DJC2A: BANKING THEORY LAW AND PRACTICE

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UNIT V

Modernized Banking – Traditional Vs E- banking transaction – electronic delivery channels – advantages o f- e – banking – security measures

Reference Books

1.Banking law and Practice – S.N.La

2. Banking law and Practice- E.Gordan and K Natarajan

3. Banking law and Practice- S.S Gulsan and Gulsan Kapoor

4. Banking law and Practice-K.C.Sherleka

Unit –I

CHAPTER 1

INTRODUCTION:

Banking is an integral part of the modern economy. But the nature and functions of modern banks have evolved over a long period of time. The idea of banking evolved with the idea of money. Banking business is mainly linked to lending. Moneylender is to be found in every society-ancient or modern; advanced or backward. The ten commandments of Moses, Quoran, Manusmrity, Kautilya's Arthashastra all have references to moneylenders and rate of interest. Modern banks also undertake foreign exchange transactions. The priests in temples took advantage of the sanctity of the temples, collected people's savings and did lending business. In the middle ages, banking business was carried by the individuals. Then came partnership and today in all countries banking is carried out by joint stock companies and is regulated by the Government.

ORIGIN OF BANKING

It is seen that banking transactions have been taking place since last number of years. Even it is evidenced that the banking system was prevailing at the time of Babilon culture. The banks were in existence in Rome also. It was said that in the year 1171, the authorities of Venice had taken loan from the people for meeting the expenses of war and the arrangements for repayment were also made by them. Such loan was called as 'Mot' in Italian language. The meaning of mot in German language is 'bank'. In those days, there was German rule in many parts of Italy. Afterwards, in Italian language it was called as banco. The German word bank means a joint stock fund. This word bank was Italianized into banco when the Germans were masters of a great part of Italy. Afterwards in France and England this word was used. It is seen that since 1646 the word 'bank' has been used in the articles .Later on there were many

banks who started using the word bank in their names. E.g. Bank of Milan. However, there are some philosophers according to whom the Italian word 'banco' means table. In the old days, the money lenders used to do banking transactions by keeping tables in the market and so the word 'bank' has been evolved

The advancement in the Indian banking system is classified into 3 distinct phases:

1. The pre-independence phase i.e. before 1947

2. Second phase from 1947 to 1991

3. Third phase 1991 and beyond

Phase I

This phase is characterized by the presence of a large number of banks (more than 600).Banking system commenced in India with the foundation of Bank of Hindustan in Calcutta (now Kolkata) in 1770 which ceased to operate in 1832. After that many banks came but some were not successful like – General Bank of India (1786-1791)

Oudh Commercial Bank (1881-1958) – the first commercial bank of India .Whereas some are successful and continue to lead even now like –Allahabad Bank (est. 1865)

Punjab National Bank (est. 1894, with HQ in Lahore (that time)) Bank of India (est. 1906) Bank of Baroda (est. 1908) Central Bank of India (est. 1911) While some others like Bank of Bengal (est. 1806), Bank of Bombay (est. 1840), Bank of Madras (est. 1843) merged into a single entity in 1921 which came to be known as Imperial Bank of India.

Note: Imperial Bank of India was later renamed in 1955 as the State Bank of India**.**

In April 1935, Reserve Bank of India was formed based on the recommendation of Hilton Young Commission (setup in 1926).In this time period, most of the bank were small in size

and suffered from high rate of failures. As a result public confidence is low in these banks and deposit mobilization was also very slow. People continued to rely on unorganized sector (moneylenders and indigenous bankers).

Phase II

Broadly the main characteristic feature of this phase is the nationalization of bank. With the view of economic planning, nationalization emerged as the effective measure.

Need for nationalization in India:

a) The banks mostly catered to the needs of large industries, big business houses.

b) Sectors such as agriculture, small scale industries and exports were lagging behind.

c) The poor masses continued to be exploited by the moneylenders.

Following this, in the year 1949, 1st January the Reserve Bank of India was nationalized.14 commercial banks were nationalized in 19th July, 1969**.** Smt. Indira Gandhi was the Prime Minister of India, during in 1969 These were Central Bank of India, Bank of India ,Punjab National Bank, Bank of Baroda United Commercial Bank, Canara Bank ,Syndicate Bank ,Allahabad Bank Indian Bank, Union Bank of India, Bank of Maharashtra ,Indian Overseas Bank 6 more commercial banks were nationalized in April 1980. These were: Andhra Bank, Corporation Bank, New Bank of India, Oriental Bank of Commerce Punjab & Sindh Bank, Vijaya Bank.

Note: In 1993, New Bank of India got merged with Punjab National Bank.

Meanwhile on the recommendation of M.Narsimhan committee, RRBs (Regional Rural Banks) were formed on Oct 2, 1975. The objective behind the formation of RRBs was to serve large un served population of rural areas and promoting financial inclusion. With a

view to meet the specific requirement from the different sector (i.e. agriculture, housing, foreign trade, industry) some apex level banking institutions were also setup like

NABARD (est. 1982)

EXIM (est. 1982)

NHB (est. 1988)

SIDBI (est. 1990)

Impact of Nationalization:
a) Improved efficiency in the Banking system – since the public's confidence got boosted.

b) Sectors such as Agriculture, small and medium industries started getting funds – led to economic growth.

c) Increased penetration of Bank branches in the rural areas.

Phase III

This period saw a remarkable growth in the process of development of banks with the liberalization of economic policies**.** Even after nationalization and the subsequent regulations that followed, a large portion of masses are untouched by the banking services.

Considering this, in 1991, the Narsimhan committee gave its recommendation i.e. to allow the entry of private sector players into the banking system. Following this RBI gave license to 10 private entities, of which 6 are survived, which are- **ICICI, HDFC,** Axis Bank, IDBI, Indus, DCB.
In 1998, the Narsimhan committee again recommended entry of more private players. As a result RBI gave license to Kotak Mahindra Bank (2003) Yes Bank (2004) In 2013-14, 3rd round of bank licensing took place. And in 2014 IDFC bank and Bandhan Bank emerged. In

order to further financial inclusion, RBI also proposed to set up 2 kind of banks i.e. Payment Banks and Small Banks.

Some Important Facts –

- Allahabad Bank, established in 1865 – Allahabad Bank is the oldest Public Sector Bank in India having branches all over India and serving the customers for the last 145 years.
- Imperial Bank of India was later renamed in 1955 as the State Bank of India.
- The first Bank of India with Limited Liability to be managed by Indian Board was Oudh Commercial Bank. It was established in 1881 at Faizabad.
- Punjab National Bank is the first bank purely managed by Indians, which was established in Lahore in 1895.
- First Truly Swadeshi bank – Central Bank of India is called India's First Truly Swadeshi bank, which was established in 1911 and wholly owned and managed by Indians.
- Union Bank of India was inaugurated by Mahatma Gandhi in 1919.
- Osborne Smith was the first governor of the Reserve Bank.
- CD Desmukh was the first Indian to be the governor of Reserve Bank.
- Savings account system in India was started by Presidency Bank, 1833.
- The first Indian bank to open overseas branch is Bank of India. It established a branch in London in 1946.
- ICICI Bank was the first Indian bank to provide internet banking facility.
- Central Bank of India was the first public bank to introduce Credit card.
- ICICI bank is the first bank to provide mobile ATM.
- Bank of Baroda has the maximum number of overseas branches.

Bank :Meaning :

A bank is a financial institution which deals with deposits and advances and other related services. It receives money from those who want to save in the form of deposits and it lends money to those who need it. A bank is a financial institution and a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly by loaning or indirectly through capital markets. A bank is the connection between customers that have capital deficits and customers with capital surpluses.

Definitions:

1) F.E. Perry:

"The bank is an establishment which deals in money, receiving it on deposit from customers, honoring customer's drawings against such deposits on demand, collecting cheques for customs and lending or investing surplus deposits until they are required for repayment."

2) Walter Leaf:

"A banker is an institution or individual who is always ready to receive money on deposits to be returned against the cheques of their depositors."

MAIN FUNCTIONS OF COMMERCIAL BANKS

The main functions of commercial banks are accepting deposits from the public and advancing them loans. However, besides these functions there are many other functions which these banks perform. All these functions can be divided under the following heads:

1. Accepting deposits

2. Giving loans

3. Overdraft

4. Discounting of Bills of Exchange

5. Investment of Funds

6. Agency Functions

7. Miscellaneous Functions

1. **Accepting Deposits:**

The most important function of commercial banks is to accept deposits from the public. Various sections of society, according to their needs and economic condition, deposit their savings with the banks.

For example, fixed and low income group people deposit their savings in small amounts from the points of view of security, income and saving promotion. On the other hand, traders and businessmen deposit their savings in the banks for the convenience of payment.

Therefore, keeping the needs and interests of various sections of society, banks formulate various deposit schemes. Generally, there are three types of deposits which are as follows:

(i) **Current Deposits:**

The depositors of such deposits can withdraw and deposit money whenever they desire. Since banks have to keep the deposited amount of such accounts in cash always, they carry either no interest or very low rate of interest. These deposits are called as Demand Deposits because these can be demanded or withdrawn by the depositors at any time they want.

Such deposit accounts are highly useful for traders and big business firms because they have to make payments and accept payments many times in a day.

(ii) **Fixed Deposits:**

These are the deposits which are deposited for a definite period of time. This period is generally not less than one year and, therefore, these are called as long term deposits. These deposits cannot be withdrawn before the expiry of the stipulated time and, therefore, these are also called as time deposits..

(iii) **Saving Deposits:**

In such deposits, money up to a certain limit can be deposited and withdrawn once or twice in a week. On such deposits, the rate of interest is very less. As is evident from the name of such deposits their main objective is to mobilize small savings in the form of deposits. These deposits are generally done by salaried people and the people who have fixed and less income.

2. **Giving Loans:**

The second important function of commercial banks is to advance loans to its customers. Banks charge interest from the borrowers and this is the main source of their income.

Banks advance loans not only on the basis of the deposits of the public rather they also advance loans on the basis of depositing the money in the accounts of borrowers. In other words, they create loans out of deposits and deposits out of loans. This is called as credit creation by commercial banks..

(i) **Cash Credit:**

In this type of credit scheme, banks advance loans to its customers on the basis of bonds, inventories and other approved securities. Under this scheme, banks enter into an agreement with its customers to which money can be withdrawn many times during a year. Under this

set up banks open accounts of their customers and deposit the loan money. With this type of loan, credit is created.

(iii) **Demand loans:**

These are such loans that can be recalled on demand by the banks. The entire loan amount is paid in lump sum by crediting it to the loan account of the borrower, and thus entire loan becomes chargeable to interest with immediate effect.

(iv) **Short-term loan:**

These loans may be given as personal loans, loans to finance working capital or as priority sector advances. These are made against some security and entire loan amount is transferred to the loan account of the borrower

3. **Over-Draft:**

Banks advance loans to its customer's up to a certain amount through over-drafts, if there are no deposits in the current account. For this banks demand a security from the customers and charge very high rate of interest.

4. **Discounting of Bills of Exchange:**

This is the most prevalent and important method of advancing loans to the traders for short-term purposes. Under this system, banks advance loans to the traders and business firms by discounting their bills. In this way, businessmen get loans on the basis of their bills of exchange before the time of their maturity.

5. **Investment of Funds:**

The banks invest their surplus funds in three types of securities—Government securities, other approved securities and other securities. Government securities include both, central and state governments, such as treasury bills, national savings certificate etc.

Other securities include securities of state associated bodies like electricity boards, housing boards, debentures of Land Development Banks units of UTI, shares of Regional Rural banks etc.

6. **Agency Functions:**

Banks function in the form of agents and representatives of their customers. Customers give their consent for performing such functions. The important functions of these types are as follows:

(i) Banks collect cheques, drafts, bills of exchange and dividends of the shares for their customers.

(ii) Banks make payment for their clients and at times accept the bills of exchange: of their customers for which payment is made at the fixed time.

7. **Miscellaneous Functions:**

Besides the functions mentioned above, banks perform many other functions of general utility which are as follows:

(i) Banks make arrangement of lockers for the safe custody of valuable assets of their customers such as gold, silver, legal documents etc.

(ii) Banks give reference for their customers.

(iii) Banks collect necessary and useful statistics relating to trade and industry.

(iv) For facilitating foreign trade, banks undertake to sell and purchase foreign exchange.

(v) Banks advise their clients relating to investment decisions as specialist

(vi) Bank does the under-writing of shares and debentures also.

(vii) Banks issue letters of credit.

(viii) During natural calamities, banks are highly useful in mobilizing funds and donations.

(ix) Banks provide loans for consumer durables like Car, Air-conditioner, and Fridge etc.

BANK SUBSIDIARIES

- Bank Controls One or More Subsidiaries
- Subsidiaries Offer Other Services Such as Insurance and Security Brokerage Services
- Profits and Losses of Each Subsidiary Impact Parent Bank

AGENCY SERVICES OF COMMERCIAL BANKS

Agency Services or Agency functions of commercial banks are elaborated in detail below

1. **Collection of Cheques, Dividends, Interests etc.**: Collecting cheques, drafts, bill of exchange, dividends, interests etc. on behalf of its customers and credit the amount in their account is one of the most important agency services rendered by the banks. Banker accepts standing instructions from the customers and arranges to collect dividend, interest, pension, salaries, bills etc. on behalf of his customers.

2. Payment of Subscription, Rent, Insurance Premium etc.: Banks undertake the payment of subscriptions, rent, insurance premium etc. on behalf of the customers and debit the account with the amount. It accepts the standing instructions of the customer and arranges

for. The payment of such expenses on their behalf. It charges a small amount by way of commission for these services.

3. **Conduct of Stock Exchange Transactions**: Banks purchase and sell various securities such as shares, debentures, bonds etc. of joint stock companies both private and Government on behalf of their customers.

4. **Acting as Executor, Trustees, Attorneys etc.**: Banks act as executors of will, trustees, attorneys and administrators. As an executor it preserves the “Wills” of the customers and executes them after their death. As a trustee, it takes care of the funds of the customers. As an attorney, it signs transfer forms and documents on behalf of the customer.

5. **Preparation of Income Tax Returns**: Banks prepare income tax returns for their customers through their tax service departments.

6. **Conducting Foreign Exchange Transactions**: Commercial banks purchase and sell foreign exchange for their customers.

