



Reserve Bank of India

Access Criteria
for
Clearing Houses
at
MICR Centres

**Department of Payment & Settlement Systems
Central Office, Mumbai**

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Access Criteria for Clearing Houses at MICR Centres – Procedural Guidelines

1. Background

1.1 Purpose

Payment systems are fundamental to economic activity and to address the various risks emerging out of rapid growth of the payment systems, it has become necessary to put in place appropriate eligibility criteria. Prescription of appropriate access criteria would substantially address and reduce the risks to the payment systems.

1.2 Classification

In the nature of non-statutory guidelines issued by the Reserve Bank of India.

1.3 Scope

The guidelines will be applicable to all member banks of Clearing Houses at the centres where Magnetic Ink Character Recognition (MICR) technology has been adopted for cheque processing, the banks managing the Clearing Houses at the MICR centres and to the Regional Offices of RBI having supervisory and oversight responsibilities over such Clearing Houses at MICR centres under their jurisdiction.

2. Introduction

2.1 Banks need access to Payment Systems to offer payment services to their customers. To ensure the safety, security and integrity of payment services, such access should be restricted, controlled and subject to certain minimum prescriptions.

2.2 There are at present 1076 Clearing Houses in the country. These Clearing Houses function as per the model Uniform Regulations and Rules for Bankers Clearing Houses (URRBCH). The URRBCH is not statutory, but banks within a particular jurisdiction join together to constitute a Clearing House and unanimously adopt a resolution to adhere to the URRBCH, which would then be binding on the participant members.

2.3 There are 59 MICR centres in the country as on October 31, 2007 and cheque processing under MICR environment is conducted at 64 locations in the 59 MICR centres.

- 2.4 Clearing operations in the Clearing Houses at MICR centres are typically large, both in terms of volume and value of instruments handled. The risk posed to the payment systems by such operations is greater in the MICR centres, than from the clearing services rendered at non-MICR centres, which are comparatively smaller centres.
- 2.5 URRBCH has several provisions including criteria for membership, sponsoring of Sub-members, etc.

3. **Objectives**

- 3.1 To ordinarily restrict access to payment systems to entities regulated by the Reserve Bank of India.
- 3.2 Prescribe certain minimum financial criteria for membership to Clearing Houses at MICR centres.
- 3.3 To extend access to payment systems to notified institutions that are permitted to accept deposits withdrawable by cheques, like Post Office Savings Bank.
- 3.4 To provide access to payment systems to certain unlicensed entities considering their special position in the specific sector, like unlicensed State Co-operative Banks, District Central Co-operative Banks, etc.

4. **Coverage**

- 4.1 The procedural guidelines are uniformly applicable to all the Clearing Houses at MICR centres in the country.
- 4.2 As and when a new MICR centre is set-up, these guidelines would be applicable ab-initio.
- 4.3 The existing arrangements for Clearing Houses at non-MICR centres would continue.
- 4.4 Membership to all-India payment systems like Real Time Gross Settlement (RTGS) system, National Electronic Funds Transfer (NEFT), etc., is not covered within the scope of these guidelines. Membership to RTGS, NEFT, etc., is based on the provisions in the respective regulations / procedural guidelines.

5. Definitions

For the purpose of these guidelines -

- 5.1 “Licensed bank” means a bank which has been granted a license, by the Reserve Bank of India, to do banking business;
- 5.2 “Unlicensed bank” means a bank which is eligible to carry on banking business under the law, while its application for license is pending with the Reserve Bank of India for consideration;
- 5.3 “Notified institution” means an institution notified by the Central Government under Section 49A of the Banking Regulation Act, 1949 making it eligible to accept deposits withdrawable by cheques; and
- 5.4 “Financial soundness” means the satisfaction of the criteria specified in paragraph 7.2 of these guidelines.

