank.
2. Based on this report, Sponsor Bank will reconcile the amount with NFS.
3. Subsequently, Sponsor Bank will credit that amount to the Acquiring UCB's account and the same will reflect in the Sponsor bank's Liquidity Manager.

Process Flow for one UCB as Acquirer for another UCB with Same ASP



Process Steps:

1. Issuer UCB (XYZ UCB) issues card with a Unique Bin No. to its customer.
2. Issuer UCB's customer uses card to withdraw cash at ATM of Acquirer UCB (ABC UCB).
3. Transaction of Issuer UCB's customer at Acquirer UCB's ATM is routed to ASP's EFT Switch.
4. ASP's EFT Switch sends the transaction to NFS.
5. NFS returns the transaction to ASP's EFT Switch verifies Issuer UCB's customer's Card and PIN.
6. ASP's EFT Switch checks Issuer UCB's Limit at Sponsor Bank's Liquidity Manager.
7. If amount exceeds Issuer UCB's Limit, transaction is declined by ASP's EFT Switch.
8. If Issuer UCB Limit is sufficient, transaction is routed to Issuer UCB's Banking Host and checked against available Issuer UCB's Customer's A/c Balance.
9. Based on available Issuer UCB's Customer's A/c Balance, ASP's EFT Switch sends approved/ declined transaction response to NFS.
10. NFS returns the approved/ declined transaction response to ASP's EFT Switch.
11. ASP's EFT Switch sends appropriate instruction to Acquirer UCB's ATM.

NOTES:

1. NFS will send a Daily Settlement Report to the Acquirer UCB's Sponsor Bank. Based on this report, Acquirer UCB's Sponsor Bank will reconcile the amount with NFS. Subsequently, Acquirer UCB's Sponsor Bank will credit that amount to the Acquiring UCB's account and the same will reflect in the Sponsor bank's Liquidity Manager.