



बीमा विनियामक और विकास प्राधिकरण
**INSURANCE REGULATORY AND
DEVELOPMENT AUTHORITY**

No. 018/AML-CIR/IRDA/E-Payments/Jul-09

Dt. July 9, 2009

CIRCULAR

To
All CEOs of Life Insurance Companies,

We draw your attention to the AML Guidelines dt. 31st March 2006 issued by the Authority and in particular to the clause 3.1.9 (i) of the Guidelines which among others specifies that all payments should be made after due verification of the bonafide beneficiary through 'account payee' cheques.

The above stipulations were aimed at having audit trail and also a control mechanism on all payments in light of the vulnerability of such fund transfers for money laundering purposes. Recognizing the increasing utility of electronic payments, which also ensure safety and speed of such payments, it has been decided to permit payments to all policyholders and beneficiaries through electronic payment methods such as ECS, NEFT Systems (as per details enclosed) as approved by the Reserve Bank of India in addition to account payee cheques as stipulated in the clause mentioned above.


(C.R. Muralidharan)
Member (F&I)

Reserve Bank of India has been impressing upon banks the need to migrate to electronic modes for initiating and receiving payments, so that the dependence on paper-based clearing products is brought down and the payment systems universe becomes safe, secure, sound and efficient. Electronic payment systems also speed up the clearing process, apart from reducing incidence of frauds inherent in cheques, drafts and other paper modes of payment. Individuals, corporates and government departments are using electronic payment products like ECS, NEFT and RTGS extensively.

The following paragraphs detail some of the various retail electronic payment products presently available -

1. Electronic Clearing Service (ECS) - Credit Clearing: ECS (Credit) is designed for repetitive and bulk payment such as salary, pension, ITRO refunds, etc. The system works on the basis of T+1 settlement which means that payment instructions submitted up to the cut-off time on day 'zero' will be settled with credits given to all the accountholders on the next working day. The system is available in two different modes (i) ECS Local and (ii) National ECS. Local ECS is presently available at 75 locations and covers all bank branches in the jurisdiction of the clearing house. National ECS (NECS), has the coverage of over 26,000 bank branches across the country and is operated by RBI at Mumbai. This system leverages on the Core Banking Systems installed at banks to provide credit to beneficiary accounts from a central location, with settlement on T+1 basis.

2. Electronic Clearing Service (ECS) - Debit Clearing: ECS (Debit) is designed for the collection of repetitive and bulk receipts such as electricity bills, telephone bills, EMI payments, Insurance Premia, etc. This system also works on the basis of T+1 settlement whereby payment instructions submitted up to the cut off time on day 'zero' will be settled on the next working day and debits raised from all the accountholders will be credited to the beneficiary company's account. The system is presently available at 75 locations and covers all bank branches in the jurisdiction of the clearing house.

3. National Electronic Funds Transfer (NEFT) System: This is designed to cater to the needs of ad-hoc and individual fund transfer requirement of bank customers. The system replaces the requirement of DDs, TTs and usage of cheques for effecting such payments. NEFT has been operational since November 2005 and covers around 56,000 bank branches across the country. The system works on net-settlement basis and provides same-day settlement across 6 settlement batches every day. NEFT is robust, reliable and a secure mechanism to transfer funds from one bank account to another, and can also cater to the demands of walk-in customers who do have any bank account. Many banks have also provided facilities to their net banking customers for originating NEFT transfer instructions online.