

NACH
NATIONAL AUTOMATED CLEARING HOUSE

Settlement process

Settlement Process

Role of NPCI as settlement agency

NPCI act as a clearing and settlement agency for settlement of inter-bank transactions between the Sponsor and the destination banks participating in the NACH.

1) Settlement mechanism & Key features

NPCI acts as a switch between two banks say ; sponsor and destination. INP comes in from sponsor and after system validation INW generated to destination banks. In return session they have the option to accept or return the transaction initiated to them. These are the following key features we provide the banks.

1. Digitally signed file exchange
2. Same Day Transaction cycle
3. Multiple file formats supported – ISO20022 internal messaging
4. Multiple Routing Options through IFSC /IIN/MICR Code
5. Support for multiple intra-day sessions
6. Warehousing of future dated transactions permitted
7. Corporate portability
8. Flexible MIS & Analytics can be provided to banks
9. Recall “transactions” before settlement

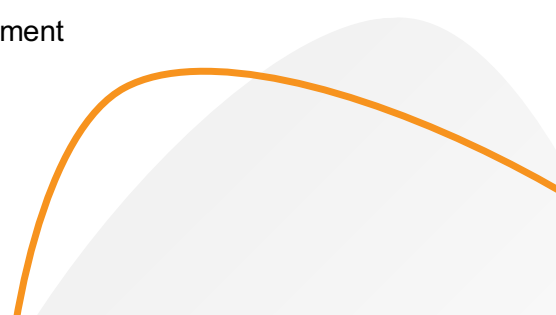
2) Settlement reporting and reconciliation

NACH would provide the daily settlement reports in the Upload download page round-the-clock. Using the reports provided by NPCI and bank’s own reports, bank need to reconcile and raise required adjustments on CRM portal to handle the exceptional transactions.

3) Settlement currency

All transactions in NACH will be settled in Indian Rupee (INR) only.

4) Process flow

1. Corporates/ user institution initiate the transactions in the agreed format to its sponsor bank
 2. Sponsor bank to upload the files into NACH system
 3. NACH system post the session closure, draw the settlement
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4. Destination banks on receipt of inward files will process and upload the returns response into NACH system
5. Post the returns session closure, NACH system draws the settlement for the returns clearing
6. NACH system generates final response to sponsor The status of the transactions will be passed on
7. to corporates by the sponsor banksbank with transactions status as accepted, returned, rejected etc.

5) Objectives of NACH

1. The NACH system facilitates end-to-end processing of bulk electronic payment instructions with the objective of creating a national eco-system covering all the banks and their branches
2. Provide a technology platform to banks to route the debit / credit instructions through NPCI using different routing codes like IFSC Code / MICR Code / IIN Code or any other code as may be decided from time-to-time.
3. Provide Direct Corporate Access (DCA) to select Corporates/ Government Depts., major user institutions and third party to NACH system of NPCI.
4. Provide a sound mechanism for revocations, holiday's management, settlement, exceptions handling, processing of returns, rejects, reversals, refunds, unwinding, dispute handling etc.
5. Maintain a robust Aadhaar number with Institution Identification Number (IIN) mapper with related governance mechanism.
6. Create a robust Mandate Management and related governance mechanism.
7. The system would leverage on Core-Banking Solution (CBS) of participating banks for centralized posting of inward debit / credit transactions. NPCI would be running the Centralized service out of Chennai or Hyderabad or any other place as may be decided from time to time, with settlement in the books of Reserve Bank of India (RBI).

6) Finality of Settlement / Settlement process flow:

1. Settlement Finality: The settlement shall be final and irrevocable, as defined in Section 23 of the "Payment and Settlement Systems Act 2007" and will be handled as per the RBI Guidelines on Settlement and Default Handling Mechanism.
2. NPCI will provide settlement services for the NACH system. NPCI's RTGS infrastructure will arrange the necessary inter-bank settlement of credits and

debits to the bank's respective current accounts directly with RBI-DAD. NPCI may levy a settlement processing fee as decided by the Steering Committee which may be revised from time to time.

