

Streamlining payments and settlements on the ONDC Network

Advisory no: 2023/01/01/01

Date: 17/01/2023

Context

It has been brought to the attention of ONDC that Network Participants (**NPs**) are facing certain challenges in timely settlement of payments. Settlement timelines are not consistent across time and from one Buyer App to another. This has led to pay-outs to Seller Apps being irregular and sometimes delayed.

Root of the issue

One reason for these challenges is that the Reconciliation Service Provider (**RSP**) APIs have not been implemented yet by NPs. In the absence of the RSP API implementation, some Buyer Apps are following a manual settlement process, which results in them releasing payments on a weekly basis. The weekly settlement window has been reported to create cash flow issues for Seller Apps. Further, due to the manual nature of the process, some payments have reportedly been delayed beyond one week.

To address these gaps, ONDC is issuing this advisory to all NPs.

Guidelines

NPs should note that this is not a mandate. This is an advisory document intended to help NPs harmonise the settlement process, and cut down delays and uncertainty in pay-outs. Accordingly, ONDC recommends the NPs to take the following measures.

1. The API specs for the RSP (recon and settlement) have been released, and NPs are expected to implement those APIs by 15th February 2023.
2. Till the time the RSP APIs get implemented, NPs should ensure that for any given transaction, settlement takes place within EoD on **T+1** day and payment-advice is conveyed to the counterparty NPs no later than **T+2** days - where **T** is the time of expiry of the return/refund period.

Additionally, '**T**' should be clearly defined and communicated by both NPs through the protocol, as explained below, in Entry No 5.

3. For the grocery and F&B categories, under prevalent practice, items are usually not returnable. In such cases, **T** will be based on the time within which a customer can file a complaint to claim a refund, which is typically set at 4 hours after completion of the delivery.

4. NPs should make full use of the features in the ONDC Protocol that allows NPs to clearly define settlement terms and remove any ambiguity.

The ONDC Protocol allows for settlement basis and settlement windows to be defined by the two NPs who are parties to a transaction. NPs can select the triggers for the settlement and the timeframe from that trigger within which the payout has to be made. The triggers available for NPs to set are Time of Shipment and Time of Delivery. In case the settlement is to be done on the basis of the expiry of the return window, the settlement window parameter can be set to be equal to the return-window defined from the time of delivery.

As an example, if a seller allows returns for up to 7 days from the time of delivery, and Buyer App wants to complete settlement at the end of that 7 day period after delivery, the settlement basis should be set as “Delivery”, and settlement window should be set as 168 hrs (7 days).

5. To be able to perform settlements on a daily basis, NPs are advised to automate their processes for settlement, and communication of payment-advice.
6. Currently, Buyer Apps are collecting payment from Buyers. So Buyer Apps are advised to perform settlements on a daily basis, based on the payment terms enshrined in the digital contract, and as per the timelines given in this advisory. Seller Apps in turn should endeavour to specify a reasonable return period.

To clarify further, we have given two illustrations below.

Illustration 1

For this illustration, let us use an F&B transaction with the following characteristics:

Parameter	Value
Product	Food
Payment collected by	Buyer App
Settlement basis	Delivery
Settlement window	4 hours
Buyer Price	Rs 100 (including Rs 3 Buyer App Fee)

The process would flow as follows:

1. Buyer App and Seller App agree on the Settlement Basis and Settlement Window as stated above through the API contract.
2. Order confirmed by Buyer, and payment collected by Buyer App at 1 PM on Day 1.

3. Order is delivered to the Buyer at 2 PM on Day 1. Settlement basis is complete. Timer for the settlement window starts.
4. “Return Period” gets over at 6 PM on Day 1.
5. Buyer App performs a settlement by the end of Day 2; i.e. Buyer App deducts Rs 3 (Buyer App Fee) from the Rs 100 (Buyer Price) and pays out Rs 97 to the Seller App.
6. By the end of Day 3, Buyer App conveys the payment-advice to the Seller App, explaining the details of the settlement.

Illustration 2

For this illustration, let us use an electronics transaction with the following characteristics:

Parameter	Value
Product	Electronics
Payment collected by	Buyer App
Settlement basis	Delivery
Settlement window (return period)	7 days
Buyer Price	Rs 20000 (including Rs 100 Buyer App Fee)

The process would flow as follows:

1. Buyer App and Seller App agree on the Settlement Basis and Settlement Window as stated above through the API contract.
2. Order confirmed by Buyer, and payment collected by Buyer App at 1 PM on Day 1.
3. Order is delivered to the Buyer at 2 PM on Day 5. Settlement basis is complete. Timer for the settlement window starts.
4. Return period gets over at 2 PM on Day 12.
5. Buyer App performs a settlement at the end of Day 13.
6. On or before the end of Day 14, Buyer App deducts Rs 100 (Buyer App Fee) from the Rs 20000 (Buyer Price) and pays out Rs 19900 to the Seller App.

NPs are advised to take action on the aforementioned to minimise disruptions to business on the ONDC Network. **Note that this is not mandatory.** This Advisory is only intended to provide guidance to NPs to streamline their business processes and minimise disputes.