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Report of the Committee

Introduction of Electronic Payment Systems in Defence Accounts Department

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Introduction of Electronic Payment Systems in Defence Accounts Department

1. Mission Statement for E-Pay System

- 1.1 "Our aim is to establish safe, secure, sound and efficient payment systems in the Defence Accounts Department."

2. Introduction

- 2.1 The primary goal of any payment system is to enable correct and prompt payment to the payee as fast as possible, so as to reduce the transaction costs in the system to the barest minimum. It is recognized world over that an efficient and secure payment system is an enabler for optimum efficiency and aims at utilization of scarce resources at least cost. The Defence Accounts Department (DAD) has also not been left untouched by these changes in the environment. Presently, payment systems in DAD are primarily based on cheques as mode of payment. However, newer and more efficient payment systems are emerging and the DAD is required to adapt itself to the rapidly changing payments landscape. Fast changes in the economy resulting from economic reforms have reinforced the need for changes in work processes. The requirement for introduction of electronic payment systems has been mandated by the statutory instructions issued by the CVC vide Office Order No. 20/4/04 dated 6th April 2004. Another facilitating factor for introducing electronic payment systems in DAD is enabled by the aim to implement Mission Excel IT Project in the day to day working of the Department. This project envisages a sea change in the way work is done. The project envisages online computing environment with WAN connectivity with possibility of establishing linkages with other stakeholders. One of the most important enablers for achievement of efficient processes in the Department through the project would be establishment of electronic payment system (E-pay) in the Department. In view of the emerging importance of the subject, recently concluded

Conference of Principal Controllers and Controllers of Defence Accounts deliberated on the subject matter in detail. As adoption of these processes would have a far-reaching impact on the existing work processes, it was decided that a Committee be constituted under the chairpersonship of Additional CGDA-II with PCDA(Navy) and PCDA (SC) as other two members to examine all the dimensions of adopting e-payment processes in detail. Accordingly, a memorandum vide no. AT-Coord/13346/CC/05 dated 9 May 2006 was issued with approval of the CGDA constituting the above committee with a mandate to submit its recommendations within 30 days of its constitution.

3. Terms of Reference

3.1 The terms of reference for the Committee are as follows:

- a) To identify the types of payments that can be brought under the scheme of e-payments;
- b) To ensure that e-payment processes are designed to ensure correct and prompt payment to the correct payee;
- c) To finalize a draft MOU with the Banks;
- d) To ensure that e-payment processes comply with CVC guidelines;
- e) To ensure that the proposed solution can be used for different types of payments; and
- f) To submit their recommendations within 30 days of constitution of the Committee.

4. Objective of the Study

4.1 The objective of the study is to develop a sound and robust framework for payment systems development and reforms in DAD, which will protect the rights of various stakeholders and users of the payment systems with the ultimate aim of enhancing efficiency and ensuring a safe, secure and sound payments system on optimum cost basis. The focus of the report is to identify systems to ensure correct and prompt payment in accordance with extant rules and directions of Statutory Authorities by designing a comprehensive solution, which could be dovetailed to work in the new modern online computing environment being envisaged under Mission Excel IT Project.