6. Participants

- 6.1 The nature of participants in a typical Clearing House includes – Scheduled Commercial Banks (public, private and foreign), State Co-operative Banks, District Central Co-operative Banks, Urban Co-operative Banks, Regional Rural Banks, Local Area Banks and notified institutions like Post Office Savings Bank.
- 6.2 Banks participate in clearing operations either as Direct Members or as Sub-members of Direct Members.
- 6.3 Sub-membership in the Clearing Houses at MICR centres can be one of the two types :
 - Sub-membership Type-1 : Where the Sub-member submits the cheques or receives the cheques through its sponsor member and the accounting thereof is also done through the sponsor member's account with the settlement bank.
 - Sub-membership Type-2 : Where the Sub-member submits the cheques or receives the cheques directly to / from the Clearing House, but accounting is done only through the sponsor member's account with the settlement bank.

7. Pre-requisites for Membership

- 7.1** Only financially sound entities are permitted to participate in clearing operations at the MICR centres.
- 7.2** To be categorized as financially sound, an entity should satisfy the following criteria -
- (i) CRAR of 9%
 - (ii) Net NPAs less than 10%
 - (iii) No default in maintenance of CRR and SLR during the past one year, and
 - (iv) Net Profit in at least one of the preceding two years.
- 7.3** Reference year is the relevant financial year of the entity, i.e., April-March.
- 7.4** The figures of Net Profit, Net NPAs and CRAR will be as per the latest audited and published balance sheet of the entity.
- 7.5** The position regarding compliance with maintenance of CRR and SLR shall be **as per the circular instructions issued by Reserve Bank of India for this purpose.**
- 7.6** All members are required to abide by the guidelines issued by the Clearing House on technical specifications and infrastructure requirements.
- 7.7** The continuation of membership of a member bank will be primarily based on the continuing ability of the member bank to meet its clearing obligations in time. All the existing provisions in URRBCH relating to continuation / termination of membership arrangements will continue.

8. Eligibility for Membership

- 8.1** The membership to Clearing Houses at MICR centres would be open to licensed banks, unlicensed banks and notified institutions, subject to the conditions specified in these guidelines.
- 8.2** State Co-operative Banks are permitted to become Direct Members of the Clearing House without reference to their financial soundness parameters, specified in paragraph 7.2 above, for the present, in view of their special status.

- 8.3** District Central Co-operative Banks are permitted to become Direct Members of the Clearing House at centres where State Co-operative Bank is a member, provided they – (a) have a networth of Rs.10 crore as per the latest audited balance sheet, and (b) have not defaulted in the maintenance of CRR and SLR during the last 12 months.
- 8.4** At centres where the State Co-operative Bank is not a Direct Member of the Clearing House, District Central Co-operative Banks not satisfying the eligibility criteria specified at 8.3 above are also permitted to become Direct Members of the Clearing House.
- 8.5** Regional Rural Banks are permitted to become Direct Members of the Clearing House provided they – (a) have a positive networth as per the latest audited balance sheet, and (b) have not defaulted in the maintenance of CRR and SLR during the last 12 months.
- 8.6** A tabulated statement detailing the access criteria for various payment systems is presented in the Annexure.

9. Type of Membership

- 9.1** Unlicensed banks are permitted to participate in clearing operations only as Sub-members.
- 9.2** Notwithstanding the above, unlicensed State Co-operative Banks and District Central Co-operative Banks are permitted to participate in clearing operations as Direct Members, subject to the provisions indicated in paragraph 8 above.
- 9.3** Notified institutions like Post Office Savings Bank are permitted to participate in clearing operations either as Direct Members or as Sub-members.

10. Re-categorisation of Membership

- 10.1** Entities that are presently Direct Members of Clearing Houses at the MICR centres, but are ineligible to continue their membership in terms of the access criteria prescribed in these guidelines, are given a period of one year from the date of implementation of the guidelines to conform to the prescribed norms.
- 10.2** During the one-year period such non-compliant Direct Members are barred from sponsoring any Sub-members. Sub-members of such non-compliant Direct Member banks have to immediately make alternate arrangements to seek Sub-membership with another Direct Member bank.

10.3 Direct Member banks failing to meet the eligibility criteria after the expiry of one year, shall be re-categorised as Sub-members.

10.4 Requests for Direct Membership received from banks that are re-categorised / downgraded as Sub-members in terms of provisions of paragraph 10.3 above, shall be considered after a period of one year from the date of re-categorisation.

