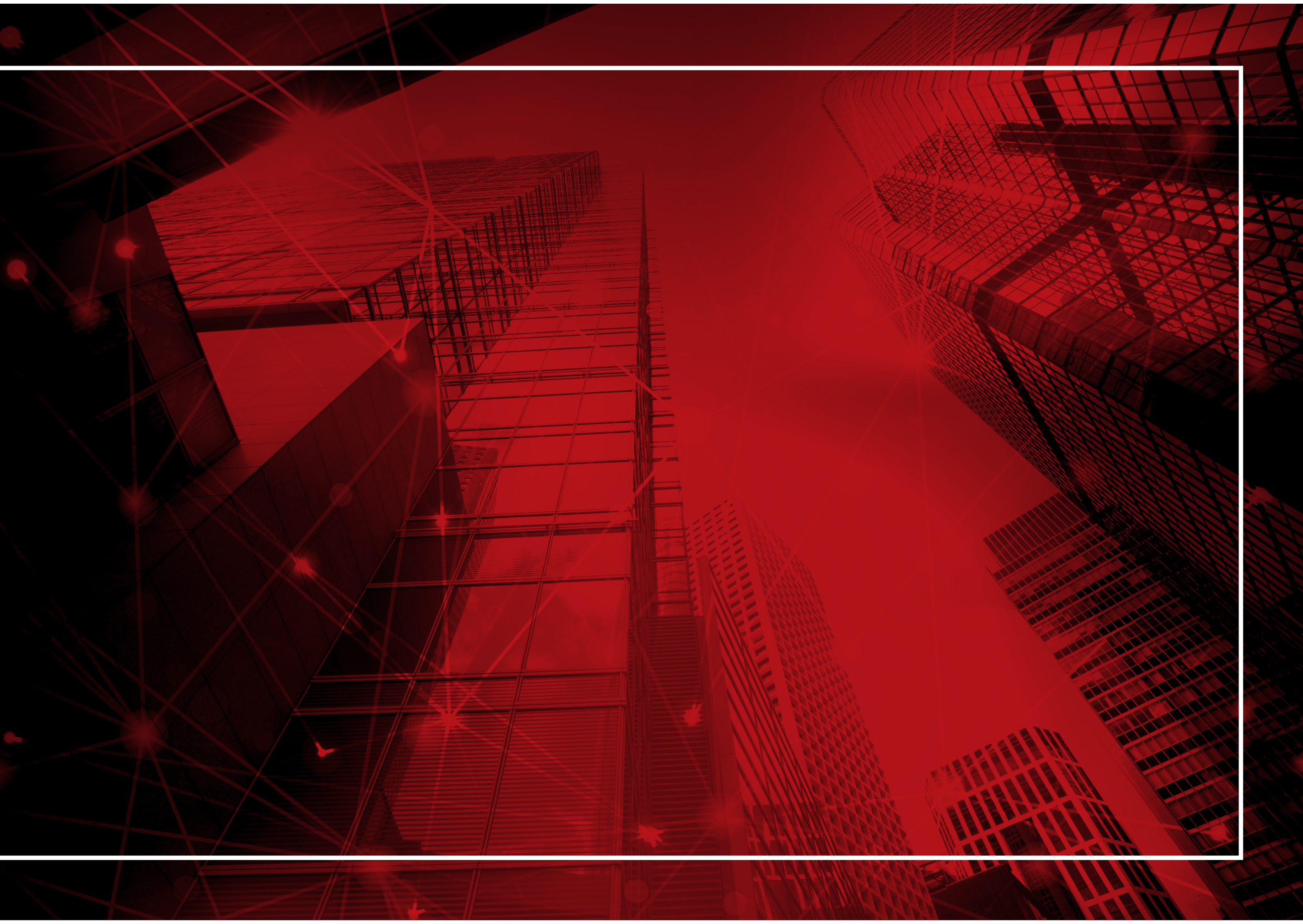
INTEGRATED PAYMENTS AND FINANCIAL INCLUSION

AN INDIAN PERSPECTIVE



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SUMMARY

Financial inclusion remains a firm priority and an untapped opportunity for financial players in India. However, the majority of India's unbanked - who number around 190 million - do not require traditional banking services except payments.