5. Existing System of Payments being used in DAD

- 5.1 Several methods of payment are presently prevalent in DAD, which include cheques as main mode of payment and also payment systems like ECS and EFT being used in some offices with high degree of user satisfaction. However, only miniscule portion of total payments are released to the beneficiaries in modes other than cheque or cash like ECS or EFT. The nature of payments handled in DAD range from low value, large volume payments to large value, low volume payments. Therefore, any new system to be introduced in DAD shall have to cater to both the segments. DAD is uniquely positioned as a Government Department which is charged with the onerous responsibility to keep the wheels of payment systems running in remote locations ranging from Leh in Jammu & Kashmir to locations in North-Eastern parts of the country. Thus, introduction of any new payment system shall be required to cater to all segments of stakeholders resident in the remotest parts of the country. This will require adoption of a judicious mix of various payment systems including manual system like cheques suiting specific ground requirements.
- 5.2 Presently, DAD is served by RBI and SBI acting as treasury from which funds or cheques are drawn. In other words, defence cheques are drawn on RBI and SBI in their capacity as treasury. This system is unique in the sense that the cheques drawn on RBI or on a treasury branch of RBI/SBI is payable all over India at par, in contrast to the system of public fund accounts in the nature of a Current Account that can be opened in any bank branch by a unit or formation, in which cheques are payable at that specific branch only. The system of RBI and SBI acting as Treasury for Defence Services requires availability of signatures of authorized cheque signing officers in all branches of RBI and SBI performing treasury functions on behalf of Defence Services. This entails substantial efforts in maintaining and continuously updating the signature database available with the concerned branches of RBI and SBI. Another unique feature of existing system of payment through cheques is the process, wherein the paid cheques in original are returned back by paying Bank to the DAD. Such paid cheques received back from RBI/SBI are duly linked and reconciled (paired) with copy of Schedule – III available in the CDA office. Considering the volume of total cheques issued in a typical CDA office, the task of linking and pairing becomes a time consuming exercise requiring considerable efforts in terms of manpower. Faced with the situation of depleting manpower in DAD, this routine but important task sometimes falls in arrears, with a possibility where quality of linking and pairing process may get compromised.

5.3 In most of the offices in DAD, payments on account of salary and other entitlements in respect of employees are released by way of cheques drawn in favour of Public Fund Accounts of the units concerned, normally handed over to the representative of the concerned formation. The payments required to be made to third parties like suppliers for materials and services are made by cheque sent through postal system. Under the existing system of payment by cheques, details in respect of payee are given on a document that accompanies the cheque called cheque slip. It contains details of the payee and bank. The aim behind sending the cheque directly to the banker is to enable it to credit the proceeds directly to the account of the beneficiary. However, at times, the system of dispatching cheques by post leads to delays and losses in transit, causing serious inconveniences to employees, units and formations and suppliers and also leading to avoidable correspondence all over. Some isolated cases of frauds have also come to light recently, wherein instances of substitution of cheque slip to credit the proceeds to wrong account as well as printing of fake cheques for encashment have been detected.

5.4 In view of such circumstances and also to improve efficiency in the system, it has become incumbent on DAD to implement newer payment mechanisms. The CVC has also issued statutory directions in 2004 making it mandatory for Government Departments to switch over to electronic means of making payments. Due to emergence of private banks, which are technologically savvier, more and more users are moving towards such banking outfits. In addition, there is also a need to bring in competition in the banking services being availed by DAD from SBI in its role as treasury banker. Moreover, RBI has declared its intentions to get out of routine banking functions and concentrate on its core central banking functions in the foreseeable future. Therefore, it is all the more necessary that the Department brings in competition in banking services availed by introducing new payment systems and allowing other banking entities also to handle payments on behalf of Defence Services in a more professional manner. This will induce competition in the system leading to reduction in cost and more efficient service to the customer.

6. Some Deficiencies Found in the Existing System

6.1 Some of the problems being faced in existing system are as follows:

- a) Inadequacies in the system to effectively cater to large volume of transactions.
- b) Possibility of delays in dispatch of cheques and credit of funds to the accounts of payee.
- c) Non-feasibility of linkage of manual payment processes with automated online environment being envisaged under Mission Excel IT project.
- d) Difficulty in accounting reconciliation post-payment under manual system.
- e) Increase in transaction costs on account of delay, postal charges, etc. attributable to lengthy and time consuming procedure.
- f) Instances of frauds due to replacement of cheque slips and printing of fake cheques.