7. Banker acts as an agent to the customer. When a customer deposits cheques, drafts, bills or any other promissory notes, the banker collects them and on realization credits the account of the customer. For this activity, the banker is given commission. Banks also act as a correspondent, representative of their customers. Some banks may even get the travelers’ tickets, passport etc. for their customers

SOCIAL RESPONSIBILITY OF BANKS IN INDIA

As per the instruction of the RBI, majority of the banks started their Corporate Social Responsibility. Government reduce the tax only for the bank those adopted CSR.

Rural Branch Expansion: Banks are expand their branches in rural areas. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a road block to financial inclusion in many states. Apart from this there is inadequate legal and financial structure. Jammu and Kashmir Bank is the top performer in rural branch expansion variable and YES banks is the least performer in rural branch expansion variable among private sector banks. CITI and Standard Chartered banks don't have any branch in rural areas. Thus overall it can be interpret from the table 3 that public banks are leading in rural branch expansion then private sector banks and at last foreign banks.

Priority Sector Lending: As described by the Reserve Bank of India, Priority Sector lending means lending to the agriculture, small scale and ancillary industries, new and renewable sources of energy, cottage industries, artisans, food and agro based processing, education, housing and weaker section.

Environment Protection: This variable includes all the activities carried out by the banks for the purpose of environment protection or to reduce the environmental harm by adopting different initiatives, replacing traditional activities by eco friendly processes or activities in day to day business. The World Bank has also pressurized the banks not to finance the projects, which are causing harm to the environment either directly or indirectly.

1. Assistance for rain water harvesting tanks

2. Wild animal protection projects

3. Tree plantation drives

Financial Literacy:

As per the Reserve Bank of India, Financial literacy is providing familiarity with and understanding of financial market products, especially rewards and risks, in order to make informed choices. It is the ability to know, monitor, and effectively use financial resources to

enhance the well-being and economic security of oneself, one's family, and one's business. Financial literacy has assumed greater importance in the recent years, as financial markets have become increasingly complex and as there is information asymmetry between markets and the common person, leading to the latter finding it increasingly difficult to make informed choices. In India, the need for financial literacy is even greater considering the low levels of literacy and the large section of the population, which still remains out of the formal financial set-up. Credit Counseling can be defined as counseling that explores the possibility of repaying debts outside bankruptcy and educates the debtor about credit, budgeting, and financial management. In view of the above two points the RBI has initiated a scheme for setting up of Financial Literacy and Credit Counseling (FLCC) Centre's by the banks. Certain banks have not just opened the FLCC centers but have also taken other measures to promote finance education among people.

Farmer's Welfare:

Indian economy has always been an agriculture based economy. Although the contribution of agriculture to the GDP of the country has decreased in past years, a large portion of population still depends upon agriculture for its survival. However, the agriculture sector is still in a meager state. Some of the major activities done by the banks under the farmer's welfare are as follows:

- Agriculture Debt Waiver & Debt Relief Scheme
- Loan for Solar Water Heating Systems at concessional rate,
- Rural Extension Education Programmers enabling farmers & entrepreneurs to improve their productivity/production,
- Establishment of Farmers clubs,
- Farmers' Training Centers (FTCs),
- Special credit cards for farmers,
- Agriculture knowledge sharing Programs,

- National insurance programs for agriculture
- Financing rural go downs and cold storages/warehouses,
- Debt Swap Schemes
- Setting up agriculture clusters for better farming
- Commodity finance against pledge of warehouse receipts of agro commodities

BANKING SECTOR AND CSR

As per the instruction of the RBI, majority of the banks started their Corporate Social Responsibility. Government reduce the tax only for the bank those adopted CSR.

The bank plan and implement several educational programs

1. Building School infrastructure
2. Training for fresh Teachers
3. Scholarship to financial backward students
4. Vehicles sponsored to Education Institutions
5. Career Guidance program
6. Computer distribution to Rural Schools

They do many activities relevant to the Health

- Blood Donation Campaign
- Cancer Awareness Campaign
- Medical Camps/ Eye Camps
- Vehicle to differently able children Schools
- Support to HIV/AIDS Awareness programmers in Schools and Villages.
- Call Centre- Physically Challenged
- Ambulance Sponsored to St. John’s Health Service

- Free Day Care centre
- PNB Farmer Welfare Trust
- Farmers Training Centers

Unit –II

CENTRAL BANK:

A central bank is an independent national authority that conducts monetary policy, regulates banks, and provides financial services including economic research. Its goals are to stabilize the nation's currency, keep unemployment low and prevent inflation

FUNCTIONS OF A CENTRAL BANK:

A central bank performs the following functions, as given by De Kock and accepted by the majority of economists.

1. Regulator of Currency:

The central bank is the bank of issue. It has the monopoly of note issue. Notes issued by it circulate as legal tender money. It has its issue department which issues notes and coins to commercial banks. Coins are manufactured in the government mint but they are put into circulation through the central bank. Central banks have been following different methods of note issue in different countries. The central bank is required by law to keep a certain amount of gold and foreign securities against the issue of notes.

2. Banker, Fiscal Agent and Adviser to the Government:

Central banks everywhere act as bankers, fiscal agents and advisers to their respective governments. As banker to the government, the central bank keeps the deposits of the central and state governments and makes payments on behalf of governments. But it does not pay interest on governments deposits. It buys and sells foreign currencies on behalf of the government.

It keeps the stock of gold of the government. Thus it is the custodian of government money and wealth. As a fiscal agent, the central bank makes short-term loans to the government for a period not exceeding 90 days. It floats loans, pays interest on them, and finally repays them on behalf of the government. Thus it manages the entire public debt. The central bank also

advises the government on such economic and money matters as controlling inflation or deflation, devaluation or revaluation of the currency, deficit financing, balance of payments, etc.

3. Custodian of Cash Reserves of Commercial Banks:

Commercial banks are required by law to keep reserves equal to a certain percentage of both time and demand deposits liabilities with the central banks. It is on the basis of these reserves that the central bank transfers funds from one bank to another to facilitate the clearing of cheques.

Thus the central bank acts as the custodian of the cash reserves of commercial banks and helps in facilitating their transactions. There are many advantages of keeping the cash reserves of the commercial banks with the central bank, according to De Kock.

In the first place, the centralization of cash reserves in the central bank is a source of great strength to the banking system of a country. Secondly, centralized cash reserves can serve as the basis of a large and more elastic credit structure than if the same amount were scattered among the individual banks.

Thirdly, centralized cash reserves can be utilized fully and most effectively during periods of seasonal strains and in financial crises or emergencies. Fourthly, by varying these cash reserves the central bank can control the credit creation by commercial banks. Lastly, the central bank can provide additional funds on a temporary and short term basis to commercial banks to overcome their financial difficulties.

4. Custody and Management of Foreign Exchange Reserves:

The central bank keeps and manages the foreign exchange reserves of the country. It is an official reservoir of gold and foreign currencies. It sells gold at fixed prices to the monetary

authorities of other countries. It also buys and sells foreign currencies at international prices. Further, it fixes the exchange rates of the domestic currency in terms of foreign currencies.

5. Lender of the Last Resort:

De Kock regards this function as a sine qua non of central banking. By granting accommodation in the form of re-discounts and collateral advances to commercial banks, bill brokers and dealers, or other financial institutions, the central bank acts as the lender of the last resort.

The central bank lends to such institutions in order to help them in times of stress so as to save the financial structure of the country from collapse. It acts as lender of the last resort through discount house on the basis of treasury bills, government securities and bonds at “the front door”.

The other method is to give temporary accommodation to the commercial banks or discount houses directly through the “back door”. The difference between the two methods is that lending at the front door is at the bank rate and in the second case at the market rate. Thus the central bank as lender of the last resort is a big source of cash and also influences prices and market rates.

6. Clearing House for Transfer and Settlement:

As bankers’ bank, the central bank acts as a clearing house for transfer and settlement of mutual claims of commercial banks. Since the central bank holds reserves of commercial banks, it transfers funds from one bank to other banks to facilitate clearing of cheques. This is done by making transfer entries in their accounts on the principle of book-keeping. To transfer and settle claims of one bank upon others, the central bank operates a separate department in big cities and trade centers. This department is known as the “clearing house” and it renders the service free to commercial banks.

7. Controller of Credit:

The most important function of the central bank is to control the credit creation power of commercial bank in order to control inflationary and deflationary pressures within this economy. For this purpose, it adopts quantitative methods and qualitative methods. Quantitative methods aim at controlling the cost and quantity of credit by adopting bank rate policy, open market operations, and by variations in reserve ratios of commercial banks.

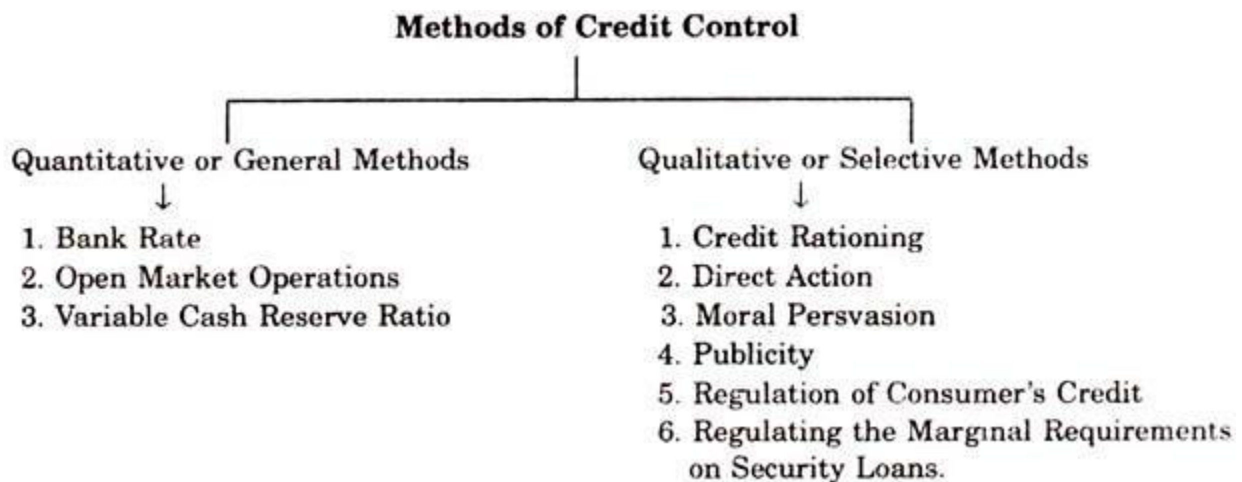
METHODS OF CREDIT CONTROL

The following points highlight the two categories of methods of credit control by central bank.

The two categories are:

I. Quantitative or General Methods

II. Qualitative or Selective Methods.



I. Quantitative or General Methods:

1. Bank Rate Policy:

The bank rate is the rate at which the Central Bank of a country is prepared to re-discount the first class securities.

It means the bank is prepared to advance loans on approved securities to its member banks.

As the Central Bank is only the lender of the last resort the bank rate is normally higher than the market rate.

For example:

If the Central Bank wants to control credit, it will raise the bank rate. As a result, the market rate and other lending rates in the money-market will go up. Borrowing will be discouraged. The raising of bank rate will lead to contraction of credit.

Similarly, a fall in bank rate mil lowers the lending rates in the money market which in turn will stimulate commercial and industrial activity, for which more credit will be required from the banks. Thus, there will be expansion of the volume of bank Credit.

2. Open Market Operations:

This method of credit control is used in two senses:

(i) In the narrow sense, and

(ii) In broad sense.

In narrow sense the Central Bank starts the purchase and sale of Government securities in the money market. But in the Broad Sense the Central Bank purchases and sale not only

Government securities but also of other proper and eligible securities like bills and securities of private concerns. When the banks and the private individuals purchase these securities they have to make payments for these securities to the Central Bank.

This gives result in the fall in the cash reserves of the Commercial Banks, which in turn reduces the ability of create credit. Through this way of working the Central Bank is able to exercise a check on the expansion of credit.

3. Variable Cash Reserve Ratio:

Under this system the Central Bank controls credit by changing the Cash Reserves Ratio. For example If the Commercial Banks have excessive cash reserves on the basis of which they are creating too much of credit which is harmful for the larger interest of the economy. So it will raise the cash reserve ratio which the Commercial Banks are required to maintain with the Central Bank.

This activity of the Central Bank will force the Commercial Banks to curtail the creation of credit in the economy. In this way by raising the cash reserve ratio of the Commercial Banks the Central Bank will be able to put an effective check on the inflationary expansion of credit in the economy.

Either variable cash reserve ratio or open market operations:

From the analysis and discussions made above of these two methods of credit, it can be said that the variable cash reserve ratio method is superior to open market operations on the following grounds:

(1) Open market operations is time consuming procedure while cash reserves ratio produces immediate effect in the economy.

(2) Open market operations can work successfully only where securities market in a country are well organized and well developed.

While Cash Reserve Ratio does not require such type of securities market for the successful implementation.

II. Qualitative or Selective Method of Credit Control

The qualitative or the selective methods are directed towards the diversion of credit into particular uses or channels in the economy. Their objective is mainly to control and regulate the flow of credit into particular industries or businesses.

The following are the important methods of credit control under selective method:

1. Rationing of Credit.

2. Direct Action.

3. Moral Persuasion.

4. Method of Publicity.

5. Regulation of Consumer's Credit.

6. Regulating the Marginal Requirements on Security Loans.

1. Rationing of Credit:

Under this method the credit is rationed by limiting the amount available to each applicant. The Central Bank puts restrictions on demands for accommodations made upon it during times of monetary stringency.

In this the Central Bank discourages the granting of loans to stock exchanges by refusing to re-discount the papers of the bank which have extended liberal loans to the speculators. This

is an important method of credit control and this policy has been adopted by a number of countries like Russia and Germany.

2. Direct Action:

Under this method if the Commercial Banks do not follow the policy of the Central Bank, then the Central Bank has the only recourse to direct action. This method can be used to enforce both quantitatively and qualitatively credit controls by the Central Banks. This method is not used in isolation; it is used as a supplement to other methods of credit control.

Direct action may take the form either of a refusal on the part of the Central Bank to re-discount for banks whose credit policy is regarded as being inconsistent with the maintenance of sound credit conditions. Even then the Commercial Banks do not fall in line, the Central Bank has the constitutional power to order for their closure.