The payments they receive for providing goods and services represent one of the major sources of income for the rural population (nearly 70 percent of the country). Currently those payments predominantly take the form of cash or cash-based post office money orders. With 90 percent of its branches located in rural areas, the India Post Office is perfectly positioned to partner with the unbanked community to conduct non-cash payments and other banking transactions.

To facilitate this, an integrated system is needed to link India's banks and post offices. In this paper, we look at the scale and operational requirements of this opportunity and why for India a combination of traditional and digital approaches is the best way forward.

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INTRODUCTION

A large proportion of the world's population today is still not part of the formal banking system for the simple reason that they do not need omnibus banking services such as accounts, cards, deposits, insurance, investment or lending. However, most of the unbanked need payments services for wages and remittances.

Globally today, there are 1.7 billion adults who are unbanked[1]. In India alone, this population is around 190 million. According to the Reserve Bank of India (RBI) report[2] on financial inclusion, a substantial proportion of financially excluded households are in rural and remote areas. Financial exclusion is self-reinforcing not because of the perception of the modern banking system, but mainly because of the low levels of income and hence low levels of deposits.

As a key approach to addressing financial inclusion[2], RBI suggests increasing credit flow into rural areas and increasing the network of banking services via regional rural banks (RRB), urban co-operative banks (UCB), micro finance institutions (MFI) and post offices, with the emphasis on payments.

OPPORTUNITY FOR BANKS

There are multiple channels and technological platforms that provide a wide variety of payments solutions. Inherently all these payment platforms require that the remitter and beneficiary use the same platform, i.e. be part of a payment ecosystem. In addition, a certain level of familiarity with the GUI (graphical user interface) or apps is required as well as the ownership of laptops, computers or smart phones that don't come cheap.

Banks are investing considerably to keep up with the digital race. A case in point is India's largest public sector bank[3], which spent INR 30,000 million on capital and operating expenses to strengthen its digital presence (6 percent of the total annual income in the same year).

The actual usage of digital platforms in India is very low. Only 1 percent of active savings account customers in the public sector and 10 percent in the private sector use mobile banking[3]. These facts capture the disparity between the bank's aspiration to use a digital platform to increase its reach and the actual results.

Banks in India need to look at a combination of conventional and digital payment methods to address financial inclusion. Trying to achieve financial inclusion objectives by opening low-frills accounts is not commercially viable. Banks need to spend INR 48 for each new account, while the cost of each transaction is estimated at INR 1,012.

As mentioned earlier, a large proportion of the population in the country is not using any financial services except for payments. Indian banks need to create cost-effective ways for payments to reach the unbanked population conveniently, from remitters who have banking accounts.

THE POTENTIAL FOR SYNERGY

According to IMF, India has 0.12 million bank branches[4], the highest in the world. However, the coverage of adult banked population is still insufficient. There are only 13.54 branches for 1 lakh (100,000) adult population. The RBI report on financial inclusion further brings out the contrast that we have 18.7 branches per 1 lakh adult population in urban areas but only 7.8 branches per 1 lakh in the rural parts.

There is a need for another partner who has a strong presence in rural India.

India Post has 90 percent of its branches in rural areas[5]. The table below shows the distribution of banking' and postal branches between urban and rural areas and their respective branch load – the number of people served by a branch.

Provider	Branches in urban areas	Branches in rural areas	Urban branch load	Rural branch load
Banks	72,557 (65.8%)	47,443 (34.2%)	5,348	12,820
India Post	15,898 (10%)	139,067 (90%)	23,720	7,753

These figures demonstrate the potential for synergy that begs attention. Given that all India Post branches have core banking systems, they could be integrated with the country's wider banking system to facilitate payments for rural beneficiaries.

India Post vastly outnumbers bank branches in rural areas while the coverage by banks is better in urban parts. This status quo is likely to remain because there is a fundamental difference between the business models of banks versus India Post.

Commercial banks have strong presence in urban India due to the need to generate sustainable profits. India Post, on the other hand, is driven by the need to increase its reach and network to provide cost-effective postal services throughout the country.

In addition, the staffing and infrastructure costs for India Post are far lower compared to any commercial bank in either rural or urban area.