7. Concept of Electronic Payment (E-Pay)

7.1 Consequent upon phenomenal growth in banking industry in India over the last decade, newer and more efficient payment mechanisms have been emerging to aid faster payments economically. Survival of any dynamic organization is dependent on its capability to innovate and retain its competitive advantage. The most important aspects to be kept in view while migrating from the existing time tested and well established systems of payment to any new method(s) of payment would be to satisfy four broad tenets called Triple S plus E, an acronym that stands for **Safety, Security, Soundness and Efficiency**. Any new system of payment to be implemented in DAD must satisfy the above four important tenets. Technically speaking, a payment system is a mechanism that facilitates transfer of value for enabling two way flows of payments in exchange of goods and services. Payments can be made in the form of cash, cheques, demand drafts, credit cards, debit cards and also by means of giving electronic instructions to the banker who will make such a payment on behalf of his customer. Traditionally, DAD has been making payments by way of cash and cheques in almost all cases barring some pockets, wherein payments are made electronically by adopting modes like **ECS** and **EFT**. However, emergence of newer, safer, cheaper and faster systems like **National Electronic Fund Transfer (NEFT)** and **Real Time Gross Settlement (RTGS)** along with proliferation of core banking solutions and corporate internet banking system, have led to an era of revolution in payment systems. The RBI as a central banker has been playing a key role in bringing about above changes in payment systems. The Central Bank has been taking initiatives in introducing new modes of more efficient and safe means of effecting payments on a continuous basis.

Industry

8. Current Payment Systems and Future Trends in the Banking

8.1 There are diverse payment systems functioning in the country, ranging from paper based systems where the instruments viz. cheques, drafts, etc. are physically exchanged to the most sophisticated electronic fund transfer systems like NEFT and RTGS which are fully secured. These systems cater to both low value retail payments as well as large value payments. Considering the nature of payments to be made to diverse nature of beneficiaries in the DAD, no single mechanism can be considered to be the most suitable and only a combination of schemes depending upon requirement would be required to be implemented in the DAD. Any approach to be adopted for implementation of E-Pay System should encompass Safety, Security, Soundness and Efficiency as its vital components.

8.2 As stated above, DAD would be adopting a judicious mixture of any one or more of the payment mechanisms listed below, with a long term aim to reduce and eliminate use of physical instruments to the extent feasible

- Electronic Clearance Scheme (ECS)
- Electronic Funds Transfer (EFT)
- National Electronic Fund Transfer (NEFT)
- Core Banking Scheme (CBS)
- Corporate Internet Banking Scheme (CINB)
- Real Time Gross Settlement Scheme (RTGS)
- Cheques, Demand drafts or pay order

8.3 It may, however, be stated that RBI is planning to do away with ECS and EFT mode of E-Pay system in near future and merge them in the NEFT system. In other words, it has been planned by RBI that all low/medium value, large volume payments, where the credit can be given on T+ 1 or T+2 basis should get migrated to NEFT platform in place of existing ECS and EFT system. Similarly, all large value payments, where credit has to be given immediately and preferably online on T+0 basis, the RTGS system should be followed. On the other hand, CINB and CBS schemes are bank specific and shall be followed by respective banks for transferring funds on their own network, as per customer requirements.

9. Need to mitigate risks in new payment systems

9.1 As outlined in the preceding paragraphs, there is a need to ensure safe, secure and efficient payment systems. Any typical payment system can face credit, liquidity, legal, operational and settlement related risks. With networking and interconnection, new challenges are arising in the realm of security, privacy and confidentiality of transactions. Therefore, concepts such as digital signature, certification, storage of information in a secure and tamper proof manner have to be part of the practices and procedures in the day to day functioning. This will also require education and training for all levels of employees, so that a culture of security is created. At the headquarters level, institutional mechanisms have to be designed in order to review policies, practices and procedures to examine e-security regularly and assess whether these are appropriate to the requirements. It would be helpful if information about threat and vulnerabilities are shared to prevent, detect and respond to security incidents. The concerned officials would be required to be well versed in the area of application and system development security, cryptography, operations security and physical security. Therefore DAD shall have to work in close coordination with the DB to incorporate appropriate and stringent security features in the E-Pay System, in long term. Adoption and implementation of these processes would require close involvement of senior management in management of payment processes.