This method can be successful only when the Central Bank is powerful enough and has cordial relations with the Commercial Banks. Mostly such circumstances are rare when the Central Bank is forced to resist to such measures.

3. Moral Persuasion:

This method is frequently adopted by the Central Bank to exercise control over the Commercial Banks. Under this method Central Bank gives advice, then request and persuasion to the Commercial Banks to co-operate with the Central Bank is implementing its credit policies.

If the Commercial Banks do not follow or do not abide by the advice or request of the Central Bank no gross action is taken against them. The Central Bank merely was its moral influence and pressure with the Commercial Banks to prevail upon them to accept and follow the policies.

4. Method of Publicity:

In modern times, Central Bank in order to make their policies successful, take the course of the medium of publicity. A policy can be effectively successful only when an effective public opinion is created in its favor.

Its officials through news-papers, journals, conferences and seminar's present a correct picture of the economic conditions of the country before the public and give a prospective economic policies. In developed countries Commercial Banks automatically change their credit creation policy. But in developing countries Commercial Banks are being lured by regional gains. Even the Reserve Bank of India follows this policy.

5. Regulation of Consumer's Credit:

Under this method consumers are given credit in a little quantity and this period is fixed for 18 months; consequently credit creation expanded within the limit. This method was originally adopted by the U.S.A. as a protective and defensive measure, there after it has been used and adopted by various other countries.

6. Changes in the Marginal Requirements on Security Loans:

This system is mostly followed in U.S.A. Under this system, the Board of Governors of the Federal Reserve System has been given the power to prescribe margin requirements for the purpose of preventing an excessive use of credit for stock exchange speculation.

This system is specially intended to help the Central Bank in controlling the volume of credit used for speculation in securities under the Securities Exchange Act, 1934.

TRADITIONAL FUNCTIONS

The traditional functions of Reserve Bank of India includes Issue of Currency, Banker to Govt, Bankers Bank, Credit control Measures, lender of lost resort, exchange control, clearing house etc.

1. **Issue of Currency**: RBI undertakes issue of currency and the system adopted in India is the minimum reserve system. All the currency notes from Rs. 2, Rs 5, Rs. 10, Rs. 50, Rs. 100, Rs. 500 and Rs. 1,000 are issued by RBI and they carry the signature of Reserve Bank of India Governor. They are called unlimited legal tender and any amount of payment can be made with these currencies subject to the regulations of Income Tax Act, 1961.

The one rupee note and smaller coins are issued by the government and they are called limited legal tender which means that they can be demanded as a medium of payment only to a limited extent. The one rupee note carries the signature of secretary to the Ministry of Finance.

2. **Banker to Government**: Reserve Bank of India acts as a banker to the government by maintaining the account of Central government and also that of the State government. It also provides overdraft facility to both State and Central governments. The public borrowings of government are done through Reserve Bank of India. Payments to the government such as income tax are also accepted by Reserve Bank of India.

3. **Bankers' Bank**: The other traditional function of RBI consisting of bankers' bank is done in the following manner:

1. Issuing license to banks and allowing them to open branches under the provisions of Banking Regulation Act.

2. RBI also controls the working of commercial banks and undertakes periodical inspection of these banks.
3. In case of violation of the Banking Regulation Act by any of the commercial banks, RBI will order for the closure of these banks.
4. The management of the commercial banks will also be controlled by Reserve Bank of India. All the top level management appointments of commercial banks require prior approval of RBI.
5. The credit requirements of commercial banks are met by discounting and re-discounting eligible securities at the bank rate.

4. **Credit Control functions**: RBI exercise the following credit control measures

- The quantitative weapons of bank rate, open market operation and variable reserve ratio are exercised by Reserve Bank of India.
- The modern weapon of selective credit control is also being exercised by RBI particularly on agricultural commodities.
- The seasonal fluctuations in the money market is balanced by Reserve Bank of India through adequate finance during a period of financial stringency.

5. **RBI acts as lender of last resort**: The commercial banks have to maintain as a part of statutory requirements certain percentage of their deposits with RBI which is called cash reserve ratio.

By increasing or decreasing this percentage of cash reserve ratio, RBI allows adequate funds for lending purpose by commercial banks. When all the commercial banks are depositing with Reserve Bank of India in the form of cash reserve ratio, a sizable amount of fund is available with RBI. This fund will be extended by RBI to any commercial bank which is facing crisis.

6. **Exchange control function**: In India, we have the exchange control since independence and RBI is given enough powers to exercise exchange control. Without the license of Reserve Bank of India no one can deal in foreign exchange. The exchange rate with different foreign currencies is provided by RBI to its authorized dealers consisting of nationalized and other private commercial banks.

All the foreign exchange earnings in the country are kept by RBI in the form of foreign exchange reserve. RBI also has the responsibility of maintaining the value of domestic currency and take adequate measures so that its value does not depreciate abnormally in relation to foreign currencies.

7.Clearing house: In all big cities Reserve Bank of India has its branches and clearing house operations are undertaken. Where RBI does not have its branch, the clearing house operations are undertaken by State Bank of India and its subsidiary banks. All the commercial banks in India are members in clearing house and they take part in the clearing of cheques.

PROMOTIONAL FUNCTIONS

Various promotional functions performed by the Reserve Bank of India are given below

1. **Promotion of Banking Habit**: The Reserve Bank of India helps in mobilizing the savings of the people for investment. It expanded banking system throughout the nation by setting up of various institutions like UTI, IDBI, IRCI, NABARD etc. Thereby it promoted banking habit among the people.

2. **Providing Refinance for Exports**: The Reserve Bank of India is providing refinance for export promotion. The Export Credit and Guarantee Corporation (ECGC) and Export Import Bank were established initially by the Reserve Bank of India to finance the foreign trade of

India. They finance foreign trade in the form of insurance cover, long-term finance and foreign currency credit. However, they are now functioning separately.

3. **Providing Credit to Agriculture**: The Reserve Bank of India makes institutional arrangements for rural or agricultural finance. For example, the bank has set up special agricultural credit cells. It has promoted regional rural banks with the help of commercial banks. It has also promoted NABARD.

4. **Providing Credit to Small Scale Industrial Unit**: Commercial banks lend loans to small-scale industrial units as per the directives issued by the Reserve Bank of India time to time. The Reserve Bank of India encourages commercial banks to render guarantee services also to small-scale industrial sector. The Reserve Bank of India considers advances given to small-scale sector as priority sector advances. It also directed commercial banks to open specialized branches to provide adequate financial and technical assistance to small-scale industrial branches.

5. **Providing Indirect finance to Cooperative Sector**: The RBI has directed NABARD to give loans to State Cooperative Banks, which in turn lend loans to cooperative sector. Hence, the Reserve Bank of India provides indirect finance to cooperative sector in India.

6. **Exercising Control over Monetary and Banking system of the Country**: The Reserve Bank of India is vested with enormous and extensive powers regarding supervision and control over commercial banks, cooperative banks and also non-banking institutions receiving deposits. The Banking Regulation Act prescribes extensive requirements as minimum regarding the paid-up capital, reserves, cash reserves and liquid assets.

The operation of the bank, the management, amalgamation, reconstruction and liquidation etc. are thoroughly supervised by the officials of the Reserve Bank of India. Every scheduled

bank is required to furnish to the Reserve Bank a weekly statement showing the principal items of its liabilities and assets in India.

7. Making Industrial arrangement for Industrial Finance: The Reserve Bank of India makes institutional arrangement for industrial finance. For instance, it has brought into existence several development banks such as the Industrial Finance Corporation of India, the Industrial Development Bank of India, which provide long-term finance to industries.

MONETARY POLICY OF RESERVE BANK OF INDIA

Introduction

Monetary policy also known as the credit policy, is the policy which is purely managed by our Central bank of India (Reserve Bank of India) to control the money supply in the economy & amount of credit in the economy.

Monetary policy is governed by RBI. Monetary policy through both monetary and non-monetary measures influence savings, investment, output, income & price level in the economy.

To control the money supply RBI uses various instruments. Basically RBI control these rates like Bank Rates, MSF, Repo Rate, Reverse Repo rate, Cash Reserve ratio & Statutory liquidity ratio in order to manage price stability in the economy & to achieve high economic growth.

Cash Reserve Ratio

Every bank maintains a certain % of their total deposits with RBI in the form of Cash and Net demand & Time liabilities. Current CRR is 4%. Every Bank has to pay the amount to RBI on every 15 Days.

Statutory Liquidity Ratio (SLR)

Every bank has to maintain a certain % of their total deposits in the form of (Gold + Cash + bonds + Securities) with themselves at the end of every business days. Current SLR is 20.75%.

Indirect Instruments

Bank rate is also termed as "Discount Rate" The rate through which RBI charges certain % for providing money to other banks without any security for Long period of time for 90 Days & Current Bank Rate is 6.75%.

MSF (Marginal Standing Facility)

MSF is the rate through which bank can borrow funds for Short time – Overnight basis. Current MSF is 6.75%.

Repo Rate

Repo rate is the rate through which RBI lends money to commercial bank with security for Short period of time in the event of short fall of funds. Current Repo rate is 6.25%.

Reverse Repo Rate

Reverse Repo rate is the rate through which Commercial Bank lends money to Central Bank of India i.e. RBI, for Short period of time. Current reverse repo rate is 5.75%

BRANCH LICENSING

The opening of branches by banks is governed by the provisions of Section 23 of the Banking Regulation Act, 1949. In terms of these provisions, without the prior approval of the Reserve Bank of India (RBI), banks cannot Open a new place of business in India or abroad Cannot shift or change, except within the same city, town or village the location of the existing place of business As regards branch licensing, banks have to refer to the guidelines of the Reserve Bank from time to time, including change of premises, shifting of branches to

other locations, etc. As regards Regional Rural Banks, the application for permission have to be routed through the National Bank for Agriculture and Rural Development and based on the comments of NABARD, RBI would act accordingly. The Branch Authorization Policy for commercial banks as on 1st July, 2013 is as under:

NEW BANK LICENSING POLICY, 2013

Over the last two decades, the Reserve Bank of India (RBI) gave license to twelve banks in the private sector. This happened in two phases. Ten banks were licensed on the basis of guidelines issued in January 1993. The guidelines were revised in January 2001 based on the experience gained from the functioning of these banks, and fresh applications were invited. The applications received in response to this invitation were vetted by a High Level Advisory Committee constituted by the RBI, and two more licences were issued, to two entities, viz., Kodak Mahindra Bank and Yes Bank. While preparing these guidelines, the Reserve Bank recognized the need for an explicit policy on banking structure in India keeping in view the recommendations of the Narasimham Committee, RaghuramRajan Committee and other viewpoints. Guidelines and important aspects

(A) Eligible Promoters

(i) Entities/groups in the private sector that are 'owned and controlled by residents' [as defined in Department of Industrial Policy and Promotion (DIPP)] and entities in public sector, are eligible to promote a bank through a wholly-owned Non-Operative Financial Holding Company (NOFHC).

(ii) Promoters/Promoter Groups with an existing non-banking financial company (NBFC) are eligible to apply for a bank licence.

(B) 'Fit and Proper' criteria

Promoters/Promoter Groups should be 'fit and proper' in order to be eligible to promote banks through a wholly owned NOFHC. RBI would assess the 'fit and proper' status of the applicants on the basis of following criteria

(a) Promoters/Promoter Groups should have a past record of sound credentials and integrity

(b) Promoters/Promoter Groups should be financially sound and have a successful track record of running their business for at least 10 years. RBI may, inter alia, seek feedback on applicant Groups on these or any other relevant aspects from other regulators, and enforcement and investigative agencies like Income Tax, CBI, Enforcement Directorate, etc. as deemed appropriate.

(C) Corporate structure of the NOFHC

(i) Promoter/Promoter Group will be permitted to set up a bank only through a wholly-owned Non-Operative

Financial Holding Company (NOFHC).

(ii) The NOFHC should hold the bank as well as all the other financial services entities of the Group regulated by RBI or other financial sector regulators. Only non-financial services companies/entities and non operative financial holding company in the Group and individuals belonging to Promoter Group will be allowed to hold shares in the NOFHC. Financial services entities whose shares are held by the NOFHC cannot be shareholders of the NOFHC. Lesson 2 Regulatory Framework and Compliances 21

(iii) The general principle is that no financial services entity held by the NOFHC would be allowed to engage in any activity that a bank is permitted to undertake departmentally. In this context:

(iv) The NOFHC should not be permitted to set up any new financial services entity for at least three years from the date of commencement of business of the NOFHC. However, this

would not preclude the bank from having a subsidiary or joint venture or associate, where it is legally required or specifically permitted by RBI.

(v) Only those regulated financial sector entities in which a Promoter Group has significant influence or control will be held under the NOFHC.

(vi) The Promoter/Promoter Group entities/individuals associated with Promoter Group should hold equity investment, in the bank and other financial entities held by it, only through the NOFHC.

(vi)Shares of the NOFHC should not be transferred to any entity outside the Promoter Group. Any change in shareholding (by the Promoter Group) with in the NOFHC as a result of which a shareholder acquires 5 per cent or more of the voting equity capital of the NOFHC should be with the prior approval of RBI.

(D) Minimum voting equity capital requirements for banks and shareholding by NOFHC

(i) The initial minimum paid-up voting equity capital for a bank should be `5 billion (500 crores). Any additional voting equity capital to be brought in will depend on the business plan of the Promoters.

(ii) The NOFHC should hold a minimum of 40 per cent of the paid-up voting equity capital of the bank which should be locked in for a period of five years from the date of commencement of business of the bank.

(iii) Shareholding by NOFHC in the bank in excess of 40 per cent of the total paid-up voting equity capital should be brought down to 40 per cent within three years from the date of commencement of business of the bank.

(iv)The shareholding by NOFHC should be brought down to 20 per cent of the paid-up voting equity capital of the bank within a period of 10 years, and to 15 per cent within 12 years from the date of commencement of business of the bank.

(v) The capital requirements for the regulated financial services entities held by the NOFHC should be as prescribed by the respective sect oral regulators. The bank should be required to maintain a minimum capital adequacy ratio of 13 per cent of its risk weighted assets (RWA) for a minimum period of 3 years after the commencement of its operations subject to any higher percentage as may be prescribed by RBI from time to time. On a consolidated basis, the NOFHC and the entities held by it should maintain a minimum capital adequacy of 13 per cent of its consolidated RWA for a minimum period of 3 years.