TARGET POPULATION

One of the primary aspects sustaining the divide between banked and unbanked population is migration. The migrant population from rural to urban India is estimated to be 16.69 million (see Appendix 9A for details). Of the 135 million rural unbanked population, it is estimated that 29.5 million are dependent on remittances, with a potential of 354 million transaction worth INR 197,001 million per year (Appendix 9B).

So, we see that there is a vast potential for tapping remittances by means of providing a simple, cost-effective payment solution. But first we need to estimate how many of these remittances take place through existing banking payments and post office money orders (MOs), i.e. the volume and value of remittances per year.

VALUE AND VOLUME OF RURAL REMITTANCES

RBI provides statistics on savings accounts as well annual volumes and value of payments. However, we do not know how many of these banking payments and money order payments originate from urban areas and are destined for rural areas.

It is conservatively estimated that of the 16.6 million migrant population, 81 percent have bank accounts; and 3.6 percent (0.59 million) of migrant population are using 30 million bank accounts for rural remittances. The total payments p.a. are estimated at 30.5 million transactions, with a value of INR 53,884 million destined for rural beneficiaries. Similarly, we can estimate the total money orders per year at 59.3 million, with a value of INR 53,884 million (refer to Appendix 9C for calculation details).

Description	Population coverage, million p.a.	Volume of transactions, million p.a.	Value of transactions, INR million p.a.
Total rural household dependent on remittances	29.5	354	197,001
Total estimated India Post money orders for rural areas	833.7	59.3	53,884
Total estimated banking transactions in rural area	0.59	30.50	53,467
Gap for banks to exploit	n/a	264.2	89,650

BENEFITS

For banks

Banks can charge customers for this service as well as play their part in the financial inclusion plan. Banks can also look at the float value of the amount stored with them for one day.

For India Post

Banks in urban areas will act as extended counters (this will reduce queueing time for remittances at busy periods like month-end). India Post can charge the remitter, and also look at the float value of the amounts in the pool and suspense accounts.

India Post can also increase profit margins by leveraging extra volumes coming from banks and through the upgraded IT. As urban customers migrate to banking channels, post offices can reduce their operating costs further. Currently, the average cost to execute a money order[5] is INR 197.35 but the average revenue per money order is INR 42.50. This should help India post to bring rural customers into formal banking network by opening accounts at its branches.

For the RBI

The integration between India Post and local banks will be the most cost-effective push for RBI's financial inclusion plan. This arrangement will also provide more comprehensive remittances statistics. Tracking remittances from urban to rural areas will provide valuable data which can be used in planning employment programs, farm waivers and distribution of government subsidies.

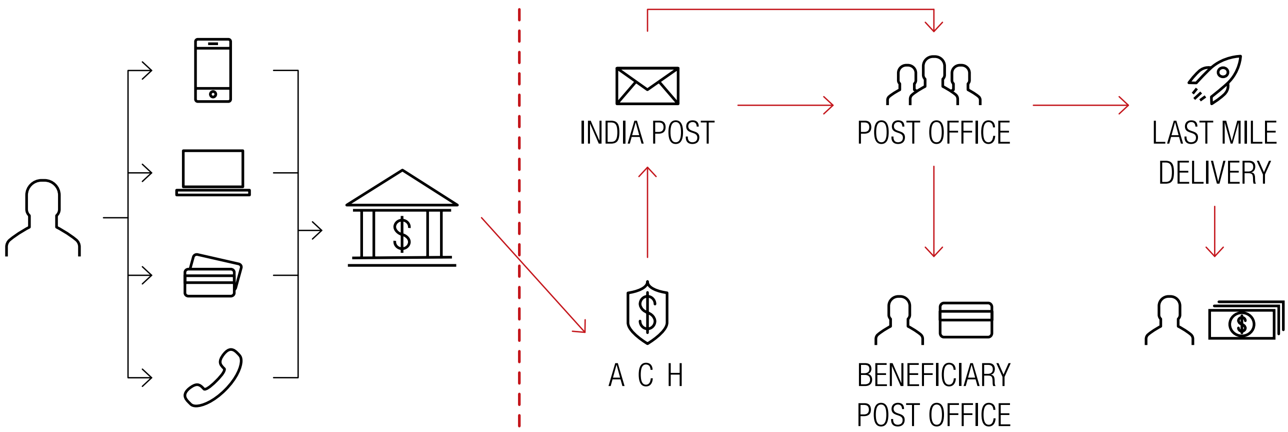
For the remitter and beneficiary

For the remitter, the proposed plan eliminates the step of withdrawing cash and visiting a post office for a money order transaction. The beneficiary still does not need to be part of the formal banking system, while continuing to have regular receipts.