10. Benefits of E-Pay System

- a) The E-Pay system will lead to faster and efficient payment to the ultimate beneficiaries, which will also result in cost reduction for both the parties i.e. the payer and payee, thus ultimately leading to optimization of transaction costs in the system as a whole.
- b) The direct benefits accruing to the DAD would range from savings in postal costs, stationery costs to reduction in manpower requirement, as routine functions of Accounts Section in terms of cheque linking and D-Section in terms of cheque preparation would get reduced, if not entirely eliminated. Risks of wrong payments or delay in payments due to losses of cheques in transit would get reduced under the new system.
- c) The payees would also stand to gain from the new system, wherein funds would get transferred directly into their bank account in much shorter timeframe as compared to existing system, wherein cheque clearing process takes time

ranging from 2-3 days for local clearing to a week in case of outstation cheques. This excludes the transit period taken in transmission of cheque from CDA to the payee.

- d) Process of linking and reconciliation of accounts would become faster and more efficient as payments through electronic means will enable faster reconciliation with added benefits in terms of major reduction in suspense figures in the Accounts. In other words, a major area of work relating cheque linking and pairing would get substantially reduced.

11. Methodologies Adopted for the Study

11.1 Besides studying the existing system of payments adopted in various offices of the Department along with assessing their individual strengths and weaknesses, the Committee also invited selected bankers for making the presentation on electronic payment systems prevalent in the banking industry and how they could be modified to suit the requirements of the DAD. Following bankers were invited to make the presentation:

- State Bank of India ✓
- ICICI Bank Limited ✓
- HDFC Bank Limited ✓
- UTI Bank Limited ✓

Presentations made by the bankers gave an insight into the technological parameters and helped in deliberations of the Committee and to crystallize its recommendations.

12. Recommendations

12.1 Selected Principal Controller/Controller offices (CDA) acting as Defence Accounting Circles (DAC) and presently issuing cheques drawn either on RBI and/or SBI may enter into an MOU or agreement with the designated bank (DB) as decided by the CGDA. In case, SBI is selected as DB, then necessary modifications in operating procedure can be effected depending upon requirement. Under the new system, CDA shall draw one cheque instrument daily, in normal course, in favour of the DB. The DB shall encash it from the RBI or SBI as the case may be at the earliest, so as to ensure fastest credit to the payees accounts. If required, high value clearing scheme may be adopted by the DB. Thereafter, the DB shall arrange to make payment to all the beneficiaries as per the list given by CDA in hard copy form or transmitted electronically to the Bank duly authenticated by digital signature of authorized signatories containing all details like bank account number, banker

details, etc. The payment mode can be by way of any one of the means stated earlier. The DB shall prepare and make payments through cheques, demand drafts or pay orders only in limited cases, where payment through electronic means would not be feasible, like payments at stations, where facilities of electronic transfers are not available.

12.2 The MOU signed between the DB and CDA shall contain appropriate stipulations relating to service level commitments for effecting payments to beneficiaries within agreed time period. In case of delays beyond agreed time period, the DB shall be responsible to pay interest at overnight call money market rate. In the proposed system, the CDA shall continue to have the flexibility to draw cheques on RBI and/or SBI as the case may be, at its discretion in any individual case. Following steps may be taken by the CDA for implementing the system:

(a) **Reorganization of the work in D-Section:** Presently, the work in D-Section is handled by an officer of the level of SAO or AO. It is proposed that an officer of the level of Group Officer be brought into the channel for direct supervision of the payment authorization process, by involving him in authorization of payments beyond a pre-set threshold limit. In case of smaller offices having no dedicated IDAS officer, a system of authorization by either a designated local IDAS officer or by the officer-in-charge may be adopted. It is also proposed that under the new E-Pay system, the nominated IDAS officer shall act as the nodal officer to liaise with DB for all matters. In all other cases below the threshold limit, the present system of authorization at the level of SAO/AO shall continue on the same lines as being done at present for signing of cheques. On as required basis, digital signature certificates can be procured for officers empowered to authorize payments through E-Pay system for better safety and security. This will also enable the DB to give credits faster in view of the feature of impossibility of repudiation of authorization.

