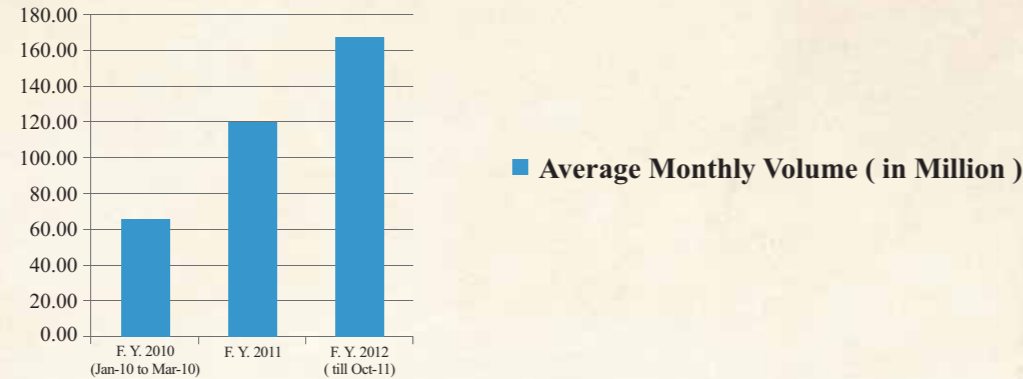


NFS VOLUME ANALYSIS

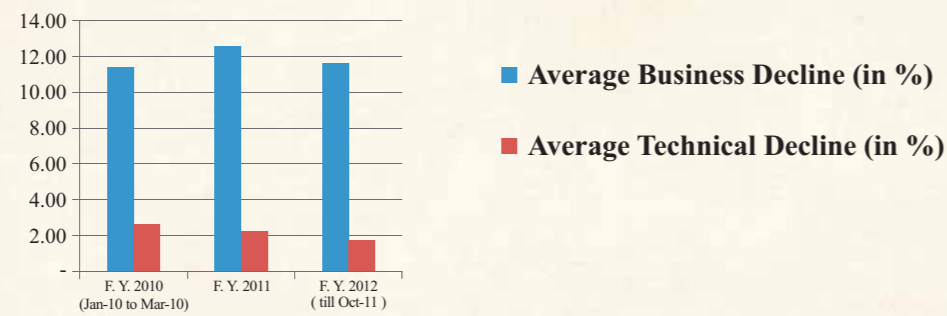
Period	Approved	Declined	Total Volume	Average Monthly Volume
F. Y. 2010 (Jan-10 to Mar-10)	17,52,92,448	2,82,25,781	20,35,18,229	6,78,39,410
F. Y. 2011	1,23,05,38,605	21,34,06,722	1,44,39,45,327	12,03,28,777
F. Y. 2012 (till Oct-11)	1,03,56,60,959	16,14,42,696	1,19,71,03,655	17,10,14,808

NFS Volume Growth - YoY



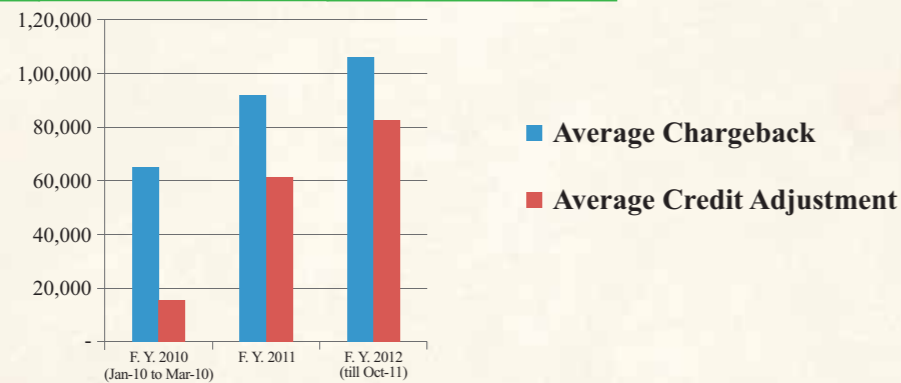
NFS BUSINESS AND TECHNICAL DECLINE ANALYSIS