OPERATIONAL CONCEPT

The money order will travel from a customer's bank account to a beneficiary in rural India who does not have a bank account. The remitter should first register the beneficiary with their bank. The remitter (originator) then initiates a payment online, through an ATM or at a branch. The remitting bank collects the payment in a pool account and pushes pooled funds via NACH system to India Post's central account at regular intervals. India Post then carries these payments as eMOs to beneficiaries.

Once the payment is delivered to the beneficiary, India Post will extract a list of deliveries for the day and hand it back to the remitting bank which will confirm completion to the remitter. Returns of unsuccessful payments will be initiated by India Post as normal payments via NACH. The stoppage of payments may be a complicated but a doable activity, and this service feature can be added at a later stage.



SERVICE LEVELS

The total time to deliver a money order should be kept at 3-5 days:

Day 1

The amount is debited from the customer's account.

Start of Day 2

The amount is transferred to the post office pool account and on the same day the amount is pushed to the suspense account of the destination post office.

Day 3-5

The money is ready to be collected or delivered to the beneficiary.

OPERATIONAL REQUIREMENTS AND SOLUTION DESIGN

1. Register the beneficiary with the remitter's bank for KYC

To initiate a payment, the remitter needs to submit the following:

- Copy of the beneficiary's identity document, address details and a mobile bill
- Destination post office pin code
- A consent letter that permits the remitter and the bank to use beneficiary information for the purpose of this payment only

The pin code will be used to identify the post office where the beneficiary can withdraw the funds (the list of accepted KYC documents is provided in Appendix 2). First, the remitter applies for this service with their bank. The bank then updates the beneficiary's details within an agreed timeline. These details will be mapped only to one kind of payment and not to any other banking transactions or payments. The beneficiary would be given an identification number starting with a four-letter IFSC code – unique across different banks, and India Post can use it for their tracking and reconciliation.

2. Enable online/ATM/mobile/IVR to allow payment initiation

To enable a seamless and cost-effective service, banks will need to open their direct banking channels to this new payment service. Once a beneficiary is registered, the remitter must be able to choose this beneficiary via online banking and mobile banking. The remitter should also be able to use interactive voice response (IVR) or phone banking to initiate the payment.

3. Initiate the transaction

Once the beneficiary is registered, the remitter can initiate the payment. The payment will simply be a credit to the pool account of the remitting (originating) bank. As mentioned earlier, the beneficiary will be issued a unique transaction code starting with a four-letter IFSC code (refer to Appendix 3 for parameters to be used for initiating payments).

4. Send the payment to the post office central suspense account

The remitting bank will push these funds by NEFT or NACH payment system, using a new file format provided by NACH. This file will effect multiple debits from multiple bank accounts and multiple credits to the same pool account (refer to Appendix 4A for comprehensive transaction data to be captured in the file). It is anticipated that NACH can accommodate a new file format allowing a large number of characters in the reference field (approx. 200). Since beneficiary does not hold an account with any bank, this field will be required to capture key KYC details such as the beneficiary's ID number, date of birth and the destination post office PIN code (refer to Appendix 4B for details).

Upon successful receipt of the originating bank's file, India Post can directly extract the beneficiary details from the inward file and upload them to its core banking system. India Post can then acknowledge file upload and receipt of the funds.

5. Route the transaction and beneficiary information within India post

Upon receipt of the beneficiary and payment details, India Post will sort payments based on the destination post office pin code. To facilitate the process, India Post needs to create two files.

OPERATIONAL REQUIREMENTS AND SOLUTION DESIGN

The first file will be the Generic External File Upload (GEFU) that will be uploaded to the core banking system (FLEXCUBE). The GEFU will ensure that the amount for each beneficiary is credited to the central suspense account (refer to Appendix 5 for field details).