(b) **Creation of a database:** Under the new E-Pay system, it would be important that an accurate and complete database containing details of the bank account number, name and address of the bank branch, MICR Code, etc. of all payees under different categories, like employees, units and formations and vendors/suppliers, etc. be created for enabling the DB to make payments in E-pay mode. This will also include obtaining mandate

from different payees to receive payments through electronic mode. This will be an important exercise to be implemented under direct control of Group Officer. Since the database would be a very vital component of the payment process, it would be necessary to protect the integrity of database from any unauthorized change or modification. Thus, the system of maintenance of this database would envisage any change in the details of payee to be implemented only with approval of the Group Officer. Any changes in the details of payee already available with the DB would be intimated to them under the signature of Group Officer only.

- (c) **Integration with Mission Excel IT Application:** One of the most important feature of the new E-Pay system is its capability to integrate the payment application with internal IT application like Mission Excel IT project in DAD. Therefore, the team handling Mission Excel IT application may need to be consulted for dovetailing the payment application in consultation with the DB. The combined system would be more efficient, secure and safe, as data captured and created while processing payments would be straightaway transferred to payment application without any human intervention. To this end, the "SRS" of various MEIT modules should ideally incorporate provisions for e-Payment procedures.
- (d) **Pilot Study Site:** In addition to existing public sector banks, the RBI has authorized three private sector banks namely, UTI Bank, HDFC Bank and ICICI Bank to act as bankers to the Government to deal in certain categories of transactions on behalf of Government. IDBI Bank, an erstwhile private sector bank but now in public sector (consequent to merger of parent IDBI with the bank), was also authorized by the RBI to deal in Government business. It is proposed that as a pilot, the SBI and above four bankers may be asked to enter into agreement or MOU with selected CsDA authorized by the Headquarters office to participate in the E-Pay system, based on their respective presence and strength in specific geographical locations. The selected bank will act as DB to the CDA. The DB would also be asked to provide ATM facility in the premises of CDA office. A dedicated Relationship Manager would be appointed by the DB to liaise on day to day basis with designated officer in CDA office along with nomination of Senior Managers for escalation of issues for resolution, if required.

Following internal steps may be taken by the CDA to implement the system:

- (e) **Centralization of Payment Function at One Location:** Normally, payments are also authorized and cheques issued independently by sub-offices, by operating the Defence Proforma Account, on behalf of the CDA concerned. It is recommended that after MEIT project is implemented, the E-Pay System may issue cheques centrally from one location (like Main Office of the CDA) or fewer locations than at present, instead of from all the Sub-Offices. This will be enabled by the system, wherein all the offices of DAD including major Sub-offices would be connected on WAN under MEIT Project. The main advantage of this process would be centralized monitoring and control of cash flows by the CDA on day to day basis while simultaneously enabling faster and effective reconciliation in Accounts Section. The timing of implementation of this recommendation, may, however, be decided based on readiness of individual CDA office.
- (f) **Process of Payment Authorization:** All Sections in the CDA shall forward bills for payments to D-Section in the usual manner. D-Section shall, instead of writing cheque(s) in favour of individual payees, prepare an authority letter to be issued to the DB containing details of payees to whom payment is to be made. This authority letter shall be signed by two signatories at the level of SAO/AO. The Authority letter can be on pre-printed stationery with appropriate security features to be supplied by DB. The Authority letter would be accompanied by a cheque drawn in favour of DB by the CDA for full amount. The DB would encash the cheque from the Treasury (RBI/SBI) and make payments to various payees as per the details contained in the Authority letter issued under signature of Authorized Signatories. The Authority Letter can be transmitted online in a secured environment duly authenticated by way of digital signature of authorized cheque signing officers of the CDA office. The payments would be required to be made within laid down timeframe of T+1 or T+2 at the most. Any delay may attract penalty by way of interest levied at overnight call money rate besides any other steps to be taken against the banker. Appropriate provisions would be incorporated in the MOU/Agreement to be signed between CDA and the DB for adhering to laid down timeframe. In case the payees are to be paid by way of physical instruments like cheques or

demand drafts. the DB would prepare and dispatch them to addressees by couriers on T+1 basis. The mandate obtained from payees referred at step (b) above should, for this purpose, include payment by the DB through such physical instruments as well.