11. Sponsoring of Sub-members

11.1 A Direct Member bank is permitted to sponsor a maximum of 10 banks as Sub-members.

11.2 Direct Member banks which have more than the approved number of ten Sub-member banks are, however, would be permitted to bring down this number to the permitted level, in a phased manner – 25% every quarter commencing from January 1, 2008. The entire process of conforming to the prescribed number of Sub-members should be achieved over a period of one year, i.e., by December 31, 2008.

11.3 Reserve Bank of India may permit exceptions to the provisions at paragraph 11.1 above, based on its evaluation of risk management practices of the sponsoring Direct Member bank.

12. Effective Date

12.1 The effective date of implementation of these guidelines will be January 1, 2008.

Withdrawn w.e.f. November 16, 2017

Annexure

Access Criteria for Clearing Houses at MICR Centres

<i>Sl. No.</i>	<i>Category of banks</i>	<i>Access to Clearing Houses for Cheque Clearing at 59 large (MICR) centres (Share : 82 % of volume and 88 % of value)</i>
1	Scheduled Commercial Banks (excluding Regional Rural Banks and Local Area Banks)	Membership subject to <ul style="list-style-type: none">• CRAR 9%• Net NPAs less than 10%• No default in maintenance of CRR and SLR during the past one year; and• Net profit in at least one of the preceding two years
2	State Co-operative Banks	Member
3	District Central Co-operative Banks	Membership at the Clearing House where the concerned State Co-operative Bank is a Member if <ul style="list-style-type: none">• Minimum network of Rs 10 Crore• No default in maintenance of CRR and SLR during the past one year Membership at all other centres
4	Regional Rural Banks	Membership subject to <ul style="list-style-type: none">• Positive network• No default in maintenance of CRR and SLR during the past one year
5	Local Area Banks	Membership subject to <ul style="list-style-type: none">• CRAR 9%• Net NPAs less than 10%• No default in maintenance of CRR and SLR during the past one year• Net profit in at least one of the preceding two years
6	Scheduled Urban Co-operative Banks	Membership subject to <ul style="list-style-type: none">• CRAR 9%• Net NPAs less than 10 %• No default in maintenance of CRR and SLR during the past one year• Net profit in at least one of the preceding two years

7	Non-Scheduled Urban Co-operative Banks	Membership subject to <ul style="list-style-type: none"> • CRAR 9% • Net NPAs less than 10% • No default in maintenance of CRR and SLR during the past one year • Net profit in at least one of the preceding two years
8	Banks in category 1, and 3-7 not complying with the requirements	Sub-membership through a Member
9	Unlicensed banks (other than unlicensed State Co-operative Banks and District Central Co-operative Banks)	Sub-membership through a Member
10	Post Office Savings Bank	Member (only to GPO or Head Post Office with POSB Branch)

Notes

- I Entities which are presently Members of Clearing Houses at the MICR centres, but ineligible to be Member as per the proposed access criteria would have to conform to the prescribed norms within one year failing which membership would be downgraded from Member to Sub-member. Such banks should, however, be barred with immediate effect, (subject to the minimum time required for alternate arrangements), from sponsoring any other entity as a Sub-member.
- II Entities which are presently conforming to the prescribed norms but face a slippage at a later date will be downgraded to Sub-membership immediately. Upgradation will be considered after one year.
- III Entities not regulated by Reserve Bank of India, other than specifically indicated above in the matrix of access criteria, shall not have any access to any payment system. Any such existing Member of a Clearing House at a MICR centre, shall be immediately debarred.
- IV Sub-membership in the Clearing Houses at MICR centres can be one of the two types as per the arrangement that the Sub-member would have with its Member and the Clearing House :
- Sub-membership Type-1 : Where the Sub-member submits the cheques or receives the cheques through its member and the accounting thereof is also done through the Member
 - Sub-membership Type-2 : Where the Sub-member submits the cheques or receives the cheques directly to / from the Clearing House, but accounting is done only through the Member

- V To contain the risk of Members having too many Sub-members, no Member can ordinarily have more than 10 Sub-members. Reserve Bank of India may permit exceptions based on its evaluation of risk management practices of the Members.
- VI Entities not eligible to have direct access to payment systems either as Member or Sub-member would have to exit from payment systems at all Clearing Houses in MICR centres with immediate effect.
- VII Existing arrangements would continue for Clearing Houses at centres other than the MICR centers.

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