The second file containing beneficiary details will be created and uploaded to the internal portal - by India Post at a central level. This portal can be used to track the disbursement and reversals (refer to Appendix 6 for details). Post masters at local post offices will access this portal daily to check money orders to be disbursed. The post master or teller will then compare the portal information with credits in the suspense account.

6. Disburse the amount to the beneficiary

Upon successful verification of credits in the suspense account and the portal, the post office will call the beneficiary to visit the post office and collect the amount. For beneficiaries who are senior citizens or otherwise unable to collect the money in person, the post office can dispatch the money by a postman. In both cases, an acknowledgement is collected from the beneficiary for the post office records (to be used for audit). Once the money is disbursed, the post master or teller updates the portal with disbursement details.

7. Send acknowledgement to the remitting bank

The India Post (at a central level) will approve disbursement details after cross-verification between account transactions in the portal. Banks can then download the reverse file from the portal on a daily basis that will have the disbursement status (refer to Appendix 7 for parameters). Banks will also send an SMS or email to notify the customer of successful delivery of the money.

8. Money orders not delivered beyond an agreed delivery time (maximum 15 days)

Centrally, India Post will extract from the portal the money orders that have not been delivered. They will need to create a GEFU file for reversal of amounts from each post office's suspense account. They will then upload a NACH file sending the money back to each originating bank (refer to Appendix 8 for data to be used in the file sent from India Post to banks). Originating banks will credit back the amount to the originator's account and send an SMS or email to notify the customer about failure to deliver the money.

ESTIMATED REVENUE FOR A BANK AND POST OFFICE

The following table provides an estimation of costs and benefits for India Post and a bank.

Item number	Year	2019	2020	2021	2022	2023	2024
	Header Items	**Million**					
1	Overall market transaction volume per year at 1 percent (average growth rate of urbanization from 2001 to 2011) YOY	264.2	266.8	269.5	272.2	274.9	277.7
2	Overall market transaction value target per year at 1 percent increment YOY (potential 89,650 million)	22,413	22,637	22,863	23,092	23,323	23,556
3	Bank’s target volume (in proportion to number of transactions at 21 percent), in proportion to current share of total banking transactions	55.5	59.2	59.7	60.3	60.8	61.4
4	Bank's target value (in proportion to number of accounts at 21 percent)	4,707	7,897	7,944	7,992	8,041	8,090
5	Additional post office transaction volume to be migrated to banking services (25 percent of current volume of 59.3 million; conservatively not expecting growth in value for the next 5 years)	0.0	14.8	14.8	14.8	14.8	14.8
6	Additional post office transaction value to be migrated to banking services (25 percent of 59,871 million; not expecting growth in value for the next 5 years)	0	14,968	14,968	14,968	14,968	14,968
7	Bank's target revenue at 2 percent of total transaction value	94	457	458	459	460	461
8	India Post's revenue from this new engagement, at 5 percent of total transaction value (as it is the case for normal money order)	235	395	397	400	402	404

CONCLUSION

The solution proposed in this paper has the potential to provide a cost-effective remittance mechanism for millions of rural citizens, to help them manage their livelihoods without having to open an account with either a bank or India Post (refer to Appendix 10 for details of controls, assumptions and risk mitigation).

Integrating banks and India Post onto a common payment platform will also enable a combined revenue generation in the region of INR 300 million p.a., while avoiding costly investments in digitization and providing a value-added service to a growing urban migrant population.

It is our hope that that the RBI will provide a policy directive to all banks for a voluntary participation, making the services described above available.

Capco India offers deep domain expertise in financial services and can support stakeholders through this transformational initiative.