- (g) **Opening of Intermediary Bank Account:** The DB shall open an account in the name of CDA. This account will be used for crediting the proceeds of cheques issued by the CDA. Theoretically, the proceeds of cheques issued by the CDA in favour of the DB would eventually be squared off by crediting funds to the payees' accounts. However, situations may arise, where due to reasons beyond the control of banker or CDA, payments cannot be made to a few payees. In such a situation, the DB would refund the amount by way of MRO to the CDA within a defined time frame to be incorporated in MOU/Agreement. For this purpose, a Statement of Reconciliation would be sent by DB in respect of each cheque issued by the CDA.
- (h) **Preparation of detailed guidelines to be followed by Disbursement Section** – Once decision is taken to implement the new E-Pay system, a detailed guideline would be prepared for compliance by Disbursement section of the CDA offices.. For this purpose, necessary amendments would be required to be made in manuals and codes of the DAD.
- (i) **Changes in the Working Procedure of Accounts Section** – The implementation of E-Pay system in DAD would also lead to changes in the working processes of Accounts Section of a CAD office. Therefore, necessary changes would be required to be made in the respective codes and manuals. It may also require addition/deletion of some working processes being followed currently in the Accounts Section.
- (j) **Approvals of the Statutory Authorities:** The implementation of the proposed system may need to be approved by the Controller General of Accounts and RBI. ✓

12.3 The E-Pay system in the long run has to metamorphose into a structure, where the DB becomes accredited bankers to the Defence Services with authority to operate Defence Proforma Account with RBI. Presently, this privilege is limited to SBI only,

which performs the functions of banker to the Defence Services. In order to implement the new E-Pay system in a phased manner, it is proposed that once the system of E-Pay through DB is successful, the performance of which can be reviewed after say an year of its introduction, the selected DB can be granted the status of accredited banks for operating the Defence Proforma Account on line with that of SBI. However, appropriate checks and balances in terms of applying maximum limit of drawal from Defence Proforma Account need to built in the system by such accredited bankers unlike the existing system, where no limit has been prescribed for SBI. **The proposed E-Pay System presupposes that the DB shall not charge service charges of any kind whatsoever on any pretext including courier/postal, stationery and other associated costs.**

12.4 An offshoot of the above recommendations can be implementation of system of E-Receipts through DBs. It is recommended that the present recommendation of introducing E-Pay system may be considered first for implementation and depending upon experience, the system of E-Pay can be extended to E-receipts through the DBs. There should be no technical difficulties in implementing the system of E-receipts as all concerned banks are already receiving taxes on behalf of the Central Government. The experience of various departments in this regard has also been satisfactory.

13. Report of the Committee - Linkages Based on Terms of Reference

13.1 To identify the types of payments that can be brought under the scheme of e-payments.

Payments in the DAD are normally made to various types of payees ranging from employees, units and formations to third party vendors. In other words, payments are required to be made to employees on account of pay and allowances and other entitlements. Similarly, payments are required to be released to various units and formations for running their day to day affairs and other purposes. On the other hand, DAD is also supposed to make payments to third party vendors and suppliers on account of supplies made centrally as well as locally. In addition, certain type of payments by cheque to other Government Departments with whom book settlement system does not exist is also required to be made. Under the proposed E-Pay system, all types of payments being made presently by a CDA shall be covered. However, as a point of clarification, it is added that the proposed E-Pay system does not envisage doing away with the system of issuing cheques completely. In certain cases, where payee's bank account details are not available or banks at the payee's end are not e-

enabled. then payments would be released by cheque. However. all efforts would be required to be made to ensure that E-Pay system is utilized to the maximum extent to derive full advantages from the system.

