

NPCI/2021-22/NACH/008

December 13, 2021

To

All NACH (credit) Member Banks

Subject: Introduction of Settlement Guarantee Mechanism (SGM) - for NACH (Credit Return).

In its endeavour to further strengthen the product offering and mitigate the settlement default risk NPCI has constituted standardized Settlement Guarantee Mechanism (SGM). In line with the directions of RBI it has been decided that standardized SGM will be implemented to NACH covering Credit Returns. As per the policy NPCI shall create Settlement Guarantee Fund (SGF).

Complete details of the policy including the SGF creation, calculation of quantum of fund, member's contribution and penalty structure are provided in Annexure I to this document. The policy will be effective from January 01, 2022. A letter detailing the cash collateral to be contributed by each member will be sent to the members individually.

All the member banks are advised to take note of the policy implementation and get the selves ready for implementation.

Regards

A handwritten signature in blue ink, appearing to read 'Giridhar G.M.', is written over a circular stamp or seal.

Giridhar G.M.
Chief – Offline Product Operations & Technology
National Payments Corporation of India

Encl:

Annexure 1: Details of Settlement Guarantee Mechanism (SGM)

1. Guiding principles for creation of Settlement Guarantee Fund (SGF).

- i. The system should have sufficient funds for settlement if the Highest Net Debit Position (HNDP) participating bank is not able to fulfil their settlement obligations.
- ii. To guarantee settlement, in case of any default by member banks, the system should have sufficient funds for meeting at least 2 settlement cycle obligations with appropriate forecasting mechanism for future growth.

2. Computation of SGF

Quantum of SGF at any point of time for each product should be equivalent to [HNDP of the largest bank plus HNDP of second largest bank (based on positions of all banks for the last 6 months)] multiplied by 2.

SGF = (HNDP1 + HNDP2) x 2 – effective 1st Jan 2022

Effective 1st Apr, 2022 Computation logic shall be as follows:

SGF = (HNDP1 + HNDP2) x 3

3. Composition of SGF

1. Line of Credit (LOC): 90% of SGF will be arranged by NPCI by way of LOC from various banks.
2. Member collateral contribution: 10% of SGF to be contributed by member banks as cash collateral.

NPCI also may allow member banks an option to contribute towards collateral by way of Government Securities (G-Sec) up-to maximum 50% of total collateral requirement. Guidelines around G-Sec contribution shall be published to all member banks. Till such time member banks are expected to contribute the collateral fully by cash.

4. Member contribution:

1. Member shall contribute to 10% of the quantum of SGF as cash collateral.
2. Minimum of Rs.5 Lacs per product as joining fee to be deposited by member banks.

3. The Net debit position or net credit position of each bank will be determined at the end of the month by aggregating all the settlement value for preceding 3 months for each product.
4. Net Issuer Banks shall contribute towards 2/3rd of the member contribution amount. Net Acquirer Banks shall contribute towards 1/3rd of the member contribution amount.
5. Bank's Net debit / credit position as percentage of Total Net debit / credit position (for the preceding 3 months) of all the member banks would be determined to give the contribution percentage of each bank.

5. Debarring of Defaulting Bank

1. In case moratorium is declared or Bank defaulted for any other reason, defaulted bank will be debarred from participation of all products with immediate effect.
2. In case of shortfall of funds during settlement in RTGS account, defaulted bank will be debarred across all products. If the bank fails to replenish its RTGS account immediately, NPCI may provide a time window (max up-to 60 minutes) for replenishment of funds.
3. Once the bank is debarred, the settlement will be completed by NPCI by invoking LoC to the extent of default amount.

6. Loss Sharing Mechanism (LSM)

As per section 23 - PSS Act, surviving member banks shall, amongst themselves, absorb the loss arising out of such default. NPCI will contribute 10% of the total loss (capped at Rs.5 Cr. Per product) towards loss sharing and rest of the loss amount shall be made good by surviving member banks as per the calculation provided below:

1. The loss amount shall be calculated in the ratio of their throughput in the defaulting settlement cycle(s). Banks in debit and banks in credit position shall contribute to the amount of loss in the ratio of 2 : 1.
2. This amount has to be contributed by the surviving members within a maximum of 2 days from the date of communication of the loss sharing amount.

7. Re-induction

As soon as it is clear that a member bank has defaulted, further transactions of the said member bank would be suspended immediately across all the products. The bank so debarred would be re-inducted as a member only if the following conditions are met:



- i. As per the inputs provided by the Regulator
- ii. On receipt of formal request from debarred bank seeking readmission with an undertaking to maintain adequate amounts in its settlement account. Such request will be examined internally and independent due diligence shall be carried out.
- iii. The bank has to repay entire outstanding amount (including the interest and penal charges thereof as applicable).

8. Penalty Structure

For availing Intraday Credit under Line of Credit facility the defaulting bank has to repay the sum along with bank charges and a penalty of 1% p.a. on the default value or minimum Rs. 50,000/- per Product and for Overnight Credit, a penalty of 2% p.a. on the default value or minimum of Rs.1,00,000/- per Product. Members may note that non-maintenance of sufficient funds in RTGS account for settlement will lead to penalty as per the structure provided in this document.

9. Periodic Review

SGF requirement will be reviewed and re-calibrated in the subsequent month after the completion of the quarter (Apr-Jul-Oct-Jan). Accordingly, the required collateral contribution will be reviewed on quarterly basis. Member banks are required to deposit the amount due within 30 days of communication.



Summary:

Summary of SGF Standardization Policy	
Computation of SGF	SGF = [HNDP1 + 50% of (HNDP2)] * 2
Composition of SGF	90% - LoC 10% - Cash Collateral - Up-to Max 50% by G-sec as per NPCI guidelines
Joining Fees	- Min Rs.5 Lacs - No Member contribution from sub-member banks
Member Contribution	As per Transaction Throughput
Loss Sharing Mechanism	NPCI to contribute 10 % of Total Loss (capped at Rs.5 Cr. per Product) rest of the loss amount will be contributed by surviving member banks - Banks in Net Debit position to contribution in ratio of 2/3rd to Total Loss - Banks in Net Credit position to contribution in ratio of 1/3rd to Total Loss
Review	SGF and Member contribution will be reviewed in the subsequent month after the completion of the quarter (Apr-Jul-Oct-Jan)

Penalty structure for settlement default

Replenishment of RTGS in last one year	Within 30 mins. (Amt. in Rs)	30 to 60 mins. (Amt. in Rs)	Above 60 mins. (Amt. in Rs)
1st Shortfall / Incident	50,000	1,00,000	1,50,000
2nd Shortfall / Incident	1,00,000	1,50,000	2,00,000
3rd Shortfall / Incident	1,50,000	2,00,000	2,50,000
4th Shortfall / Incident & onwards	Penalty of Rs.10 Lacs per instance will be levied irrespective of time taken by Bank to replenish the RTGS account		
<p>In addition, NPCI may invoke SGF and debar the defaulting bank as per SGM guidelines, unless the bank provides a formal commitment that it will make the funds available within the stipulated time.</p> <p>NPCI may reserve the right to direct the concerned member bank to be onboarded as a sub member through a sponsor bank.</p>			