(vi)The bank should get its shares listed on the stock exchanges within three years of the commencement of business by the bank.

(E) Regulatory framework

(i) The NOFHC will be registered as a non-banking financial company (NBFC) with the RBI and will be governed by a separate set of directions issued by RBI.

(iii) The financial entities held by the NOFHC will be governed by the applicable Statutes and regulations prescribed by the respective financial sector regulators.

(F) Foreign shareholding in the bank

Where foreign shareholding in private sector banks is allowed up to a ceiling of 74 per cent of the paid-up voting equity capital, the aggregate non-resident shareholding from FDI, NRIs and FIIs in the new private sector banks should not exceed 49 per cent of the paid-up voting equity capital for the first 5 years from the date of licensing of the bank. No non-resident shareholder, directly or indirectly, individually or in groups, or through subsidiary, associate22 PP-BL&P or joint venture will be permitted to hold 5 per cent or more of the

paid-up voting equity capital of the bank for a period of 5 years from the date of commencement of business of the bank. After the expiry of 5 years from the date of commencement of business of the bank, the aggregate foreign shareholding would be as per the extant FDI policy.

(G) Corporate governance of NOFHC

The NOFHC should comply with the corporate governance guidelines as issued by RBI from time to time

(H) Prudential Norms for the NOFHC

The prudential norms will be applied to NOFHC both on stand-alone as well as on a consolidated basis. Some of the major prudential norms are as under:

(I) NOFHC on a stand-alone basis

(a) Prudential norms for classification, valuation and operation of investment portfolio.

(b) Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances.

(c) The NOFHC for the purpose of its liquidity management can make investments in bank deposits, money market instruments, government securities and actively traded bonds and debentures.

(d) The NOFHC should closely monitor its liquidity position and interest rate risk. For this purpose, the NOFHC should prepare a structural liquidity statement (STL) and interest rate sensitivity statement (IRS).

(f) The NOFHC may have a leverage up to 1.25 times of its paid-up equity capital and free reserves. The actual leverage assumed within this limit should be based on the ability of the NOFHC to service its borrowings from its dividend income.

(ii) NOFHC on a consolidated basis

(a) NOFHC should maintain capital adequacy and other requirements on a consolidated basis based on the prudential guidelines on Capital Adequacy and Market Discipline – New Capital Adequacy Framework (NCAF) issued under Basel II framework and Guidelines on Implementation of Basel III Capital Regulations in India, when implemented.

(b) The NOFHC should prepare consolidated financial statements and other consolidated prudential reports in terms of the Guidelines for consolidated accounting and other quantitative methods and in terms of Scope of Prudential Consolidation indicated under Basel III Capital Regulations.

(c) The consolidated NOFHC should adhere to the instructions on disclosure in Financial Statements -Notes to Accounts

(d) The consolidated NOFHC should prepare a structural liquidity statement (STL), interest rate sensitivity statement (IRS).

(I) Exposure norms

Exposure norms are to be observed as per the guidelines of the Reserve Bank of India from time to time.

(J) Business Plan for the bank

(a) Applicants for new bank licenses will be required to furnish their business plans for the banks along with their applications. The business plan will have to address how the bank proposes to achieve financial inclusion.

(b) The business plan submitted by the applicant should be realistic and viable. In case of deviation from the stated business plan after issue of licence, RBI may consider restricting

the bank's expansion, effecting change in management and imposing other penal measures as may be necessary.

(K) Other conditions for the bank

(i) The Board of the bank should have a majority of independent Directors.

(ii) Any acquisition of shares which will take the aggregate holding of an individual/entity/group to the equivalent of 5 per cent or more of the paid-up voting equity capital of the bank will require prior approval of RBI.

(iii) No single entity or group of related entities, other than the NOFHC, should have shareholding or control, directly or indirectly, in excess of 10 per cent of the paid-up voting equity capital of the bank.

(iv) The bank should comply with the priority sector lending targets and sub-targets as applicable to the existing domestic banks. For this purpose, the bank should build its priority sector lending portfolio from the commencement of its operations.

(v) The bank should open at least 25 per cent of its branches in unbanked rural centre's (population up to 9,999 as per the latest census) to avoid over concentration of their branches in metropolitan areas and cities which are already having adequate banking presence.

(vii) The bank should operate on Core Banking Solutions (CBS) from the beginning with all modern infrastructural facilities.

(viii) The bank should have a high powered Customer Grievances Cell to handle customer complaints.

(J) Procedure for RBI decisions

Reserve Bank of India would consider many factors before issuing the licenses for the new private sector banks. At the first stage, the applications will be screened by RBI to

ensure prima facie eligibility of the applicants. RBI may apply additional criteria to determine the suitability of applications, in addition to the ’fit and proper’ criteria prescribed by it. Thereafter, the applications will be referred to a High Level Advisory Committee to be set up by RBI.

The High Level Advisory Committee will comprise eminent persons with experience in banking, financial sector and other relevant areas. The constitution of the committee will be announced shortly. The High Level Advisory Committee will set up its own procedures for screening the application. The Committee will submit its recommendations to RBI for consideration. The decision to issue an in-principle approval for setting up of a bank will be taken by RBI. RBI’s decision in this regard will be final. The validity period of in-principal approval for setting up of a bank is 18 months.

UNIT-III

BANKER - CUSTOMER RELATIONSHIP

DEFINITION OF A 'BANKER'

The Banking Regulations Act (B R Act) 1949 does not define the term 'banker' but defines what banking is? As per **Sec.5 (b)** of the B R Act "Banking' means accepting, for the purpose of lending or investment, of deposits of money from the public repayable on demand or otherwise and withdraw able by cheque, draft, order or otherwise."

As per **Sec. 3** Indian Negotiable Instruments Act 1881, the word "banker includes any person acting as banker and any post office savings bank"

According to Sec. 2 of the Bill of Exchange Act, 1882, 'banker includes a body of persons, whether incorporated or not who carry on the business of banking.'

Who is a 'Customer'?

The term Customer has not been defined by any act. The word 'customer' has been derived from the word 'custom', which means a 'habit or tendency' to-do certain things in a regular or a particular manner's .In terms of Sec.131 of Negotiable Instrument Act, when a banker receives payment of a crossed cheque in good faith and without negligence for a customer, the bank does not incur any liability to the true owner of the cheque by reason only of having received such payment. It obviously means that to become a customer account relationship is must. Account relationship is a contractual relationship.

BANKER-CUSTOMER RELATIONSHIP:

Banking is a trust-based relationship. There are numerous kinds of relationship between the bank and the customer. The relationship between a banker and a customer depends on the type of transaction. Thus the relationship is based on contract, and on certain terms and conditions.

These relationships confer certain rights and obligations both on the part of the banker and on the customer. However, the personal relationship between the bank and its

customers is the long lasting relationship. Some banks even say that they have generation-to-generation banking relationship with their customers. The banker customer relationship is fiducially relationship. The terms and conditions governing the relationship is not be leaked by the banker to a third party.

CLASSIFICATION OF RELATIONSHIP:

The relationship between a bank and its customers can be broadly categorized in to General Relationship and Special Relationship. If we look at **Sec 5(b)** of Banking Regulation Act, we would notice that bank's business hovers around accepting of deposits for the purposes of lending. Thus the relationships arising out of these two main activities are known as General Relationship. In addition to these two activities banks also undertake other activities mentioned in Sec.6 of Banking Regulation Act. Relationship arising out of the activities mentioned in Sec.6 of the act is termed as special relationship.

GENERAL RELATIONSHIP:

1. Debtor-Creditor: When a 'customer' opens an account with a bank, he fills in and signs the account opening form. By signing the form he enters into an agreement/contract with the bank. When customer deposits money in his account the bank becomes a debtor of the customer and customer a creditor. The money so deposited by customer becomes bank's property and bank has a right to use the money as it likes. The bank is not bound to inform the depositor the manner of utilization of funds deposited by him. Bank does not give any security to the depositor i.e. debtor. The bank has borrowed money and it is only when the depositor demands, banker pays. Bank's position is quite different from normal debtors.

Banker does not pay money on its own, as banker is not required to repay the debt voluntarily. The demand is to be made at the branch where the account exists and in a proper manner and during working days and working hours.

The debtor has to follow the terms and conditions of bank said to have been mentioned in the account opening form. {Though the terms and conditions are not mentioned in the account opening form, but the account opening form contains a declaration that the

terms and conditions have been read and understood or has been explained. In fact the terms and conditions are mentioned in the passbook, which is issued to the customer only after the account has been opened. In the past while opening account some of the banks had the practice of giving a printed handbill containing the terms and conditions of account along with the account open form. This practice has since been discontinued. For convenience and information of prospective customers a few banks have uploaded the account opening form, terms and conditions for opening account, rate charge in respect of various services provided by the bank etc., on their web site.

While issuing Demand Draft, Mail / Telegraphic Transfer, bank becomes a debtor as it owns money to the payee/ beneficiary.

2. Creditor–Debtor: Lending money is the most important activities of a bank. The resources mobilized by banks are utilized for lending operations. Customer who borrows money from bank owns money to the bank. In the case of any loan/advances account, the banker is the creditor and the customer is the debtor. The relationship when person deposits money with the bank reverses when he borrows money from the bank. Borrower executes documents and offer security to the bank before utilizing the credit facility. In addition to opening of a deposit/loan account banks provide variety of services, which makes the relationship more wide and complex. Depending upon the type of services rendered and the nature of transaction, the banker acts as a bailee, trustee, principal, agent, lessor, custodian etc.

SPECIAL RELATIONSHIP:

1. Bank as a Trustee: As per **Sec. 3** of Indian Trust Act, 1882 ‘ A "trust" is an obligation annexed to the ownership of property, and arising out of a confidence reposed in and accepted by the owner, or declared and accepted by him, for the benefit of another, or of another and the owner.’ Thus trustee is the holder of property on behalf of a beneficiary.

As per **Sec. 15** of the 'Indian Trust Act, 1882 'A trustee is bound to deal with the trust-property as carefully as a man of ordinary prudence would deal with such property if it were his own; and, in the absence of a contract to the contrary, a trustee so dealing is not responsible for the loss, destruction or deterioration of the trust-property.' A trustee has the right to reimbursement of expenses (Sec.32 of Indian Trust Act.).

In case of trust banker customer relationship is a special contract. When a person entrusts valuable items with another person with an intention that such items would be returned on demand to the keeper the relationship becomes of a trustee and trustier. A customer keeps certain valuables or securities with the bank for safekeeping or deposits certain money for a specific purpose (Escrow accounts) the banker in such cases acts as a trustee. Banks charge fee for safekeeping valuables

2. Bailee – Bailor: Sec.148 of Indian Contract Act, 1872, defines "Bailment" "bailor" and "bailee". A "bailment" is the delivery of goods by one person to another for some purpose, upon a contract that they shall, when the purpose is accomplished, be returned or otherwise disposed of according to the directions of the person delivering them. The person delivering the goods is called the "bailor". The person to whom they are delivered is called, the "bailee".

Banks secure their advances by obtaining tangible securities. In some cases physical possession of securities goods (Pledge), valuables, bonds etc., are taken. While taking physical possession of securities the bank becomes bailee and the customer bailor. Banks also keeps articles, valuables, securities etc., of its customers in Safe Custody and acts as a Bailee. As a bailee the bank is required to take care of the goods bailed.

3. Lessor and Lessee: Sec.105 of 'Transfer of property Act 1882' defines lease, Lessor, lessee, premium and rent. As per the section "A lease of immovable property is a transfer of a right to enjoy such property, made for a certain time, express or implied, or in perpetuity, in consideration of a price paid or promised, or of money, a share of crops, service or any other

thing of value, to be rendered periodically or on specified occasions to the transferor by the transferee, who accepts the transfer on such terms."

Definition of Lessor, lessee, premium and rent:

(1)The transferor is called the lessor,

(2)The transferee is called the lessee,

(3)The price is called the premium, and

(4)The money, share, service or other thing to be so rendered is called the rent."

Providing safe deposit lockers is as an ancillary service provided by banks to customers. While providing Safe Deposit Vault/locker facility to their customers' bank enters into an agreement with the customer. The agreement is known as "Memorandum of letting" and attracts stamp duty.

The relationship between the bank and the customer is that of lessor and lessee. Banks lease (hire lockers to their customers) their immovable property to the customer and give them the right to enjoy such property during the specified period i.e. during the office/ banking hours and charge rentals. Bank has the right to break-open the locker in case the locker holder defaults in payment of rent. Banks do not assume any liability or responsibility in case of any damage to the contents kept in the locker. Banks do not insure the contents kept in the lockers by customers.

4. Agent and Principal: Sec.182 of 'The Indian Contract Act, 1872' defines "an agent" as a person employed to do any act for another or to represent another in dealings with third persons. The person for whom such act is done or who is so represented is called "the Principal".

Thus an agent is a person, who acts for and on behalf of the principal and under the latter's express or implied authority and the acts done within such authority are binding on his principal and, the principal is liable to the party for the acts of the agent.

Banks collect cheques, bills, and makes payment to various authorities viz., rent, telephone bills, insurance premium etc., on behalf of customers. . Banks also abides by the

standing instructions given by its customers. In all such cases bank acts as an agent of its customer, and charges for these services. As per Indian contract Act agent is entitled to charges. No charges are levied in collection of local cheques through clearing house. Charges are levied in only when the cheque is returned in the clearinghouse.

5. As a Guarantor: Banks give guarantee on behalf of their customers and enter in to their shoes. Guarantee is a contingent contract. As per sec 31,of Indian contract Act guarantee is a " contingent contract ". Contingent contract is a contract to do or not to do something, if some event, collateral to such contract, does or does not happen.
It would thus be observed that banker customer relationship is transactional relationship

RIGHTS OF THE BANKER

The rights of a banker that the banker can enjoy are as follows

1. Rights of general lien

One of the important rights of banker is the right of general lien. Lien means the right of the creditor to retain the goods or securities own by debtor until the debt due from him is repaid.
There are some exceptional cases in which the right of general lien is not applicable.
These are:

- Safe custody deposit.
- Documents deposited for special purpose.
- Security held in trust.