Period	Average Business Decline (in %)	Average Technical Decline (in %)
F. Y. 2010 (Jan-10 to Mar-10)	11.26	2.61
F. Y. 2011	12.48	2.03
F. Y. 2012 (till Oct-11)	11.72	1.77



NFS CHARGEBACK AND CREDIT ADJUSTMENTS ANALYSIS

Period	Average Chargeback	Average Credit Adjustment
F. Y. 2010 (Jan-10 to Mar-10)	64,753	15,349
F. Y. 2011	91,422	61,308
F. Y. 2012 (till Oct-11)	1,10,716	84,324



Highlights of IMPS till 31st October 2011

- Total Number of live Banks on IMPS – 28 banks
- Banks which launched IMPS service between July – October, 2011 included Andhra Bank, Catholic Syrian Bank, IndusInd Bank, UCO Bank and Vijaya Bank.
- Banks under IMPS certification include State Bank of Hyderabad, State Bank of Bikaner and Jaipur and Bank of Baroda
- 15.16 Million MMID issued by Banks till October, 2011
- Rs. 123.82 Million transferred using IMPS during July – October, 2011 as compared to Rs. 49.3 Million for the period April – June 2011
- Merchant payments through IMPS is currently under UAT stage and is expected to be completed, with couple of banks as a pilot, during November 2011

NPCI NEWSLETTER

Volume 6, October 2011



FROM THE DESK OF MD & CEO

Shortly, NPCI would be completing two years of service to member banks of National Financial Switch. It gives me immense pleasure to share with you that there has been a substantial progress in the range and quality of service during this period. The network and system uptime, capacity to process higher volume, ratio of technical decline, the ratio of chargeback to number of transactions, response time to resolve the technical queries, timely holding of Steering Committee/ User Group Meeting – all have changed for the better. NFS 2.0 promised in the User Group Meeting in December 2010 has been fulfilled. Our motto has been to exceed the expectations of the member banks. I would like to hear from member banks in which specific areas no improvement has been noticed or promise for action remaining pending. I would like the same to be sent to me at aphota@npci.org.in for my personal attention.



are under core banking solution and are not eligible for direct membership of NFS can now join NFS through sponsor bank route. The idea is to make the NFS network accessible to all bank customers. NPCI is a big believer that the country of India's size needs to have at least 2 lakh ATMs – more than double the current strength. Vast number of bank customers in rural/ semi-urban areas of all banks and especially of Regional Rural Banks and urban co-operative banks are still denied of the ATM facility.

NPCI being the umbrella organization for retail payment systems in the country, the

range of activities of NPCI has also been growing. Last month, the Cheque Truncation System (CTS) was operationalized at Chennai. NPCI would shortly be completing one year of operating the Interbank Mobile Payment Service (IMPS). 'RuPay' the domestic card network project is well on track. We are gearing ourselves up for a fully functional 'RuPay' card by March 2012. NPCI is thankful to Union Bank of India, Bank of India and a few Urban Co-operative Banks, viz. Gopinath Patil Parsik Janata Sahakari Bank Ltd., NKGSB Co-Op Bank Ltd and Bassein Catholic Cooperative Bank Ltd. for having taken the lead in issuing 'RuPay' cards which are already in the market. We are building value proposition for banks in India such that 'RuPay' can become an indispensable card in every Indian's pocket in the years to come.

I take this opportunity to wish you and your family members a very Happy, Peaceful and Prosperous New Year 2012.

A. P. Hota
Managing Director & CEO

Inauguration function of Pandharpur Urban Co Op Bank – RuPay Card



Cheque Clearing In India : Major Developments and NPCI Initiatives

In India, cheque is still pre-dominantly the most visible and significant mode of retail payment system. With an average of 45 lakh cheques hitting clearing cycle per working day, a total of 13,874 lakh cheques were cleared through the Clearing system in 2010-11, making it the most widely used retail payment system in the country.