13.2 To ensure that e-payment processes are designed to ensure correct and prompt payment to the correct payee.

The paragraph 11.2 above under the heading **Recommendations** states in detail the methodologies to be adopted by the CDA to ensure that correct and prompt payment is made to the payee. It is, however, emphasized that appropriate security measures are institutionalized and followed scrupulously in the CDA office to ensure the same. For this purpose, the head of the office shall ensure that appropriate reporting mechanisms are built in to submit periodically updated reports including reports to be received from DB. In the proposed system, generation and receipt of MIS reports from both ends, i.e. CAD as well as DB would be very important. It will be the onerous responsibility of CDA office to ensure that the MIS reports are reconciled immediately and almost on daily basis. It may be stated that the manpower requirement to analyze and reconcile such MIS reports would be made available from the manpower made available as a result of reduction in work in Accounts and Disbursement sections of the CDA office.

13.3 To finalize a draft MOU with the Banks.

The draft MOU documents finalized with some of the banks is enclosed as Annexure to this Report. The exact format of MOU/Agreement to be entered into with DB shall depend on the requirement to designate DB to undertake only payments to be made by electronic means or also including payments in the form of cheques, demand drafts, bankers' cheques, etc. depending upon the requirement of payee as well availability of e-payment facility in payee location. Such an MOU will need to be got vetted by the Legal Adviser of the Department before the same is finally signed. The draft MOU shall contain stipulations regarding obligations and responsibilities of DB along with compensation mechanism in case of any loss suffered by the DAD. The draft MOU shall also contain appropriate stipulations concerning service level commitments made by the DB along with system of compliance thereof and in case of violations, modality of compensation and penalties to be payable will be agreed to clearly by the DB.

drawing cheques on RBI/SBI shall continue and the DB shall make payment to all payees after realization of cheque instrument drawn by the CDA payable on RBI/SBI. Thus, the system does not require DB to operate and debit Defence Proforma Account maintained by RBI Central Accounts Section, Nagpur. This system can become less than fully optimal in the long term because in some cases idle float of funds may be available with the DB. Under the proposed E-Pay system, the DB shall proceed to make payments to various payees as per list given by the CDA through different means depending upon suitability and convenience. Even though, a majority of payments would be made through electronic means resulting in quick credit of funds to payees, there may be several cases, where payments would be made by the DB by way of cheques, drafts or pay orders. In such a scenario, the DB shall retain funds payable to the payee with itself till the time the cheque or other instrument is finally encashed by the payee. Under the present system, the RBI/SBI acting as treasury to the Defence Services debit Defence Proforma Account only on encashment of cheque by the payee and not before. An alternative and optimum solution, which can be recommended, is that the DB may be given the status of accredited banks on the lines of SBI to act as treasury to the Defence Services, enabling them to operate upon Defence Proforma Account independently and directly. This would, however, require regulatory clearances from RBI and Government, as issues concerning operating limits, security, etc. would be relevant in specific context of DB being private sector entities. This would also require printing of Defence Cheques, which can be drawn on selected DB. In addition, formalities relating to circulation of cheque signing officers amongst all designated branches of DB would be required to be undertaken. In fact, the system of designating selected private sector banks as the accredited bank to act as treasury to the Defence Services would require major change in the existing system.

15. An Alternative Suggestion of BPR in Payment Systems of DAD

15.1 An alternative to the suggestion stated in the preceding paragraph 13, wherein the DB is authorized to act as treasury on the same lines as that of SBI is stated below. The present system of RBI/SBI acting as treasury to the Defence Services can be traced to the requirement of funds being made available in all nook and corners of the country and considering the reach and presence of SBI, it was natural that the function of the banker to Defence Services remained with SBI. This system also ensured that Defence Services cheques issued by DAD could be encashed wherever SBI had a treasury branch. This system requires maintenance of signature of all officers authorized to sign Defence cheques by SBI treasury branches. The legacy of this system dates back to those days, when banks were not computerized and connected with each other on a network. However, in view of quantum jump in the competence of banks influenced by