2. Right of the set off

A banker possess the right of set off which enables him to combine two accounts in the name of same customer and to adjust the debit balance in one account with the credit balance in the other. The right of set off can be exercised subject to the fulfillment of the following conditions:

- The accounts must be in the same name in the same right.
- The right can be exercised in respects of debts due only not in respects of future debts or contingent debts.
- The amount of debts must be certain.
- The banker may exercise that right at his discretion.

3. Banker's right of appropriation

If the customer has more than one account or he has taken more than one loan from the banker, the banker has the right to appropriation these loans by the accounts.

4. Right to charge interest, incidental charges

As a creditor, a banker has the implied right to charge interest on the loans granted to the customer.

In the same way incidental charges like service charges, processing fees, appraisal charges, panel charges may be imposed by the banker to the customer.

Deposit are repayable on term and made by the customer but the period of limitation for the refund of bank deposit is three years with affect from the date a customer made a demand for his money.

CHEQUE-MEANING:-

A written order of a depositor upon a bank to pay the designated party or the bearer a specified sum of money on demand. The person who draws the cheque is called drawer and the person whom the payment is made called payee. The bank will be called the drawee.

ESSENTIONALS FOR A VALID CHEQUE

The following are essential requirements for a valid cheque

Printed versions:

- Name of the bank and branch
- IFSC code of the bank branch
- Cheque number
- MICR code
- Account category

Written versions:

- Date of the cheque - the validity period of the cheque is three months and it should not be a stale cheque or post dated cheque - to be written by the drawer
- Name of the payee - to be written by the drawer
- Amount in words - to be written by the drawer
- Amount in figures - to be written - The amount mentioned in figures and words should be identical and in case of any difference, only the amount mentioned in words will be taken into account and the cheque need not be returned - to be written by the drawer
- Signature of the drawer - should match with the signature as recorded in the system
- Out of the following five items namely - date of the cheque, amount mentioned in words. amount in figures, name of the payee and signature of the drawer; the absence of anyone or more of the items will make the cheque as invalid

Origin of Crossing

Crossing first originated in England when cheques were sent from one bank another. There was the possibility that a cheque might fall in the hands of wrong or unauthorized parties and thereby the original holder was likely to be put to a loss or inconvenience. Crossing also ensures safety in case of a clerk carrying check to the clearing house was assaulted and robbed. To avoid this disadvantage, the bankers introduced new system of crossing of

cheque. Crossing automatically means that a cheque should be presented for payment through bank.

MEANING AND OBJECT OF CROSSING OF CHEQUE

Cross of cheque means drawing two parallel transverse lines on the left hand top corner of a cheque. Crossing on cheque is a direction to a paying banker by drawer that payment should not be made across the counter. The payment on a crossed cheque can be collected only a through a banker. Therefore crossing product the holder of the cheque and reduced the possibilities of fraud.

Advantages of crossing

- If payment is made by means of crossed cheque receipt need not be obtain
- Account payee crossed cheque makes sure that only a particular person to whom the cheque or drawn can receive payment
- If crossed cheque is lost the finder of the cheque cannot en cash it without a help of a banker
- Payments made through cheque particularly crossed cheque enable and automating record of the amount in passbook.

Impact of crossing

Crossing serves the purpose of direction to the bank only or to a particular bank as a case may. Crossing may be written, stamped or printed. Whenever two parallel transverse lines appear on the cheque bank, will not make payment to its holder at the counter of bank.

The payment of a crossed cheque can only be obtained through the bank of the holder. Thus crossing affords security and production to the true owner of the cheque. The object of crossing is to secure payment to a banking order to easily trace for whose benefit the

money was received. Crossing is done to avoid losses arising from open cheque falling into the hands of wrong person however crossing of a cheque thus not affect its negotiability crossed cheque is negotiable by mere delivery if it is payable to bearer and by endorsement and delivery case it is payable to order but were the words no negotiable are added to the crossing the cheque is not negotiable though transferable.

Types of crossing

1. General crossing

Where a cheque bears across its face and addition of the words" and company" or any abbreviation thereof (&co) between to parallel transverse lines or two simple parallel transverse lines with or without words "Not Negotiable," it is known to be crossed generally. The paying banker shall make payment only to banker in case of a generally crossed cheque.

2. Special crossing

Where a cheque bears across its faces an addition of the name of a bank with or without the words "Not negotiable", the cheque is said to be crossed specially. The paying banker shall make payment, on such a cheque, only to the banker whose name is written on the face of a specially crossed cheque.

3. Restrictive crossing:

Where a cheque bears across its face such words "Account payee" or "A/C payee only" along with general or special crossing it is known as restrictive crossing or account payee crossing (account payee cheque). The addition of these words to the crossing restricts the transferability of the cheque. The payee, in such cheque, should obtain payment through his own account in the bank.

4. Not negotiable crossing:

Where a cheque bears across its face the words “Not Negotiable” in addition to a general or special crossing, it is known as “Not Negotiable” in addition to general or special crossing, it is known as “Not Negotiable crossing.” A cheque with such words loses its characteristic of negotiability. The transferee of such cheque gets no better title than that of his transferor or previous holder. A person in possession of a negotiable instrument is permitted to alter it in certain respects without the consent of the drawer or the drawee (acceptor). In the same following respects without the consent of the drawer or of the banker on whom it is drawn:

a) If is a bearer cheque, he can convert it into an order cheque
b) If the cheque is uncrossed, he can cross it.
c) If the cheque is crossed generally, he can convert the crossing into a special crossing by adding the name of the banker to whom alone it can be paid.
d) He can add restrictive words on the cheque, such as, “not negotiable” or “account payee only.”

A banker in possession of a cheque which has been given to him by his customer for collection can also convert a general crossing into a special crossing.

Stale cheque:

If a cheque is not presented for payment within a reasonable time, it becomes stale or out-of-date cheque. What is a reasonable time depends upon the arrangement between the various banks and the customers; in India, the reasonable period is six months. No payment is made on stale cheque without getting it confirmed by the drawer.

Mutilated cheque:

Mutilated cheques are those cheques which have been damaged or mutilated in course of circulation. Such cheques are not honoured by the bankers, in general, for payment.

Marked cheques:

In some countries (other than India) there is a practice that the cheques are marked or certified by the drawee bankers indicating that on the date of presentation, the banker had sufficient funds for payment of the cheque.

DEFINITION OF 'BANK ENDORSEMENT'

An endorsement by a bank for a negotiable instrument, such as a banker's acceptance or time draft, that assures the counterparty that the bank will stand behind the obligations of the creator of the instrument

SEVEN IMPORTANT KINDS OF ENDORSEMENTS

1. Blank or genera endorsement:

If the endorser signs his name only and does not specify the name of the endorsee, the endorsement is said to be in blank Sec. 16(1). The effect of a blank endorsement is to convert the order instrument into bearer instrument (Sec. 54), which may be transferred merely by delivery.

2. Endorsement in full or special endorsement:

If the endorser, in addition to his signature, also adds a direction to pay the amount mentioned in the instrument to, or to the order of, a specified person the endorsement is said to be in full [Sec. 16(1)].

If, for example, A, the holder of a bill of exchange, wants to make an endorsement in full to B, he would write thus: “Pay to B or order, SdA4.” After such an endorsement it is only the endorsee, i.e., B, who is entitled to receive the payment of the instrument and to further negotiate the instrument by his endorsement.

A blank endorsement can easily be converted into an endorsement in full, According to Section 49, the holder of a negotiable instrument endorsed in blank may, without signing his own name, by writing above the endorser's signature a direction to pay to any other person as endorsee, convert the endorsement in blank into an endorsement in full; and since such holder does not sign himself on the instrument he does not thereby incur the responsibility of an endorser.

3. Partial Endorsement:

Section 56 provides that a negotiable instrument cannot be endorsed for a part of the amount appearing to be due on the instrument. In other words, a partial endorsement which transfers the rights to receive only a part payment of the amount due on the instrument is invalid.

Such an endorsement has been declared invalid because it would subject the prior parties to plurality of actions (one action by holder for part value and another action by endorsee for

part value) and will thus cause inconvenience to them.

Moreover, it would also interfere with the free circulation of negotiable instruments. It may be noted that an endorsement which purports to transfer the instrument to two or more endorses separately, and not jointly is also treated as partial endorsement and hence would be invalid.

Section 56, however, further provides that where an instrument has been paid in part, a note to that effect ma; be endorsed on the instrument and it may then be negotiated for the balance. Thus, if in the above illustration the acceptor has already paid Rs 1,000 to A, the holder of the bill, A can then make an endorsement saying "Pay B or order" Rs 1,000 being the unpaid residue of the bill." Such an endorsement would be valid.

4. Restrictive endorsement:

Stating the effect of endorsement, Section 50 provides that "the endorsement of negotiable instrument followed by delivery transfers to the endorsee the property herein with the right of further negotiation." However, Section 50 permits restrictive endorsement.

An endorsement which, by express words, prohibits the endorsee from further negotiating the instrument or restricts the endorsee to deal with his instrument as directed by the endorser is called 'restrictive' endorsement.

The endorsee under a restrictive endorsement gets all the rights of an endorser except the right of further negotiation. In other words, such an endorsement entitles the endorsee to receive the payment on due date and sue the parties for it but he cannot further negotiate the instrument.

5. Conditional endorsement:

If the endorser of a negotiable instrument, by express words in the endorsement, makes his liability, dependent on the happening of a specified event, although such event may never happen, such endorsement is called a 'conditional' endorsement (Sec. 52).

The law permits a conditional endorsement and therefore it does not in any way affect the negotiability of the instrument. Thus, endorsements can validly be made in the following terms:

(i) "Pay B or order on his marriage ;"(ii) "Pay B on the arrival of Pearless ship at Bombay."

In the case of a conditional endorsement the liability of the endorser would arise only upon the happening of the event specified. But the endorsee can sue other prior parties, e.g., the maker, acceptor, etc., if the instrument is not duly met at maturity, even though the specified event did not happen.

6. Sans recourse endorsement (Sec. 52):

When the endorser expressly excludes his own liability on the negotiable instrument to the endorsee or any subsequent holder in case of dishonour of the instrument the endorsement is known as 'sans recourse' endorsement. Such an endorsement is generally made by adding the words 'sans recourse' or 'without recourse.' Thus, "Pay X or order sans recourse" or "Pay X without recourse to me" or "Pay X or order at his own risk" is examples of this type of endorsement.

7. Facultative endorsement:

When the endorser expressly gives up some of his rights under the negotiable instrument, the endorsement is called a 'facultative' endorsement. Thus, "Pay X or order, notice of dishonour waived" is a facultative endorsement. As a result of such an endorsement the endorsee is relieved of his duty to give notice of dishonour to the endorser and the latter remains liable to the endorsee for the non-payment of the instrument, even though no notice of dishonour has been given to him.

MATERIAL ALTERATION

The term 'material alteration' indicates alteration or change in the material parts of the instrument. It may be defined as any change, which alters the very nature of the instrument. Thus, it is the alteration, which changes and destroys the legal identity of the original instrument and causes it to speak a different language in legal effect from that which it originally spoke. A material alteration makes the instrument void, i.e., inoperative and affects the rights and obligations of the parties to the instrument. It, however, does not affect one who becomes a party to an instrument subsequent to its material alteration, if any.

STATUTORY PROTECTION TO PAYING BANKER

1. Protection in case of order cheque:

In case of an order cheque, Section -85(1) provides statutory protection to the paying banker as follows: **"Where a cheque payable to order purports to be endorsed by or on behalf**

of the payee, the drawee is discharged by payment in due course". However, two conditions must be fulfilled to avail of such protection.

(a) Endorsement must be regular: To avail of the statutory protection, the banker must confirm that the endorsement is regular.

(b) Payment must be made in Due Course: The paying banker must make payment in due course. If not, the paying banker will be deprived of statutory protection.

2. Protection in case of Bearer Cheque:

Section -85(2) provides protection to the paying banker in respect of bearer cheques as follows: **"Where a cheque is originally expressed to be payable to bearer, the drawee is discharged by payment in due course to the bearer thereof, notwithstanding any endorsement whether in full or blank appearing thereon and notwithstanding that any such endorsement purports to restrict or exclude further negotiation".** This section implies that a cheque originally issued as a bearer cheque remains always bearer. In other words it retains its bearer character irrespective of whether it bears endorsement in full or in blank or whether any endorsement restricts further negotiation or not. So the banks are not required to verify the regularity of the endorsement on bearer cheque, even if the instrument bears endorsement in full. The banker shall free from any liability (discharged) if he makes payment of an uncrossed bearer cheque to the bearer in due course. If such cheque is a stolen one and the banker makes its payment without the knowledge of such theft, he will be discharged of his obligation and will be protected under Section -85(2).

3. Protection in case of Crossed cheque:

The paying banker has to make payment of the crossed cheques as per the instruction of the drawer reflected through the crossing. If it is done, he is protected by Section -128. This section states **"Where the banker on whom a crossed cheque is drawn has paid the same in due course, the banker paying the cheque and (in case such cheque has come to the**

hands of the payee) the drawer thereof shall respectively be entitled to the same rights, and be placed in if the amount of the cheque had been paid to and received by the true owner thereof".

It is clear that the banker who makes payment of a crossed cheque is by the Section -128 given protection if he fulfils two requirements (a) That he has made payment in deuce course under Section -10 i.e. in good faith and without negligence and according to the apparent tenor of the cheque, and (b)That the payment has been made in accordance with the requirement of crossing (Section -126), i.e. through any banker in case of general crossing and through the specified banker in case of special crossing.

Thus, the paying banker is free from any liability on a crossed cheque even if the payment was received by the collecting banker on behalf of a person who was not a true owner. For example, a cheque in favour of X is stolen by Y. He endorses it in his own favour by forging the signature of X and deposits it in his bank for collection. In this case, the paying banker shall be discharged if he makes payment as mentioned above and shall not be liable to pay the same to X, the true owner of the cheque.

The drawer of the cheque is also discharged since protection is also granted to him under this Section. There is, however, one limitation to the protection granted under this Section. If the banker cannot avail of the protection granted by other Section of the Act, the protection under Section -128 shall not be available to him.

For example, if the paying banker makes payment of a cheque crossed with (a) Irregular endorsement or (b) A material alteration or (c) Forged signature of the drawer, he loses statutory protection granted to him under the Act for these lapses on his part. Hence he cannot avail of the statutory protection under Section -1289, even if he pays the cheque in accordance with the crossing.