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Appendix 1A: References

Reference numbers	Hyperlink to source data
1	Data on unbanked population
2	RBI-Financial Inclusion report
3	SBI's digital spending
4	Rural vs urban branch bank
5	India Post Annual Report 2017-18
6	Rural to urban migration report
7	Migration Data 2001
8	Rural economy income via remittances
9	Basis Statistical Return
10	RBI-Rural and urban account %

Appendix 1B: Additional sources

Hyperlink to source data
Cost of servicing an account
Annual report- Payments
NACH File processing specifications
NACH SPEC documents for bank
NACH procedural guidelines
NACH salary processing directive-195
Flexcube GEFU reference
Internet Banking Scenario- RBI
SBI- Annual report (Internet Banking %)
General Internet banking usage

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Appendix 2: List of documents for beneficiary registration

Type of document	Proof of ID	Proof of address
Aadhar card	Yes	Yes
NREGA card	Yes	Yes
Permanent driving license	Yes	Yes
Passport	Yes	Yes
Voter card	No	Yes
PAN card	Yes	No
ID card issued by defense, central government, public sector undertaking	Yes	No
Utility bills (not more than 2 months old - electricity, telephone, postpaid mobile phone, piped gas, water bill)	No	Yes
Property or municipality tax receipt	No	Yes
Letter of allotment of accommodation state or central government departments	No	Yes
Letter issued by gazette officer with the attested photograph of beneficiary	No	Yes

Appendix 3: Beneficiary KYC parameters to be used for initiating payments

Parameter	Description	Mandatory /Optional
Beneficiary name	Name of beneficiary as per approved document	M
Date of birth	DD/MM/YYYY	M
Address of beneficiary	Address of beneficiary as per approved document	O
Beneficiary government ID	ID proof document provided by the government to the beneficiary.	M
Bank's internal beneficiary ID	Combination of bank code and six-digit number SBINXXXXXX	M
Date of expiry	DD/MM/YYYY	M
Beneficiary branch IFSC code	ABCDNNNNNNN (HDFC0000001)	M
Utility bills (not more than 2 months old - electricity, telephone, postpaid mobile phone, piped gas, water bill)	No	Yes
Property or municipality tax receipt	No	Yes
Letter of allotment of accommodation state or central government departments	No	Yes
Letter issued by gazette officer with the attested photograph of beneficiary	No	Yes

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Appendix 5: GEFU file transaction data

Parameter	Description	Mandatory /Optional
CBS Account name of destination post office	12-14 digit account number	M
CBS Account number of destination post office	This is linked to the destination post office pin code, from where the beneficiary will collect the amount.	M
Value date of each transaction	When the amount was credited to destination post office suspense account	M
Value of each transaction in paise	INR 100.10 will be captured as 10010.	M
Type of transaction (debit)	Debit only	M
Reference number	Remitter (originator) bank code (4) + Internal transaction number (16) + Beneficiary ID registered internally with the bank (16) + Destination PO PIN (6)	M

Appendix 6: Portal details to be uploaded by banks

Parameter	Description	Mandatory /Optional
Parameter	Description	Mandatory/Optional
Remitting originating bank name	Registered name of the bank	M
NACH transaction reference number	File number that was uploaded. Post office will use this to reconcile receipts.	M
Internal transaction reference number of bank	FTXXXXXXXXXXXX12 for tracking any reversals. This will be required for reversal of payments.	M
Date of successful upload	DD/MM/YYYY	M
Beneficiary ID registered internally with the bank	Combination of first four letters in IFSC code and unique 6 digit number say SBINXXXXXX	M
Unique beneficiary ID number	12-14 digit ID number used for KYC (PAN/AADHAR/ PASSPORT etc).	M
Beneficiary name	For KYC and identification. (100 Char)	M
Beneficiary DOB	For KYC and identification. DD/MM/YYYY	M
Beneficiary address	For KYC and identification. (200 Char)	M
Beneficiary mobile number	For KYC and identification. 10 digit.	O
Disbursement amount	IN Paise 100.10 will be captured as 10010.	M
Destination post office PIN code	To identify from where the amount will be collected by beneficiary	M

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Appendix 7: Acknowledgement data for successful disbursements on the portal

