

March 10, 2008

The Chairman & Managing Director / Chief Executive Officers
of all commercial and co-operative banks

Dear Sir / Madam

Use of electronic mode of payment for large value transactions

Recognising the importance of ensuring the safety and security of the payment systems, Reserve Bank of India (RBI) has put in place three modes of electronic payments i.e. Real time Gross Settlement (RTGS) System, National Electronic Fund Transfer (NEFT) System and Electronic Clearing Service (ECS). Payments through these modes have been steadily growing in the last few years.

2. However, there are still a large number of bulk payments which are made through paper instruments. Banks also face attendant risks of routing such payments which have to under go the process of a clearing cycle. Recently, an internal Working Group set up by the RBI had examined various issues related to migration from paper-based systems to electronic systems and had recommended a phased approach of encouraging, monitoring and mandating. Based on the recommendations of the Group, an approach paper was placed on RBI website inviting comments from the members of public on the need for making the payment transactions of Rs. 1 crore and above between RBI regulated entities to be mandatorily routed through electronic payment systems.

3. The comments received from the stake holders have since been examined. The proposal has been found to be generally acceptable. In view of this, it is now decided to make large value payments of Rs.1 crore and above mandatory to be routed through electronic payment mechanism with time frame as under:

| Type of transactions | Time frame |
|--|-------------------|
| (i) All payment transactions of Rs. 1 crore and above between the RBI regulated entities such as banks, primary dealers and NBFCs | 1st April 2008 |
| (ii) All payments of Rs. 1 crore and above in RBI regulated markets such as money market, Government securities market and foreign exchange market | 1st April 2008 |

Please acknowledge receipt and confirm having initiated action.

Yours faithfully,

(Arun Pasricha)
General Manager