STATUTORY PROTECTION TO COLLECTING BANKER

Section 131 of the Negotiable Instruments Act provides protection to a collecting banker who receives payment of a crossed cheque or draft on behalf of his customers. According to Section 131 of the Act "a banker who has, in good faith and without negligence, received payment for a customer of a cheque crossed generally or specially to himself shall not, in case the title to the cheque proves defective, incur any liability to the true owner of the cheque by reason only of having received such payment."

The protection provided by Section 131 is not absolute but qualified. A collecting banker can claim protection against conversion if the following conditions are fulfilled.

1. **Good Faith and Without Negligence:**

Statutory protection is available to a collecting banker when he receives payment in good faith and without negligence.

The phrase in "good faith" means honestly and without notice or interest of deceit or fraud and does necessarily require carefulness. Negligence means failure to exercise reasonable care. It is not for the customer or the true owner to prove negligence on the part of the banker. The burden of proving that he collected in good faith and without negligence is on the banker. The banker should have exercised reasonable care and diligence. What constitutes negligence depends upon facts of each case.

Following are a few examples which constitute negligence:

(a) Failure to obtain reference for a new customer at the time of opening the account.

(b) Collection of cheques payable to 'trust accounts' for crediting to personal accounts of a trustee.

(c) Collecting for the private accounts of partners, cheques payable to the partnership firms.

(d) Omission to verify the correctness of endorsements on cheques payable to order.

(e) Failure to pay attention to the crossing particularly the "not negotiable crossing."

2. **Collection for a Customer:**

Statutory protection is available to a collecting banker if he collects on behalf of his customer only. If he collects for a stranger or noncustomer, he does not get such protection. As Jones aptly puts if "duly crossed cheques are only protected in their collection, if handled for the customer". A bank cannot get protection when he collects a cheque as holder for value. In Great Western Railway Vs London and Country Bank it was held that "the bank is entitled for protection as it received collection for an employee of the customer and not for the customer."

3. **Acts as an Agent:** A collecting banker must act as an agent of the customer in order to get protection. He must receive the payment as an agent of the customer and not as a holder under independent title. The banker as a holder for value is not competent to claim protection from liability in conversion. In case of forgery, the holder for value is liable to the true owner of the cheque.

4. **Crossed Cheques:**

Statutory protection is available only in case of crossed cheques. It is not available in case uncrossed or open cheques because there is no need to collect them through a banker. Cheques, therefore, must be crossed prior to their presentment to the collecting banker for clearance. In other words, the crossing must have been made before it reached the hands of the banker for collection. If the cheque is crossed after it is received by the banker, protection is not available. Even drafts are covered by this protection

UNIT IV

CORE BANKING SOLUTION (CBS) SYSTEM

Core banking solution refers to networking of all branches of a bank which enables a customer to operate their accounts from anywhere. Before introduction of this system a customer could withdraw/deposit money only in the amount he had opened in a particular branch of a bank and from nowhere else, e.g., a person who had an account with the Connaught place Branch of a bank could operate it only from that branch. But with the CBS system a customer is not hampered by any geographical limitation and can operate from any branch of his bank whether local or national. Though there is no limitation on the deposits which can be made but usually a maximum limit of Rs 50,000 is imposed on withdrawals which can be made from any other branch of the bank.

DEFINITION OF 'HOME BANKING'

'HOME BANKING' is the practice of conducting banking transactions from home rather than at branch locations. Home banking generally refers to either banking over the telephone or on the internet. The first experiments with internet banking started in the early 1980s, but it did not become popular until the mid 1990s when home internet access was widespread. Today, a variety of internet banks exist which maintain few, if any, physical branches.

BREAKING DOWN 'HOME BANKING'

The increasing popularity of home banking has fundamentally changed the character of the banking industry. Many people are able to arrange their affairs so that they seldom have need of a physical branch. Online-only banks have profited from this shift in the industry. The absence of brick and mortar locations allows online banks to offer favorable interest rates, lower fees and many other incentives for those willing to bank online.

RETAIL BANKING

Retail banking, also known as consumer banking, is the typical mass-market banking in which individual customers use local branches of larger commercial banks. Services offered include savings and checking accounts, mortgages, personal loans, debit/credit cards and certificates of deposit (CDs). In retail banking, the focus is on the individual consumer.

BREAKING DOWN 'Retail Banking'

Retail banking aims to be the one-stop shop for as many financial services as possible on behalf of individual retail clients. Consumers expect a range of basic services from retail banks, such as checking accounts, savings accounts, personal loans, lines of credit, mortgages, debit cards, credit cards and CDs. Most consumers utilize local branch banking services, which provide onsite customer service for all of a retail customer's banking needs. Through local branch locations, financial representatives provide customer service and financial advice. Financial representatives are also the lead contact for underwriting applications related to credit-approved products.

Expanded Services in Retail Banking

Banks are adding to their product offerings to provide a greater range of services for their retail clients. In addition to basic retail banking accounts and customer service from local branch financial representatives, banks are also adding teams of financial advisors with broadened product offerings, with investment services such as wealth management, brokerage accounts, private banking and retirement planning. Some of these ancillary services are also offered through outsourced third-party affiliations. All of the expanded offerings allow for increased convenience through greater connectivity of accounts, which helps customers to access funds and make personal transactions more quickly and easily.

Internet Finance and Retail Banking

In the 21st century, a movement towards internet finance banking operations has also broadly expanded the offerings for retail banking customers. Several online banks now provide banking services to customers purely through internet and mobile applications. These banks offer nearly all of the accounts and services provided by traditional banks, often with lower fees from reduced banking branch expenses. Examples of these banks include Simple, Moven and Go Bank.

INTERNET BANKING

Internet banking and online banking is an outgrowth of PC banking. PC banking enables Customers to execute bank transactions from their personal computer via a modem through financial software of the bank. Internet banking has become a strategic necessity for most of the banking transactions. Internet banking is the ability to use one's personal computer to communicate with one's bank. It is being used as a distribution channel to build up customer contracts in a systematic way in order to inform counsel sell product and services.

As observed early customer behavior has changed drastically due to technological advancement and changes in life style. The use of financial services is today characterized by individuality, mobility, independence of time and place and flexibility. Internet is being viewed as a new distribution channel to provide complex product at lower cost to more and more potential customers who can consume them at anytime from anywhere in world. The internet has helped banks to enlarge their market area without building new offices and to increase their market share and profits.

All banks which propose to offer internet services suit obtain prior approval from RBI. Only those banks which are licensed and supervised in India and have physical presence in India will be permitted to offer internet banking product to residence of India. Thus both banks and

virtual banks incorporated outside the country and having no physical present in India will not present be permitted to offer internet banking services to Indian residents.

A number of routine issues which are simple in nature but time-consuming can be handled through the internet, e.g. customer's request for opening an account, balance enquiries, FD renewals, request for cheque books, foreign exchange rates, on line bill payments, stop payment request, request for debit cards, transfer of funds on-line and monthly statement by e-mail. No staff intervention is required in all these cases and the bank can provide all these service to their customer at a fraction of the cost. Internet banking not only ensures saving in the salary of staff, but also enhances the bank's ability to increase their customer base without having to invest in exorbitantly priced real estate for opening more physical branches. According to some estimates, the cost per transaction over the internet is one-eighth of the cost to the bank if performed through branch banking.

ADVANTAGES

- Internet banking provides
- Anywhere and anytime banking as services are provided round the clock
- Worldwide connectivity as it transcends geographical boundaries
- Easy access to recent and historical data
- Direct customer control of international movement of funds
- Greater processing speed and accuracy

ONLINE BANKING

Online banking allows a user to execute financial transactions via the internet. Online banking is also known as "internet banking" or "web banking." An online bank offers customers just about every service traditionally available through a local branch, including deposits, which is done online or through the mail, and online bill payment.

Advantages of Online Banking

Convenience is a major advantage of online banking. Basic banking transactions such as paying bills and transferring funds between accounts can easily be performed at times convenient to consumers. In effect, consumers can perform banking transactions 24 hours-a-day, seven-days a week. Online banking is fast and efficient. Funds can be transferred between accounts almost instantly, especially if the two accounts are held at the same banking institution. Banking accounts can be monitored more closely thanks to online banking. This allows consumers to keep their accounts safe. Around-the-clock access to banking information provides early detection of fraudulent activity that has the potential to cause financial or damage loss. Online banking allows for the opening and closing of fixed deposit and recurring deposit accounts that typically offer higher rates of interest.

Disadvantages of Online Banking

For a novice online banking customer, using systems for the first time may present challenges that prevent transactions from being processed. Although online banking security is continually improving, such accounts are still vulnerable when it comes to hacking. Consumers are advised to use their data plans, rather than public Wi-Fi networks when using online banking, to prevent unauthorized access. Additionally, online banking is dependent on a reliable internet connection. Connectivity issues from time-to-time may make it difficult to determine if banking transactions have been successfully processed. On occasion, consumers may prefer face-to-face interactions for more complex banking issues.

OFF-LINE BANKING

An **offline transaction**, also known as a signature debit transaction, is a payment method that uses a debit card

Today, business moves faster, and most commercial activities are dependent on banks. The need, therefore, is being felt for continuous availability of operations. Uninterrupted banking services are absolutely necessary for customer satisfaction and brand protection. Interruptions in business can occur anywhere, anytime, due to any of the following reasons:

- Natural Calamities, like earth quakes, tsunamis etc.
- Terrorist attacks
- Power failures
- Loss of data-connectivity

Whenever, there is interruption in connectivity, it requires some time to get it restored. During this period of dis-connectivity bank's are required to provide some essential services to its customers. Off-line data capturing ensures uninterrupted basic customer services.

Features:

- Data Capturing from Finacle and RBI
- Handling Transactions and Clearing services
- Uploading of data to Finacle after restoration of connectivity

MOBILE BANKING

It is a system that allows customers of a financial institution to conduct a number of financial transactions through a mobile device such as a mobile phone or personal digital assistant.

FEATURES & BENEFITS OF MOBILE BANKING

a) Simplicity:

The m-payment application must be user friendly with little or no learning curve to the customer. The customer must also be able to personalize the application to suit his or her convenience.

b) Universality:

M-payments service must provide for transactions between one customer to another customer (C2C), or from a business to a customer(B2C) or between businesses (B2B). The coverage should include domestic, regional and global environments. Payments must be possible in terms of both low value micro-payments and high value macro payments.

c) Security, Privacy and Trust:

A customer must be able to trust a mobile payment application provider that his or her credit or debit card information may not be misused. Secondly, when these transactions become recorded customer privacy should not be lost in the sense that the credit histories and spending patterns of the customer should not be openly available for public scrutiny. Mobile payments have to be as anonymous as cash transactions.

COMPUTERIZED BANKING SYSTEM

(CBS) is a banking establishment to manage customer data. Computerized banking system is for creating customer account of whole world. Also known as computerized banking management system (CBMS), customer account records management, customer transaction control or customer data report's system

Computerized Banking System means how to manage the database of customers that how the customers are merged in different fields. In this project we admit the new registration of customer. We can update customer's records. We can retrieve customer's data such as their balance, withdrawals, deposits, modifying etc. In this project we can delete customer's records. This project is connected through data base access.

A Computerized Banking System (CBS) is designed to help banks for manage the data base. Extensive information is available at your fingertips through this System. Viewing customer data, account open and deletion, managing transaction, with drawls, balance inquiry, modify account, customer information, data environment and data reports and related issues are made simple and easy. There are custom search capabilities to aid in finding customer information and working on customer records. This can make the system easier to navigate and to use maximizing the effectiveness of time and other resources.

NATIONAL ELECTRONIC FUNDS TRANSFER (NEFT)

NEFT is a system similar to RTGS with certain differences. RTGS handles big ticket transactions, whereas NEFT handles smaller size transactions. Most branches are using this facility to transfer funds in an efficient manner. Once the applicant for the transfer of funds furnishes full and correct details (correct account details means correct name of the beneficiary, the correct account number, the branch and bank of the beneficiary, and the correct IFS code, etc.) funds can be transferred to the beneficiary's account by the remitting bank. Transfer of funds through NEFT is safe, quick. It reduces the paper work and is cost effective.

NEFT is an innovative electronic media for effecting transfer of funds. Special features of NEFT are:

- NEFT is a funds transfer system which enables a customer of a bank to transfer funds to another customer of another bank having account with any participating bank
- NEFT allows both intra and inter-bank funds transfer within a city and across cities
- Since it is in the form of e transfer, without any physical movement of instruments, funds can be transferred quickly
- The beneficiary customer gets funds in his account on the same day or at the earliest on the next day depending upon the time of settlement
- Both the originating and destination bank branches should be on NEFT platform

- The correct details of IFSC, beneficiary's name, account numbers, etc., should be furnished to the originating bank.
- The originating bank branch can keep track of the status of the NEFT transaction.
- 8. In case for any reason the destination branch is not able to afford credit to the beneficiary's account, destination branch/bank have to return the funds to the originating bank within two hours of completion of the batch through which the transaction was processed282 PP-BL&P
- It is not only easy method of transfer of funds, but also enables the remitters to have user friendly and cost effective transfer of funds

AUTOMATED TELLER MACHINE (ATM)

An automated teller machine or automatic teller machine (ATM) is computerized telecommunications device that provides a financial institution's customers a secure method of performing financial transactions in a public space without a human clerk or bank teller.

An earlier version of an ATM was developed in 1939 in York, by the than city bank of New York, but removed only after 6 months of installation due to the lack of customer acceptance. This status quo was maintained for nearly 25 years till Barclays bank of UK installed an ATM in 1967 in London. ATMs first came into wide use during the early eighties to mid-eighties in the west and picked up later in the 1990s in india.

ATMs can be interior (i.e., located in the branch premises) or exterior (located anywhere outside the branch premises, e.g. at railway stations, airports, shopping malls, etc.,) banks need not obtain permission of the RBI for installation of ATMs at branches and extension counters for which they hold licences issued by the reserve bank. They can also install offsite ATMs without RBI approval. However, they should obtain a licence from the regional office

of DBOD (department of banking operations and development) of RBI, before operational zing the ATM, so as to be in conformity with section 23 of the banking regulation act.

DEBIT CARDS

Like the credit card a debit card too is a payment mechanism which allows the holder to make purchase without making any immediate cash payment. It appears that plastic money seems to be the preferred mode of payment for more and more and more people. While the use of credit cards and debit cards has increased manifold both in terms of value and volume of transactions yet the growth in use of debit cards has been at a much faster rate than in the case of credit cards.

