

Electronic Clearing Service-(ECS)- FAQs

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

Ans It is a mode of electronic funds transfer from one bank account to another bank account using the services of a Clearing House. This is normally for bulk transfers from one account to many accounts or vice-versa. This can be used both for making payments like distribution of dividend, interest, salary, pension, etc. by institutions or for collection of amounts for purposes such as payments to utility companies like telephone, electricity, or charges such as house tax, water tax, etc or for loan installments of financial institutions/banks or regular investments of persons.

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

Ans There are two types of ECS called ECS (Credit) and ECS (Debit).

ECS (Credit) is used for affording credit to a large number of beneficiaries by raising a single debit to an account, such as dividend, interest or salary payment.

ECS (Debit) is used for raising debits to a number of accounts of consumers/ account holders for crediting a particular institution.

Working of ECS Credit System

Q.3. Who can initiate an ECS (Credit) transaction?

Ans ECS payments can be initiated by any institution (called ECS user) who have to make bulk or repetitive payments to a number of beneficiaries. They can initiate the transactions after registering themselves with an approved clearing house. ECS users have also to obtain the consent as

also the account particulars of the beneficiary for participating the ECS clearings.

The ECS user's bank is called as the sponsor bank under the scheme and the ECS beneficiary account holder is called the destination account holder. The destination account holder's bank or the beneficiary's bank is called the destination bank.

The beneficiaries of the regular or repetitive payments can also request the paying institution to make use of the ECS (Credit) mechanism for effecting payment.

Q.4. How does the ECS Credit system work?

Ans The ECS users intending to effect payments have to submit the data in a specified format to one of the approved clearing houses. The list of the approved clearing houses or the list of centres where the ECS facility has been provided is available at www.rbi.org.in.

The clearing house would debit the account of the ECS user through the account of the sponsor bank on the appointed day and credit the accounts of the recipient banks, for affording onward credit to the accounts of the ultimate beneficiaries.

Q.5. At which of the centres ECS facility is available?

Ans At present ECS facility is available at more than 60 centres and the full list is available at the web-site of RBI.

The beneficiaries need to maintain an account with one of the banks at these centres in order to avail of the benefit of ECS.

Q.6. How does a beneficiary participate in ECS (Credit) scheme?

Ans The beneficiary has to furnish a mandate giving his consent to avail of the ECS facility. He should also communicate to the ECS user the details of his bank branch and account particulars. Such authorisation form is called a mandate.

Q.7. Will there be any need for the beneficiary to alter this mandate?

Ans Yes. In case the information/account particulars undergo change, then he has to notify the ECS user to carryout changes in order to ensure continued benefits from the ECS user. In case the account particulars at the destination branch do not match, the destination branches would return the credit through their service branch to the clearing house.

Q.8. Who will communicate the beneficiaries' about the credit?

Ans It is the responsibility of the ECS user to communicate to the beneficiary the details of credit that is being afforded to his account, indicating the proposed date of credit, amount and the relative particulars of the payment, so that the beneficiary can match the same with the details furnished by the bank in the account statement/passbook.

Q.9. What are the advantages to the ultimate beneficiary?

Ans

- The end beneficiary need not make frequent visits to his bank for depositing the physical paper instruments.
- He need not apprehend loss of instrument and fraudulent encashment.
- The delay in realisation of proceeds after receipt of paper instrument.

Q.10. How does the scheme benefit the ECS user-like corporate bodies/institutions?

Ans

- The ECS user saves on administrative machinery for printing, dispatch and reconciliation.
- Avoids chances of loss of instruments in postal transit.
- Avoids chances of frauds due to fraudulent access to the paper instruments and encashment.
- Ability to make payment and ensure that the beneficiaries' account gets credited on a designated date.

Q.11. What are the advantages to the banks?

Ans

- Banks handling ECS get freed of paper handling.
- Paper handling also creates lot of pressure on banks as they have to encode the instruments, present them in clearing, monitor their return and follow up with the concerned bank and customers.
- In ECS banks simply get the payment particulars relating to their customers. All they need to do is to match the account particulars like name, a/c number and credit the proceeds
- Wherever the details do not match, they have to return it back, as per the procedure

Q.12. How can the customer track-down these payments?

