

July 04, 2006

To all the banks participating in Electronic Clearing Service (Debit Clearing)

Electronic Clearing Service - Debit Clearing – Customer Mandates

As you are aware, transactions under ECS have been growing rapidly. The pace of growth of Debit Clearing transactions is much higher than Credit Clearing and many utility companies / banks have been utilising the system for collection of bills relating to utility payments, EMIs, etc.

2. ECS (Debit) works on the **strength of the mandates** given by the destination account holders to the user institutions for raising a debit in their accounts. A copy of the mandate is sent either by the account holder or the user institution to the bank for the bank to check the validity of the debit instruction raised through ECS (Debit Clearing).

3. A recent informal survey conducted by RBI revealed that several of the bank branches do not maintain the requisite mandate forms in proper order. They raise debits purely on the basis of the ECS (Debit) file received from the clearing house as a matter of routine. The bank branches also indicate that the software being used by them do not have the provision to record any ECS (Debit) mandate. If available, it may be for only one or two mandates whereas certain account holders have given mandate to several utility organizations for raising debit through ECS.

4. In this connection it may be mentioned that debit mandate management system would have to be a part of the house keeping function. The mandate may also contain the validity period and upper limit for individual transaction. The upper limit may vary from mandate to mandate. Vide circular DPSS (CO) No.950/04.01.01/2005-2006 dated December 23, 2005, we had advised that withdrawal instructions of a customer has to be treated equivalent to a stop payment instruction in cheque clearing system. Therefore, it has to be ensured that adequate care is taken on recording of mandates and withdrawal, if any.

5. We request that your bank may initiate steps for incorporating an appropriate mandate management routine for handling ECS(Debit) transactions as early as possible.

Please acknowledge receipt of this letter and ensure its compliance.

Yours faithfully

(K. N. Krishnamurthy)
General Manager