SMART CARDS

As the name suggests this plastic card is smarter than the credit card and debit card. A smart card is a magnetic strip card that is embedded with a computer microchip and designed with a far greater capacity. The microchip provides the smart card intelligence and memory. It is small enough to be conveniently carried around, and has manifold application. In fact, it is almost like carrying a portable computer in one's pocket.

CREDIT CARDS

There are various ways of making payment through the banking system. These include cheques, direct debits, bank drafts, electronic transfer, international money orders, letters of credit etc. since, the beginning of 1980s, the banks introduced a new facility for making payments, i.e., the credit cart. The use of credit card is essentially a method of postponing payment. When the customer makes a purchase, the actual payment is made later when he issues a cheque for the payment on his bank. These cards are made of plastic, he nce they are referred to plastic money plastic money refers to substitution of currency at the time when a payment is taking place by using a card. It has become the best alternative to cash and made

life simpler, easier and faster than before. Plastic money has increasingly become an alternative payment system in most developed and developing countries. There are myriad factors responsible for this. First and foremost the technical revolution in the banking sector has eliminated physical and geographical banking and replaced it with anytime anywhere banking. This has played a crucial role in the payment card industries. Secondly, there has been a sea change in consumer behavior .They want the convenience and safety in making payments. With the use of credit card there is no need to stand in queues in the bank branch, where they have an account during banking hours on a working day. The use of hard cash and thus provides safety to the cardholder.

DEFINITION OF 'E-CASH'

An Internet-based system allows funds to be transferred anonymously. Similar to credit cards, eCash was free to users, while sellers paid a fee. Because of security concerns, eCash remains more of an idea and less of an actual payment system.

SWIFT

Society for Worldwide Inter-bank Financial Telecommunications (SWIFT) is a co-operative non-profit making organization established under Belgian law with its head quarters at Brussels. SWIFT is wholly owned by its member banks. SWIFT is a paperless message transmission system.

SWIFT – important features:

- Operates on 24x7 basis throughout the year
- All messages are transmitted to any part of the world immediately
- Message formats are standardized
- Information is confidential and is protected against unauthorized disclosure
- SWIFT assumes financial responsibility for the accuracy and timely delivery
- SWIFT and banks:

- SWIFT has become an integral part of banking system. SWIFT assist member banks
- SWIFT transmit authenticated financial and non financial messages
- SWIFT with its well-standardized and structured message formats have been offering a reliable system of message transmission
- Banks use SWIFT platform to for transmission of financial and non financial messages covering international finance (settlement of forex deals), international trade (advising of LCs, amendments to LCs etc,)

REAL TIME GROSS SETTLEMENT (RTGS)

One of the important IT revolutions in Indian Banking Scenario was the implementation of the Real Time Gross Settlement (RTGS) system by the Reserve Bank of India. With the changing scenario from manual environment to electronic mode, banks started to use faster, safer and efficient methods to transfer funds.

In this regard, two important and popular electronic funds transfer systems are Real Time Gross System (RTGS) and National Electronic Funds Transfer System (NEFT)

RTGS is an electronic payment system, where payment instructions are processed on a 'continuous' or 'REALTIME' basis and settled on a 'GROSS' or 'individual' basis without netting the debits against credits. In India, RBI introduced this system and the system is functioning well. The payments so effected are 'final' and 'irrevocable'. The settlement is done in the books of the central bank (RBI). The RTGS system allows transfer of funds across banks on a real time (immediate) basis. Each participant bank needs to open a dedicated settlement account for putting through its RTGS transactions. Not only does it allow transfer of funds, it also reduces the credit risk. Both customers and banks can transfer funds monies the same day at regular intervals within the banking hours.

RTGS: Special features:

(a) Real Time Gross Settlement helps banks to settle interbank and forex settlements

(b) It also helps banks in handling big ticket funds transfers

(c) Since RTGS it is routed through RBI platform, the credit risk is minimized (this is one of the main advantages in settlement of funds)

(d) Unlike in case of cheque clearance, the drawer of the cheque cannot enjoy the float time (the date of issuance of cheque and the date on which it is received in inward clearing and debited by his banker) However, in the case of RTGS, the remitter's account is debited first and then only the funds are transferred

(e) If all relevant details such as the beneficiary's name, account number, IFSC code of the receiving branch, name of the beneficiary bank, etc., are correctly furnished it would assist the remitting bank to effect the transfer quickly

(f) As the name RTGS suggests, the transfer mechanism works on real time and, therefore, the beneficiary branch/bank should receive the funds immediately. The beneficiary's branch/bank should give credit to the beneficiary's account immediately or latest within 2 hours of receiving the funds transfer message.

However, in case the funds cannot be credited for any reason, such funds should be returned to the originating branch within two hours. In such a situation, as soon as the money is returned, the remitting bank should reverse the original debit entry in the client's (remitter's) account. This system is applicable between banks/branches who are on Core Banking Solutions (CBS)

IMPACT OF TECHNOLOGY IN BANKING

Development of Computerized Banking Software:

With the development of Banking Applications, the banks process becomes faster and more reliable and the record keeping and retrieval becomes much easier.

Development of Core Banking Solution:

However, the Computerized Banking offers great and reliable service but with the expansion of the Internet the concept of core banking comes into picture and whoa! There comes the new Core Banking System. With implementing the CBS, the bank's branches are getting interconnected to common centralized database and hence, were able to provide Multi-City Banking.

Development of MICR Cheque Processing:

With the use of Magnetic Ink - the MICR Cheque Processing System has been developed and strategically implemented. This technology revolutionizes the cheque clearing process from over the counter to a more systematic procedure which is fast and efficient.

Development of Credit/Debit Cards (Plastic Money):

The magnetic data recording technology was used with the magnetic strips on the plastic cards and hence, the ATM/Debit/Credit Cards are used along with the ATM Machines which reduces the account holder's requirement to visit the branch within the banking hours to withdraw the money from his/her account.

Development of Internet Banking Solution:

With data being centralized, and increasing internet reach, the Internet Banking Solution was developed and now it is offered by almost every bank. The Internet Banking offers you many transactions and inquires to be performed online without visiting the branch. The various banking automation systems also facilitated the users with ease of automated banking services like cash deposit machine, cheque deposit machine, passbook printing machine, automated inquiry machine, etc.

Development of Mobile Banking Solution: With the introduction of Mobile Internet and Mobile Application Development, the Mobile Banking Applications were developed and it makes your life easy just banking on your mobile which is truly anywhere - anytime.

Development of Cheque Truncation System (CTS): With the refinement in imaging and internet technology, the Cheque Truncation System came into existence. The CTS removes the movement of physical instruments (cheques, demand drafts, warrants, etc.) which was required in old MICR Clearing System. With this the clearing process becomes more fast and secure.

Development of Online Loan Processing: The development of very intelligent a system which process the pre-approved online loan applications of the customers and disburses the amount online. It is a great facility with ease of availing the loan within seconds and that to at any time.

Well, this is the technology which is transforming everything and there are lot more developments which are going on towards the customer service, process improvement, etc. an in the near future we will see the completely transformed banking. Thanks to the Technology.

GLOBAL DEVELOPMENT IN BANKING TECHNOLOGY

New technology in banking is already transforming the financial world, and the traditional banking landscape is set to rapidly change in the next five years. Safety features, such as advanced cryptography and biometrics, will help protect against bank scams, and remote applications will make it easier than ever to do your banking without ever visiting a branch — but if you do, the experience is likely to be much more customer-friendly. Here's a look at the how banking technology will change the way your money is handled.

1. Block chain Technology

Block chain technology is set to fundamentally transform banking and financial services. It decentralizes financial management from a central authority to a widespread network of computers. Financial transactions are broken down into encrypted packets, or "blocks," which are then added to the "chain" of computer code and encrypted for enhanced cyber security it's been compared to "email for money" by block chain startup CEO Blythe Masters. Because the technology has the potential to improve numerous facets of banking and is the basis for other banking technology trends like Bitcoin it's no longer a question of if block chain will change the banking industry, but when, according to the Wharton School of the University of Pennsylvania.

2. Upgraded ATMs

ATMs transformed the banking system when they were first introduced in 1967. The next revolution in ATMs is likely to involve contactless payments. Much like Apple Pay or Google Wallet, soon you'll be able to conduct contactless ATM transactions using a smart phone. Some ATM innovations are already available overseas and might reach the U.S. shortly. **For example**, biometric authentication launched last year in India, and iris

recognition is in place at Qatar National Bank ATMs. These technologies can help overall bank security by protecting against ATM hacks.

3. Proliferation of Non-Banks

Banks are hoping that technology will allow them to deliver a faster, more transparent experience to consumers. A large portion of their resources, however, is necessarily dedicated to security, compliance, and other industry-specific requirement, which has allowed non-banks or financial service providers that are not regulated by the banking industry to flourish, according to a 2016 report from market intelligence firm Greenwich Associates. Since these companies can devote a greater percentage of their assets to cutting-edge financial technology, they might be able to innovate more rapidly than traditional banks, attracting tech-savvy customers in the process.

4. Apple Store-Style Experience

The in-bank experience of the future might be more like shopping at an Apple store. Because so many people now can download user-friendly banking apps or easily find an ATM to handle basic banking transactions, the typical in-bank customer today is seeking help involving a personal interaction. Banks hoping to increase sales in the future are considering this transformation as a way for customers to engage more directly with the bank and its products, just like in an Apple store, directing customers to interact with tech kiosks for some transactions and reserving person-to-person interaction for answering questions or addressing needs unique to the individual consumer.

5. Automated Financial Services Employees

The rise of technology in banking will result in the reduction of bank personnel. A 2016 report from Citigroup indicated that a whopping 30 percent of bank jobs might be lost by

2025 due to the automation of retail banking services. Even behind the front line, financial services employees might step aside as robo-advisers that manage your money continue to grow in popularity. Wealth front and Betterment, two robo-adviser companies, already have $4.65 billion and $7.36 billion in assets under management, respectively.

6. Mobile and Digital Banking

The mobile and digital transformation in banking has only just begun and growth is already explosive. Banks are investing heavily in digital banking technology, in which customers use mobile, web or digital platforms to use banking services. In a Forbes survey on banking customer engagement from late 2016, 86 percent of banks indicated that these types of services represent their top technology investments.

UNIT V

MODERNIZED BANKING

Electronic banking (E-banking) is a generic term encompassing internet banking, telephone banking, mobile banking etc. In other words, it is a process of delivery of banking services and products through electronic channels such as telephone, internet, cell phone etc. The concept and scope of E-banking is still evolving.

Electronic services allow a bank's customers and other stakeholders to interact and transact with the bank seamlessly through a variety of channels such as the internet, wireless devices, ATMs, on-line banking, phone banking and telebanking. Other services offered under E-banking include electronic fund transfer, electronic clearing service and electronic payment media including the credit card, debit card and smart card. On-line banking helps consumers to overcome the limitations of place and time as they can bank anywhere, anytime as these services are available twenty four hours, 365 days a year without any physical limitations of space like a specific bank branch, city or region. They also bypass the paper based aspect of traditional banking.

Traditional Vs E- Banking

Basis of Difference	Traditional Banking	Internet Banking
Presence	Banks exist physically for serving the customers,	Internet banks do not have physical presence as services are provided online.
Time	It consumes a lot of time as customers have to visit banks to carry out bank transactions like — checking bank balances, transferring money from one account to another.	It does not consume time as customers do not have to visit banks to check bank balances or to transfer money from one account to another. Customers can access their account readily from anywhere with a computer and internet access.

Basis of Difference	Traditional Banking	Internet Banking
Accessibility	People have to visit banks only during the working hours.	Internet banking is available at any time and it provides 24 hours access.
Security	Traditional banking does not encounter e-security threats.	Online banking is the tempting target for hackers. Security is one of the problems faced by customers in accessing accounts throu h internet.
Finance Control	Customers who often travel abroad cannot pay close attention and control of their finances.	Customers who often travel abroad can have greater control over their finances.
Expensive	Customers have to spend money for visiting banks.	Customers do not have to spend money for visiting banks. They can avoid bank charges that may be charged for certain teller transactions or when they pay bills electronically — directly from their account to the merchant. It helps to save money on postal charges.
Cost	The cost incurred by traditional banks includes a lot of operating and fixed costs.	Such costs are eliminated as the banks do not have physical presence.
Customer Service	In traditional banks, the employees and clerical staff of the bank can attend only few customers at a time.	In online banking, the customers do not have to stand in queues to carry out certain bank transactions.
Contact	Customers can have face to face contact in traditional banking.	Customers can have only electronic contacts.

ELECTRONIC DELIVERY CHANNELS

Automated Teller Machine

The Automated Teller Machine (ATM) is seen everywhere. This machine has brought innovations in the Banking sector all over the world. The advent of the ATM has made the concept of round the clock banking a reality. The ATM has been helpful to both the bankers and the customers. The long crowd of customers in the banking hall of a branch waiting for

their turn to collect cash is disappearing. The branch business timings have lost significance to the customers after the introduction of ATM.

The ATM is a device used by the bank customers to process account transactions. The customer inserts into the ATM, a plastic card i.e. encoded with information on a magnetic strip. The strip contains an identification code that is transmitted to the bank's central computer by modem. Every cardholder should be given a PIN (personal identification number) that he should enter and after verifying the same with the records, ATM would allow operations.

Internet Banking

Internet banking is the latest and the cheapest technology introduced in the banking industry. It is acknowledged that the internet has already had a profound effect on delivery of financial services and this likely to bring more radical changes. At the basic level, interknit banking can mean the setting u of a web-page by a bank to give information about its products and services. At an advance level, it involves provision of facilities such as accessing accounts, fund transfer, and buying financial products or services online. This is called "Transactional Online Banking".

Advantages of Internet Banking

- Anywhere and anytime banking as services are provided round the clock.
- Worldwide connectivity as it transcends geographical boundaries.
- Easy access to recent and historical data.
- Direct customer control of international movement of funds.
- Greater processing speed and accuracy.

Telephone Banking

The banks are aiming to make them more accessible by introducing telephone banking. Telephone banking refers to dialing one telephone number using a telephone to access the account, transfer funds, request statements or cheque book simply by following recorded message and touching the keys on your phone. It allows the customers to check account at convenient time and get simple things done without visiting bank premises. Telephone banking aims at providing 24 hour service that is fast, convenient and secured for all customers. In the modern society everyone has to access to telephone. Registering for telephone banking cost nothing although there is a small transactions charge for making bill payment and frequent usage charges.