Cheque Clearing Volume in India						
Month / Year	Total MICR Centres		Total Non-MICR Centres			
Source - RBI	(Number in Lakh and Amount in crores)					
	Number	Amount	Number	Amount	Number	Amount
2001 - 2002	9,015.0	1,25,75,254.0	5,377.0	1,09,47,391.0	3,638.0	16,27,863.0
2002 - 2003	10,139.0	1,34,24,313.0	5,980.0	1,09,78,762.0	4,159.0	24,45,551.0
2003 - 2004	10,228.0	1,15,95,960.0	6,241.0	91,78,751.0	3,987.0	24,17,209.0
2004 - 2005	11,668.5	1,04,58,894.9	9,414.6	93,56,252.2	2,253.9	11,02,642.7
2005 - 2006	12,867.6	1,13,29,133.5	10,318.4	94,74,370.8	2,549.2	18,54,762.8
2006 - 2007	13,672.8	1,20,42,425.7	11,441.0	1,04,35,436.1	2,231.8	16,06,989.5
2007 - 2008	14,605.6	1,33,96,065.9	12,229.6	1,15,28,690.2	2,376.0	18,67,375.7
2008 - 2009	13,973.9	1,24,69,134.9	11,638.2	1,04,08,242.0	2,335.7	20,60,892.9
2009 - 2010	13,802.7	1,04,09,941.5	11,497.1	85,31,516.9	2,305.7	18,78,424.7
2010 - 2011	13,874.0	1,01,34,127.8	11,550.6	83,01,218.3	2,323.4	18,32,909.5

In view of the important role played by cheques in the retail payment segment, Reserve Bank of India introduced Magnetic Ink Character Recognition (MICR) technology in late eighties at four metropolitan cities viz., Mumbai, Kolkata, Chennai and New Delhi. The introduction of MICR technology enabled the banking system to handle the growth in the cheque volumes and to provide faster and efficient clearing services to the customers. Presently, India has 66 MICR clearing centres (including one CTS centre at Delhi) handling 83.25% of total cheque clearing volume of the country.

Processing of paper based cheques constitutes an important segment of the payment and settlement scenario in India. Settlement of cheques is arrived on the basis of the physical presentation of paper based cheques to the clearing house for onward transmission to the drawee banks for payment thereafter. In view of the need to transport the paper based cheques and the time involved in their processing at various intermediary levels, the total time taken for realisation of cheques was rather long. The problem gets even more compounded when cheques are tendered for collection by customers at a branch in a city which is not the actual place of the drawee branch.

In India, the entire processing of cheques and their payment is governed under the covenants of the Negotiable Instruments Act, 1881, which necessitate that these instruments are in writing and have to be physically presented for payment in due course.

Cheque Truncation System (CTS)

Keeping in view the above and after the passage of amendments to the Negotiable Instruments Act 1881 and the IT Act 2000, Reserve Bank of India, constituted a Working Group on Cheque Truncation to suggest an appropriate model suitable to Indian conditions, in view of various models of truncation available the world over.

Cheque Truncation is a process in which the physical movement of the cheques within a bank, between banks or between banks and the clearing house is curtailed or eliminated, being replaced in whole or in part, by electronic records of their content (with or without the images) for further processing and transmission.

The term "truncate" means to remove an original paper cheque from the cheque collection or return process and send to a recipient, in lieu of such original paper cheque, a substitute cheque or, by agreement, information relating to the original cheque (including data taken from the MICR line of the original cheque or an electronic image of the original cheque), whether with or without subsequent delivery of the original paper cheque. Cheque Truncation process compels any party in the chain to truncate any cheque (business or commercial) and convert it to an image at the presenting bank level.

On the basis of recommendations made by Working Group constituted for implementation of Cheque Truncation System in India, Cheque Truncation System (CTS) was implemented by Reserve Bank of India at New Delhi Bankers' Clearing House (NDBCH) on a pilot basis. With the discontinuance of MICR Clearing w.e.f. 1-7-2009, Cheque Truncation System has covered all bank branches in New Delhi Capital Region.

Based on the experience gained from implementation of CTS in New Delhi and support from the banking community, Reserve Bank of India decided to spread the coverage of Cheque Truncation System in India beyond New Delhi in GRID mode enabling coverage of neighbouring MICR locations to leverage presence of CTS infrastructure in a focal CTS centre, commonly known as Primary Clearing House (PCH).