Parameter	Description	Mandatory /Optional
Internal transaction reference number of bank	FTXXXXXXXXXXXX12 for tracking any reversals. This will be required for reversal of payments.	M
Date of successful upload	DD/MM/YYYY	M
Value of initial transactions	IN paise- INR 100.10 will be captured as 10010	M
Value date of initial Transaction	DD/MM/YYYY	M
Beneficiary government ID number	The ID number on the proof of ID, provided to beneficiary by government authority. (12-14 digits AADHAR/PAN/PASSPORT etc.)	M
Originating bank code	SBIN	M
Beneficiary ID registered internally with the bank	Combination of first four letters in IFSC code and unique 6 digit number say SBINXXXXXX	M
Remitting originating bank name	Registered name of the bank	M
Beneficiary name	For KYC and identification. (100 char)	M
Beneficiary DOB	For KYC and identification. DD/MM/YYYY	M
Beneficiary address	For KYC and identification. (200 char)	M
Post office transaction reference number	The reference number used by post office to track the disbursement	M
Disbursement status	Disbursed/Pending/Returned	M
Date of disbursement or return	DD/MM/YYYY	M

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Appendix 8: File for return of funds back to banks

Parameter	Description	Mandatory /Optional
Post office central pool account number	The destination account number where the funds need to be transferred	M
Post office central pool account name	Name of post office account - "XX BANK, MO POOL ACCOUNT"	M
Total value of money order reversal	Total value of funds transferred in particular file, which failed to be disbursed to beneficiary	M
Total number of money order reversal	Total number of failed money order	M
Value of each transactions	In paise - INR 100.10 will be captured as 10010	M
Value date of each transaction	DD/MM/YYYY	M
Destination PO pin code	This will be necessary for crediting destination post office	M
Beneficiary name	For KYC and identification. (100 char)	M
Beneficiary address	For KYC and identification. (200 char)	M
Beneficiary ID registered internally with the bank	Combination of first four letters in IFSC code and unique six-digit number, say SBINXXXXXX	M
Remitter (originator) bank's Pool account number	The source account number from where the bulk amount is being sent	M
Remitter (originator) bank's pool account name	Name of account "FOR POSTAL MONEY ORDER-XX BANK"	M
Originating bank code	SBIN	M
Bank's internal transaction reference number	FTXXXXXXXXXXXX12 for tracking any reversals. This will be required for reversal of payments.	M
Date of transaction reversal	DD/MM/YYYY date of transaction initiated by remitter	M
Initial NACH transaction reference number	File number that was uploaded by the bank	M

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Appendix 9: Estimation details

9A: Estimation of migrant population

68.84% of total Indian population (1210.19 million) lives in in rural areas. One of the primary aspects that is sustaining this divide between banked and unbanked population is migration. There has been a large influx of rural migrant population into urban areas[6]. As per 2001 Census, 30.6% of total population are migrants[7]. The share of rural to urban migration to total migrant population was 16.4%; out of this, 27.5% of rural to urban migration was for employment.

The total population in 2001 was 1028 million, which make the focus migration population 1210.19 x 30.6% x 16.4% x 27.5% = 16.69 million.

9B: Estimation of rural population dependent on remittances and value

As per Census 2011, there were 167 million household in rural India. Hence, total rural households dependent on remittances is at 167 million x 17.7% = 29.5 million. This is indicative of the ticket size of total flow that can be tapped. Assuming conservatively that these household will require one remittance in a month, we are looking at 29.5 x 12 = 354 million transactions a year., with a value of 29.5 x 6678 = 1,97,001 million.

Remittances is one of the seven major sources of income for rural household[8]. According to the report "Income and Income Inequality among Indian Rural Households" by Thiagu Ranganath, Amarnath Tripathil, Bisla Rajoria, the average income per household, by way of remittances, has risen to INR 6,678 p.a. in 2011-12, showing a growth of 528% over 2004-05. The report also mentions that 17.7% of households earned their income via remittances in 2011-12, showing an increase of 11.5% over 2004-05.

Further, if we look at individuals, 19% (190 million)[1] of the total Indian population are unbanked. 68.8% of total population in India reside in rural areas. Hence, it can be conservatively estimated that 13% (135 million) of the unbanked population lives in rural area.

9C: Estimation of existing banking payments and money orders destined for rural areas

To arrive at the number of remittances potential, we need to know the value and volume of remittances that take place through India Post and the banking system.

In 2017-18, total money order transactions were at 65.9 million, with value of INR 59871.2 million, and commission of INR 2800.8 million. This volume of money order is small compared to retail banking transactions[9], which is at, 15760.6 million, comprising of CTS, non-MICR clearing, CTS, ECS, NEFT, IMPS, UPI, cards and NACH. The value of these transaction was at INR 285,612,000 million.