3. All banks before participating in NACH shall issue a Letter of Authority to RBI authorizing debit/credit for NACH related settlements in their respective accounts through NPCI RTGS infrastructure, duly approved by their respective boards.
4. For credit products the destination banks can process between T+0 to T+2. For debit products T+0.

7) Dispute Management System (DMS)

DMS is a part of NACH system, which ensures creation, escalation and resolution of disputes raised by banks. These disputes can be raised on ACH payment transaction or mandate transaction. It is a facility provided by NACH system and NPCI will not be held responsible for any consequential damages.

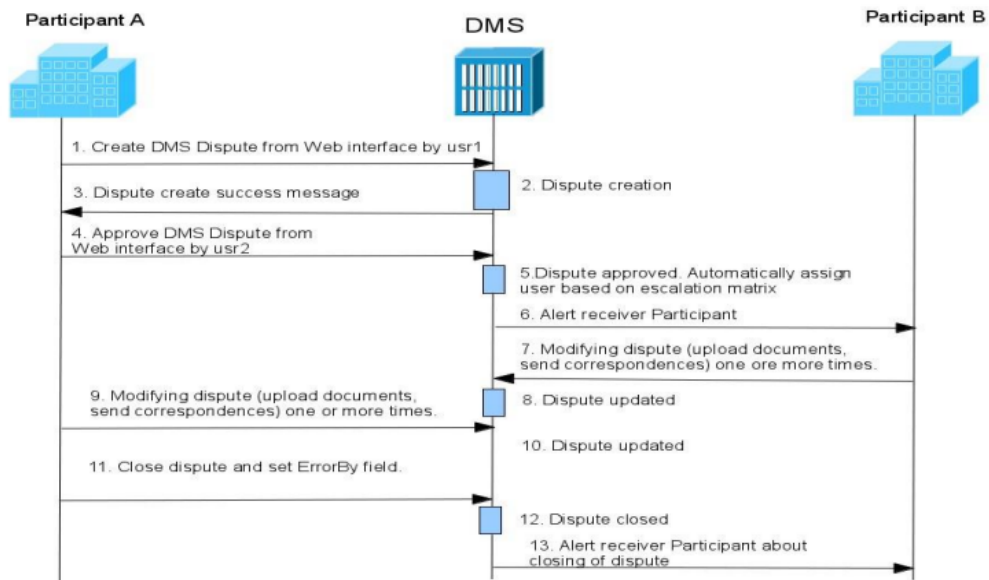
8) Brief Features of DMS

1. DMS provides an electronic platform to raise and resolve disputes among participant banks having provision to exchange documentary support and details for the relevant transaction and / or mandate processed through the ACH application.
2. For each dispute record processed, a Dispute Reference Number will be created, which will be a unique across the NACH system.
3. When the dispute record is created, the Bank raising a dispute will assign a priority to this dispute that will be used for the escalation of the Dispute, using the escalation matrix process described in Clause 27 Sub Clause 27.6 below. Priorities will be governed by closure timelines and the same would be applicable to the levels within a priority. In the event of a dispute assigned to a priority remaining open beyond set timelines, the dispute will automatically be assigned to the first level of the next priority. The timelines for the priorities will be defined by NPCI and informed to participating banks.
4. Dispute can be closed by the bank raising the dispute, however in certain circumstances NPCI will have the authority to close the dispute if it exceeds the timelines that are specified in the system, with due intimation to the concerned banks. Reopening of the dispute is allowed.
5. The audit log details are to be maintained for all actions carried out during the dispute resolution life cycle of the records, for a period as would be decided by NPCI and shared with participating banks.

6. DMS provides MIS on details of all disputes routed through the application, along with details of the same. 7.

7. In the event of unresolved disputes, the participants would be governed by the Dispute Resolution Mechanism as laid down in Clause 21 as mentioned above.

Dispute Creation and Resolution



DMS Claim Settlement