With the aim of faster implementation of CTS in the country, Reserve Bank of India decided to vest the responsibility of CTS implementation at Chennai to National Payments Corporation of India (NPCI) in GRID mode facilitating the coverage of MICR Clearing Houses of the states of Tamilnadu, Kerala, Karnataka and Pondicherry under the Chennai Clearing House. Once fully functional, Chennai Primary Clearing House will handle the clearing volumes of 18 MICR centres which form part of the southern CTS GRID.

National Payments Corporation of India operationalised Cheque Truncation System in GRID mode at Chennai with effect from September 24th, 2011 with an initial set of 6 banks. As on October 31st, 2011, 54 Chennai Bankers' Clearing House (CBCH) member banks are live on Cheque Truncation System. NPCI plans to cover the entire 64 Chennai Bankers' Clearing House (CBCH) member banks with full cheque volume under CTS by December 2011.

As part of the roadmap and future expansion plans for Cheque Truncation System in India, NPCI plans to rollout CTS in the cities of Bangalore and Coimbatore by March 2012 in order to fully leverage the power of GRID functionality available under CTS solution and enabling the optimal utilisation of CTS infrastructure at Chennai.

The Cheque Truncation System implemented by National Payments Corporation of India is capable of handling 15 lakh instruments per day with a peak load processing of 6 lakh instruments per hour. Chennai Primary Clearing House is expected to handle an approximate volume of 8 lakh instruments per day once all the 18 MICR locations are brought under Chennai Primary Clearing House.

Considering the various types of risks involved in image based clearing under CTS, Reserve Bank of India vested the responsibility of "Standardisation and Enhancement of Security Features in Cheque Forms" jointly with National Payments Corporation of India and Indian Banks' Association to make paper based clearing more robust and secure.

National Payments Corporation of India in concurrence with Indian Banks' Association (IBA) issued "CTS 2010 Standards: Implementation Guidance Note" on 21st September, 2010 for "Standardisation and Enhancement of Security Features in Cheque Forms". The new cheque standards are expected to reduce the various risks involved under paper based clearing and more specifically image based clearing.

Express Cheque Clearing System

Apart from the 66 MICR locations (handling around 83% of the total cheque volume) for mechanised processing and settlement of cheques, there are around 1,093 non-MICR centres that use Magnetic Media Based Clearing Software (MMBCS). This MMBCS software over the last two decades have greatly contributed towards automating the manually run Clearing Houses apart from handling the various changes recently brought about in the clearing process like payable-at-par cheques, Speed Clearing, full unwinding, etc.

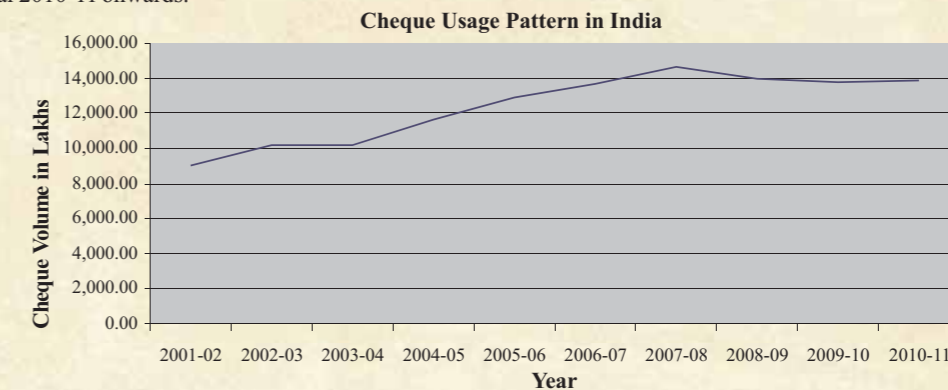
National Payments Corporation of India in co-ordination with State Bank of India, and other banks running Clearing Houses, is rolling out Express Cheque Clearing System (ECCS) in the country, which helps cheques drawn at remote non-MICR Clearing locations cleared locally by using Speed Clearing functionality and thus helping in getting the credit earlier.

Express Cheque Clearing System is being implemented across the country's 1000+ non-MICR clearing houses in order to have standard software at all the locations. Currently at some of the centres, banks are exchanging cheques over the counter and settling the same manually resulting in delayed credit to the customer/end beneficiary. With the implementation of ECCS, the non-MICR cheque clearing process will not only gets streamlined but will also be automated.