Ans

Banks have been advised to ensure that the pass-books/statements given to the customers reflect the particulars of the transaction provided by the ECS users. Customers can match these entries with the advice received by them from the payment institution.

Q.13. *Is there any limit on the amount of Individual transactions?*

Ans No value limit on the amount of individual transactions has been prescribed under the scheme.

Q.14. *What are the Processing / Service charges? Is it a costly service?*

Ans RBI has since deregulated Service Charges to be levied by sponsor banks. As regards Processing Charges levied by RBI and other banks managing the clearing houses, the same has been waived till March 31, 2008.

Q.15. *Is it necessary for the corporates/institutions to collect mandate from the investors?*

Ans Yes. A model mandate form has been prescribed for the purpose. Payment processing by banks becomes easier once the database is prepared. SEBI has also issued guidelines to investors to furnish their account numbers in their share applications for printing the same on the interest/dividend warrants, collecting the account particulars and mandates may not pose much problem.

ECS debit system

Q.16. *What is ECS (Debit) scheme?*

Ans It is a scheme under which an account holder with a bank can authorise an ECS user to recover an amount at a prescribed frequency by raising a debit in his account. The ECS user has to collect an authorisation which is called ECS mandate for raising such debits. These mandates have to be endorsed by the bank branch maintaining the account.

Q.17. How does the scheme work?

Ans Any ECS user desirous of participating in the scheme has to register with an approved clearing house. The list of approved clearing houses is available at RBI web-site www.rbi.org.in. He should also collect the mandate forms from the participating destination account holders, with bank's acknowledgement. A copy of the mandate should be available with the drawee bank.

The ECS user has to submit the data in specified form through the sponsor bank to the clearing house. The clearing house would pass on the debit to the destination account holder through the clearing system and credit the sponsor bank's account for onward crediting the ECS user. All the unprocessed debits have to be returned to the sponsor bank within the time frame specified. Banks will treat the electronic instructions received through the clearing system on par with the physical cheques.

Q.18. What are the advantages to the ultimate beneficiary?

- Trouble free- Eliminates the need to go to the collection centres/banks by the customers and no need to stand in long 'Q's for payment
- Peace of mind- Customers also need not track down payments by last dates.
- The debits would be monitored by the ECS users.

Q.19. How does the scheme benefit the ECS user-like corporate bodies/ institutions?

Ans

- The ECS user saves on administrative machinery for collecting the cheques, monitoring their realisation and reconciliation
- Better cash management.

- Avoids chances of frauds due to fraudulent access to the paper instruments and encashment.
- realise the payments on a single date instead of fractured receipt of payments.

Q.20. What are the advantages to the banks?

Ans

- Banks handling ECS get freed of paper handling.
- Paper handling also creates lot of pressure on banks as they have to encode the instruments, present them in clearing, monitor their return and follow up with the concerned bank and customers.
- In ECS banks simply get the mandate particulars relating to their customers. All they need to do is to match the account particulars like name, a/c number and debit the accounts.
- Wherever the details do not match, they have to return it back, as per the procedure.

Q.21. Can the mandate given once be withdrawn or stopped?

Ans

Yes. The mandate given is on par with a cheque issued by a customer. The only stipulation under the scheme is that the customer has to give prior notice to the ECS user, to ensure that they do not include the debits.

Q.22. Can the customer stipulate any maximum debit, purpose or validity period for the mandate?

Ans

Yes. It is left to the choice of the individual customer and the ECS user to finalise these aspects. The mandate can contain a maximum ceiling; it can also specify the purpose as also a validity period.

Q.23. What is the current coverage of the scheme?

Ans

At present the scheme is in operation at 15 RBI centres (ie centres where RBI manages the Clearing House operations) and at other centres where Public Sector Banks manage the clearing operations. The

list of centres is available at the RBI web-site under the procedural guidelines.

Q.24. Processing charges on individual transactions

Ans RBI has deregulated the service charges that could be levied by sponsor banks. RBI has waived the processing charges levied by RBI and other banks managing the clearing houses till March 2008.

Q.25. Which are the institutions eligible to participate in the ECS Debit scheme?

Ans Utility service providers such as telephone companies, electricity supplying companies, electricity boards, credit card collections, collection of loan installments by banks and financial institutions, and investment schemes of Mutual funds, etc.