As per the RBI's basic statistical return[9,10] (table 1.16) on scheduled commercial banks, there are in total 1350 million savings accounts. The share of savings accounts for the urban area is 62% (table 1.16). The average retail transactions[10] can be calculated at (7553 million transactions/1350 million accounts) to show 5.5 transactions/per account/per annum. We have 1350 million x 0.62 accounts in urban areas. We can estimate the number of urban accounts used for rural remittances, by using percentage of migrant population in urban areas who use banking services. For this, we need to assume that 81% (percentage of urban population with access to banking services) of total migrated population do have bank accounts. Hence migrant population constitutes 3.6% of total urban population with bank accounts (81% of 16.6 million migrants out of 377 million urban population). The accounts being used in urban areas towards rural payments

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are estimated at (1350 x 62% x 3.6%) 30 million accounts, assuming that the regions with greater traffic of payments will have greater amount in the account. Once again referring to RBI's basic statistical return[9] (table 1.16), this ratio of value in rural accounts to total value in all bank accounts stands at 18.5%. So, we can safely estimate that 18.5% of total urban transaction are destined to rural areas, which is 30 x 5.5 x 18.5% = 30.50 million.

Using similar logic, we see that average banking retail transaction has a value of INR 18121 (285,612,000/15760.6) p.a. Again, using the rural to urban account ratio, we can assume that only 10% of average value is destined for rural areas, hence, this is 1812 transaction/p.a.

Similarly, the post office transactions destined for rural areas have been estimated in the following manner: 90% of volume (65.9 million) i.e., 59.3 million and 90% of value (INR 59,871 million) are destined for rural areas. The India Post in rural areas has a coverage of 833.7 million people (139067 rural post offices x 5995 people).

Appendix 10: Controls, assumptions and risks

Controls

1. A user can remit a maximum of INR 10,000 per transaction and a maximum of 3 transaction a month. This can be gradually increased to India Post's current limit which is INR 50,000 per transaction.
2. If there are three continuous failures to collect money, banks can cancel the service for the customer.
3. Beneficiary details are required to be updated periodically, i.e. every five years.
4. NACH will keep MI reports on the number of successful and returned transactions from India Post to banks.

Assumptions

1. It is assumed that the post office money order is the only service being used by the target migrant population.
2. The current KYC and AML norms followed by banks should be sufficient to cover these payments with no additional directive from RBI in this regard.
3. NACH will agree to provide a new file format to effect such remittances.
4. India Post will maintain settlement account with RBI DAD (Deposit Accounts Department).
5. India Post will be ready to invest in IT infrastructure to integrate with NACH.
6. The payment to the beneficiary can be done in cash, as it is being done through post office money order.

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Risks and their mitigation

S.No.	Risk	Mitigation
1	The rural post office may not have sufficient cash to cope with influx of new payments.	India Post can instruct individual post offices about incoming payments by EOD so that individual post offices can order required cash the next day.
2	The minimal hardware upgrade for post offices across the country may take more a year.	Accept the risk.
3	India Post may refuse this deal due to high operational costs.	With payments under the proposed system, the cost of remitting part is removed from the post office counter. Implementing this service will open more avenues for cutting costs in other areas.

Appendix 11: Glossary of terms

Term	Definition
AADHAR	A popular name of the UID (unique identification card) card issued by the Unique Identification Development Authority of India
AML	Anti-money laundering
AMT	Automated teller machine
CBS	Core banking system
CTS	Cheque truncation system
DAD	Deposit Account Department
DOB	Date of birth
ECS	Electronic credit system
GEFU	General External File upload
ID	Identification document
IFSC	Indian Financial System Code
IMPS	Instant money payment services
INR	Indian national rupee
IVR	Interactive voice response
KYC	Know your customer
MICR	Magnetic ink character recognition
MO	Money order

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Term	Definition
NACH	National Automated Clearing House
NEFT	National electronic funds transfer
NREGA	National Rural Employment Guarantee Act
OTP	One time password
PAN	Permanent account number
PIN	Personal identification number
RBI	Reserve Bank of India
RTGS	Real time gross settlement
SMS	Short messaging service
UPI	Unified payment interface

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