As part of ECCS Project implementation across 1093 non-MICR Clearing Houses in the country, National Payments Corporation of India has completed ECCS implementation at 700 centres covering approximately 64% non-MICR Clearing locations as on October 31st, 2011.

Is this the right time to make conclusion?

In spite of the introduction of electronic channels of payment in both retail (Netbanking, Debit Cards, Credit Cards, NEFT) as well as wholesale (RTGS) payment domain; cheques continue to be the most preferred mode of payment in the Indian payment segment. The graph analysis given below clearly indicates the increasing trend of cheque usage from 2001-02 to 2007-08. Marginal decline in the Cheque usage during the years 2008-09 to 2009-10 can be attributed to the global economic recession, heat of which was also felt by the Indian economy. With the Indian economy showing healthy recovery from the effect of global economic recession faced during 2008-09 to 2009-10, cheque usage in India has gained momentum and showing an increasing trend again from the year 2010-11 onwards.



It is beyond doubt that the awareness of the people towards electronic banking channels is growing over a period of time, but at the same time we should not forget the fact that electronic modes of payment are restricted in reach & penetration and are available in urban centres only due to lack of awareness and infrastructure. These electronic channels of payment do not find any substantial users in the rural areas due to the perception of complexity and lack of reach of the internet and other related infrastructure resulting in either no usage or very little usage of the services available to the customers at large. Till such time we ensure the availability of robust infrastructure in every nook and corner of the county, it will be unfair to think of increasing the usage of electronic channels in the payment segment. Moreover, the task will remain unfinished if the end users are not made aware of the benefits of these electronic channels of payments. Keeping this in view, we may anticipate that cheque usage will continue to play a major role in the Indian banking industry.

With Reserve Bank of India focusing on automating and streamlining the cheque clearing system in India by implementation of projects like Cheque Truncation System (CTS) and Express Cheque Clearing System (ECCS) involving substantial investments from the concerned stakeholders is an indication that cheque usage pattern in India will continue to play a dominant role in the payment sector domain and no stone is left unturned in making the clearing process smooth and seamless. Implementation of these projects at such a large scale across the vast geography of the country clearly indicates that cheque usage in India is not likely to decline in near future.

In recent times, with the focus of the Government to ensure the reach and availability of the banking facilities in the un-banked areas, commercial banks are being asked to open a certain proportion of their new branches in the un-banked and rural areas to ensure the penetration and availability of banking facilities to the largely deprived section. Steps such as these taken by the Government in general and Reserve Bank of India in particular will lead to increased usage of cheques in India.

More recently, the British Government who had earlier mandated to phase out the cheques from their banking industry by 2018 had to rethink their decision and was compelled to withdraw the mandate passed earlier for phasing out the cheques. The decision to continue with the cheques beyond 2018 was based on the fact that cheque usage was not declining beyond a certain limit which was not anticipated by the government earlier.

Given the facts above, it will be interesting to note the cheque usage pattern in India over the next couple of years before arriving at some logical conclusion for the future of the cheques.

Highlights of National Financial Switch (NFS) October 2011

- ❖ Peak volume of 8.19 million transactions on October 01, 2011
- ❖ Greater Bombay Co. Op Bank became the 60th direct member bank to join NFS.
- ❖ As on 31st October '11, the number of ATMs connected to the NFS network was 84,964
- ❖ In Oct, 2011, avg. business decline (BD) transactions were at 11.57% and technical decline (TD) at 1.95%.
- ❖ 25 member banks have availed the Value Added Services (VAS) in NFS..
- ❖ All NFS member banks have been successfully migrated to NPCINet from INFINET. Database has been moved from Hyderabad to Mumbai.
- ❖ Two Sub-Members (Pandharpur Urban Co. Op. Bank & Dr. Annasaheb Chowgule Urban Co. Op. Bank) had gone live on NFS Sponsor Bank Scheme under RuPay cards through ICICI Bank and HDFC Bank respectively via application service provider (ASP) Sarvatra Technologies (EBZ Online Services Pvt. Ltd.) on 'RuPay' Cards.
- ❖ Chargeback has reduced marginally by 1.75% at 1.20 lakh transactions.
- ❖ Credit Adjustment has increased by 36.25% at 1.18 lakh transactions.