BHARAT SCHOOL OF BANKING
Settlement Systems of India

Settlement Systems of India

India has **two** main **electronic funds settlement** system for **one-to-one** transactions -

1. **National Electronics Funds Transfer (NEFT)**
2. **Real-time Gross Settlement (RTGS)**

Transactions can be **bulk** (meaning **one-to-many** or **many-to-one** transactions) and **repetitive** (regularly happening, like monthly) in nature. This type of **transactions** are routed through **Electronic Clearing Service (ECS)**, and of **two** types -

1. **ECS Credit**
2. **ECS Debit**

National Electronics Funds Transfer (NEFT) - one-to-one
NEFT payment system facilitates **one-to-one** funds transfer. In this system, **individuals, firms** and **corporate** can **electronically** transfer funds from any **bank branch** to any **individual**, **firm** or **corporate**, having an **account** with any other **bank** in the country which is **NEFT-enabled**.

Note that, **recipient** should have a **bank account** (so that transfer can be traced), but the person who is **transferring** fund need not have any **account**, but in that case, there is a **maximum transfer limit** of **Rs. 50,000** (for this **walk-in customers**, need to provide their **identity documents**).

But if he/she transfer fund from an **account**, then there is **no limit** of **maximum** transfer, though **per transaction** max limit is **Rs. 50,000**. e.g., For transferring **Rs. 1 lakh** through **NEFT**, there will be **2 transactions**.

Note that **NEFT** settles **transactions** on **net-basis** and works in **hourly batches**. Currently, there are **12** batches (**8 am** to **7 pm**) on weekdays and **6 batches** (**8 am** to **1 pm**) on Saturdays. Banks wait and collect all the **transactions** made within **an hour**, and then **settles** the transaction (not **individually**, known as **netting**). For an example, if you make a transaction on **8:30 am**, then your **settlement** will wait till the **hourly batch** of **9 am**, and at **9:00 am**, your transaction will be **settled**.

Transaction Costs -
No **inward transaction** cost for NEFT
But for **outward transactions** -

- Up to **Rs. 10,000** - maximum **Rs. 2.5 + Service Tax**
- Above **Rs. 10,000** to **Rs. 1 lakh** - maximum **Rs. 5** + **Service Tax**

- Above **Rs. 1 lakh** to **Rs. 2 lakhs** - maximum **Rs. 15** + **Service Tax**
- Above **Rs. 2 lakhs** - maximum **Rs. 25 + Service Tax**

Real-Time Gross Settlement (RTGS) - one-to-one

In this system, **settlements** are done on **real-time** (meaning, **instantly**, or without **delay**, note that NEFT need to wait for an **hourly batch**) and on **gross basis** (meaning, **individually**, transaction will not be **netted** with others like NEFT which are settled in hourly batches). RTGS is the **fastest** possible **money transfer** system through the **banking channel**.

Note that **RTGS** is meant for **high-value** transactions, and there is a **minimum transaction** limit of **Rs. 2 lakhs** (no upper limit). All the **transactions** go through the books of **RBI**.

RBI on **Dec 15, 2014**, increased **RTGS** total business hours from **7 hours 30 minutes** to **12 hours**. Now the **business hour** will be **8 am** to **8 pm** on weekdays against the earlier **9 am** to **4:30 pm**.

Transaction Costs -

No **inward transaction** cost for RTGS
But for **outward transactions** -

- **Rs. 2 lakhs** to **Rs. 5 lakhs -** maximum **Rs. 30** per transaction
- Above **Rs. 5 lakhs** - maximum **Rs. 55** per transaction

ECS Credit - one-to-many (single debit, multiple credit)

ECS Credit facility is used by an **institution**, where it needs to **pay** several **recipients** on a **regular** basis (may be **monthly**). Here **single debit** is made on the **payers account** and **multiple credit** is made to the **beneficiaries** or **recipients.**
For example, for paying **salary, dividend, pension,** etc. one can use this **ECS Credit** facility (e.g., **employers** account is debited once, and several **employees** are paid **salary,** by crediting their accounts)

ECS Debit - many-to-one (multiple debit, single credit)

ECS Debit facility is used by an **institution**, for raising **debits** to a large number of **accounts.** E.g., **bill payment** for consumers of **utility services** (like electricity bills deducted from bank accounts of several customers, and credited to the electricity supplier's account), periodic **investments** in **mutual fund**, **insurance premium**, etc.

Note, that there are several other **payment** systems, like **Immediate Mobile Payment System (IMPS,** need to register **mobile** number), **Aadhaar-enabled Payment System (AEPS,** need an **Aadhar** card), etc.