Electronic Clearing Service

In 1994, RBI appointed a committee to review the mechanization in the banks and also to review the electronic clearing service. The committee recommended in its report that electronic clearing service-credit clearing facility should be made available to all corporate bodies/Government institutions for making repetitive low value payment like dividend, interest, refund, salary, pension or commission. It was also recommended by the committee Electronic Clearing Service- Debit clearing may be introduced for pre-authorized debits for payments of utility bills, insurance premium and installments to leasing and financing companies. RBI has been necessary step to introduce these schemes, initially in Chennai, Mumbai, Calcutta and New Delhi.

Electronic Funds Transfer (EFT)

For making inter-city payments customer usually make payments through demand drafts, mail transfers and telegraphic transfers. In 1996, RBI devised an electronic fund transfer (EFT) system to facilitate fast transfer of funds electronically. The funds can be transferred between any two bank accounts even if the sender and the receiver are located in different cities or deal with different banks. EFT has accelerated the movement of funds across the globe. E-cash or cyber cash plays a predominant role in world of commerce. Such electronic

funds movements amounting to a few trillion dollars are settled on a daily basis in major international financial centers. Society for worldwide inter-bank financial telecommunication is a classic example of EFT among banks with its own standards for messages, which ensures speed, reliability, security and accuracy. SWIFT, as a co-operative society was formed in May 1973 with 239 participating banks from 15 countries with its headquarters at Brussels. It started functioning in May 1977. Reserve Bank of India and 27 other public sector banks as well as 8 foreign banks in India have obtained the membership of the SWIFT. SWIFT provides rapid, secure, reliable and cost effective mode of transmitting the financial messages worldwide. At present more than 3000 banks are the members of the network. To cater to the growth in messages, SWIFT was upgrade in the 80s and this version is called SWIFT-II. Banks in India are hooked to SWIFT-II system.

Advantages of EFT

- Funds can get transferred easily and conveniently without delays and paper work.
- Built-in security measures ensure safety of funds during transfer.
- Losses and frauds are minimized due to easy tracking of transactions/customers.

Credit Cards

There are various ways of making payment through the banking system. These include cheques, direct debits, bank drafts, electronic transfer, international money orders, letters of credit, etc. Increasing affluence combined with increasing complexity of life has led to the phenomenon of Credit Cards. They provide convenience and safety in the purchasing process. It is generally known as plastic money. The credit card are made of plastic is widely used by the consumers all around the globe. The changes in consumer behavior and tastes led to the tremendous growth of credit cards. Credit card is a card which enables the consumers to purchase products or services without paying immediately. This credit concept is based on

the principle of "Buy now pay later". Credit card is a document that can be used for purchase of goods and services all over the globe.

Benefits of the Credit Cards

The benefits of credit cards may be classified into two categories:

(A) Benefits to the Card Holders: There are so many benefits to the card holders for using the cards:

- The card holders need not to carry cash at all times.
- The card holder will be covered by free insurance.
- The card can be used as identification card in some situations.
- The issuer of card offers rewards and gifts to the card holder.
- The card holders can avail special counters for Air and Travel reservations.
- The card holder can get complimentary magazines. For example, diners club provide "signature" magazine to card holders.
- Family members of the card holder can avail this facility.

The card holder can enjoy free credit up to 30 to 45 days.

If the credit card is lost /stolen the liability is limited to a maximum of one thousand rupees.

Some credit holders will get free services such as confirmed ticket booking and hotel reservations.

Some card holders will get benefit from the worldwide network, for example, Master card, Amex, Visa etc.

Smart cards

Smart card is a little plastic card. It is just like a credit card but it contains a micro-processor and a storage unit. This card is developed with latest technology and it is an innovation that overcomes all limitations. They are more expensive. The stored data is not exposed to physical damage. These cards can store at least 100 times more data than magnetic strip cards. They are more popular in Europe. They are categorized in two kinds; memory smart cards and intelligent smart cards. Memory card contains less information and processing capabilities they are used to record a monetary or unit value for a specific amount. Intelligent cards contain more information and process a wider variety of information components than a memory smart card. This card also has greater processing capabilities for programmed decision making for various applications. The electronic purse is used to refer to monetary value, that is loaded on to the smart cards microprocessor and that can be used by consumer for purchase. The merchants, who are accepting the cards, must have a smart card reader. The smart card technology may be used in either an online or offline mode as with magnetic strip cards. Offline card technology can be used in underdeveloped countries. The functioning of offline smart cards as presented below:

Step 1: Smart card holder inserts card into machine and downloads money from bank as to microprocessor on the card.

Step 2: The consumer pays for merchandise/ service by inserting smart card into merchant’s smart card reader.

Step 3: The merchant’s smart card reader records the transaction.

Step 4: At the end of the day, the merchant inserts a smart card to receive download of the day’s sales.

Step 5: Take to bank for credit for day’s sale for cash.

Electronic Cheques

Another mode for internet payments is the electronic cheques. In this method, the payor instructs its bank to pay a specific amount to another party, the payee. The financial EDI systems have performed this function for years using private communication circuits such as value added network. The new generation of electronic cheques provides the following functions:

- Present the bill to the payer,
- Allow the payer to initiate payment of the invoice,
- Provide remittance information,
- Allow the payer to initiate automatic payment authorization,
- Interface with financial management software, and
- Allow payments to be made at first time.

Electronic payment system involves two parties, payer and payee. An electronic bill contains the same information as a hard copy bill transported to the payer through the postal system. An electronic bill does not have to be received, a payer or can make payments for bills received through the postal system.

Most electronic cheques can accommodate situations where the payee does not have account at a financial institution; therefore many electronic cheque service providers will produce a hard copy check for these types of payments. Electronic payment of bills is expected to increase substantially over the forthcoming years.

Debit Card

Debit Card is the innovative instrument in the financial services sector. It is the most convenient method of payment to the merchant establishment. It needs involvement of many banks. The card holder will present the card on completion of his purchases at the merchant establishment on production of a debit card. The card details are fed through a terminal at the

merchant's establishment. The card holder is immediately debited from the card holder's account and transferred to the account of merchant establishment. No overdrawing is allowed in the case of debit card. A debit card is the variant of an ATM card. It has the following features:

- Whereas an ATM card can be used only where the ATM's are provided by the banks, and that too only for cash withdrawals, the debit card can be used in any merchant outlet that is linked with the customer's bank for making payment.
- Credit card is issued to clients after a proper assessment of their credit standing. But for a debit card holder there is no need to make such an assessment.
- At the time of making payment through a debit card, the amount is instantly debited to the customer's account unlike payment made through the credit card where the account of the customer is debited after a certain period.
- Debit card freeze the cardholder from carrying cash for his/her purchases.

ADVANTAGES OF E-BANKING

E-banking, this includes any transaction you perform using the Internet or a mobile device, is becoming more common. Making electronic payments, paying bills and transferring money between accounts are all elements of e-banking, which can be done from your cell phone or computer. Despite potential risks of identity theft and account hacking and less personal contact with the bank, e-banking presents a number of advantages to customers.

Convenience

The ability to do banking from home at any hour is one of the most common benefits of online, or e-banking. You can move money from checking to savings or make electronic

payments 24/7, even when the bank is closed. Some customers also appreciate the real-time banking information to check balances in checking and savings accounts.

Portability

Electronic banking also creates a more mobile bank for customers. Mobile apps allow customers to check balances and perform routine bank transactions from anywhere they can get phone reception. Alerts to low balances are offered by some bank apps.

Cost Savings

E-banking offers some cost-savings opportunities for customers. By paying bills online, you reduce the number of checks you have to write. This saves you on buying new check pads and paying for stamps and envelopes. Also, with broader access to banks operating online, you can price shop and find lower fees and more favorable interest rates.

Track Spending

Some bank customers who previously did little to no budgeting now monitor basic spending habits using spending trackers provided by online banks. When you make purchases with a debit card or pay bills online, programs update your spending chart by cataloging the expense as utility, car payment or another type of bill. These trackers are somewhat limited because they can't directly monitor cash spending. However, some bank apps allow you to manually record grocery expenses or other cash outflows to fill those gaps.

Industry Benefits

Banks can minimize labor and supply costs by allowing customers to self-service certain types of transactions, and save money on paper and postage by sending statements over the

Internet. While some people believe ATMs and e-banking go against traditional, personalized banking, others point to the increased efficiency and flexibility.

CONSTRAINTS IN E-BANKING

- Start-up cost
- Sophisticated Instruments Cost
- Cost of Maintenance of all equipments
- Training & Maintenance
- Lack of Skilled Personnel
- Security
- Legal Issues
- Restricted Clientele & Technical Problems
- Restricted business – not all transactions
- Destruction of Pricing Mechanisms- advantage to New players

SECURITY MEASURE

1. Secure Log-in ID and Password or PIN

- Dots not disclose Log-in and Password or PIN.
- Do not store Log-in and Password or Pin on the computer.
- Regularly change password or PIN and avoid using easy-to-guess passwords such as names or birthdays. Password should be a combination of characters (uppercase and lowercase) and numbers and should be at least 6 digits in length.

2. Keep personal information private.

Do not disclose personal information such as address, mother's maiden name, telephone number, social security number, GSIS number, bank account number or e-mail address unless the one collecting the information is reliable and trustworthy.

3. Keep records of online transactions

- Regularly check transaction history details and statements to make sure that there are no unauthorized transactions.
- Review and reconcile monthly credit card and bank statements for any errors or unauthorized transactions promptly and thoroughly.
- Check e-mail for contacts by merchants with whom one is doing business. Merchants may send important information about transaction histories.
- Immediately notify the bank if there are unauthorized entries or transactions in the account.

4. Check for the right and secure website

- Before doing any online transactions or sending personal information, make sure that correct website has been accessed. Beware of bogus or "look alike" websites which are designed to deceive consumers.
- Check if the website is "secure" by checking the Universal Resource Locators (URLs) which should begin with "https" and closed padlock icon on the status bar in the browser is displayed. To confirm authenticity of the site, double-click on the lock icon to display a security certificate information of the site.
- Always enter the URL of the website directly into the web browser. Avoid being re-directed to the website, or hyperlink to it from a website that may not be as secure.
- If possible, use software that encrypts or scrambles the information when sending sensitive information or performing e- banking transactions online.

5. Protect personal computer from hackers, viruses and malicious programs

- Install a personal firewall and a reputable anti-virus program to protect personal computer from virus attacks or malicious programs.
- Ensure that the anti-virus program is updated and runs at all times.
- Always keep the operating system and the web browser updated with the latest security patches, in order to protect against weaknesses or vulnerabilities.
- Always check with an updated anti-virus program when downloading a program or opening an attachment to ensure that it does not contain any virus

6. Do not leave computer unattended when logged-in

- Log-off from the internet banking site when computer is unattended, even if it is for a short while.
- Always remember to log-off when e-banking transactions have been completed.
- Clear the memory cache and transaction history after logging-out from the website to remove account information. This would avoid incidents of the stored information being retrieved by unwanted parties.

7. Check the site's privacy policy and disclosures

- Read and understand website disclosures specifically on refund, shipping account debit/credit policies and other bank terms and conditions.
- Before providing any personal financial information to a website, determine how the information will be used or shared with others.
- Check the site's statements about the security provided for the information divulged.
- Some websites' disclosure are easier to find than others - look at the bottom of the home page, on order forms or in the "About" or "FAQs" section of a sites. If the customer is not comfortable with the policy, consider doing business elsewhere.

8. Other internet security measures:

- Do not send any personal information particularly password or PIN via ordinary e-mail.
- Do no open other browser windows while banking online.
- Avoid using shared or public personal computer in conducting e-banking transactions.
- Disable the “file and the printer sharing” feature on the operating system if conducting banking transactions online.
- Contacts the banking institution to discuss security concerns and remedies to any online e-banking account issues.

Current Scenario of E-Banking in India

Internet Banking has become an integral part of banking system in India. The concept of e-banking is of fairly recent origin in India. Till the early 90’s traditional model of banking i.e. branch based banking was prevalent, but after that non-branch banking services were started. The Indian government enacted the IT Act, 2000, with effect from the 17th October 2000. To examine different aspects of Internet banking RBI set up a committee on Internet Banking. The committee had focused on three major areas of Internet banking, Technology and security issues, legal issues and regulatory and supervisory issues. RBI had accepted the suggestions and recommendations of the working committee and accordingly issued guidelines to banks to implement internet banking in India. The old manual systems which were prevalent in Indian banking for centuries seem to replaced by modern technologies.

Indian banks are making sincere efforts for the adoption of advanced technology and installation of e-delivery channels but still the concept and scope of E-banking is still evolving. It facilitates an effective payment and accounting system thereby enhancing the speed of delivery of banking services considerably. While E-banking has improved

efficiency and convenience, it has also posed several challenges to the regulators and supervisors. Several initiatives taken by the government of India, as well as the Reserve Bank of India (RBI), have facilitated the development of E-banking in India. As already discussed, the government of India enacted the IT Act, 2000, which provides legal recognition to electronic transactions and other means of electronic commerce. The RBI has been preparing to upgrade itself as a regulator and supervisor of the technologically dominated financial system. It issued guidelines on risks and control in computer and telecommunication system to all banks, advising them to evaluate the risks inherent in the systems and put in place adequate control mechanisms to address these risks. The existing regulatory framework over banks has also been extended to E-banking. It covers various issues that fall within the framework of technology, security standards, and legal and regulatory issues.

Challenges in adoption of E-banking

E-banking is facing following challenges in Indian banking industry:

- Not safe and secure: The most serious threat faced by ebanking is that it is not safe and secures all the time. There may be loss of data due to technical defaults.
- High start up cost: E-banking requires high initial start up cost. It includes internet installation cost, cost of advanced hardware, software, modem, computers, cost of maintenance of all computer equipments, and cost of reorganizational structure.
- Lack of Professional: There is shortage of web developers' content providers and knowledgeable professionals to perform banking activities through internet.
- Restricted Business: All banking transactions cannot be performed electronically. Many banking activities require personal visit of customers.
- Improper infrastructure: There is lack of proper infrastructure for the installation of e-delivery channels.
- Not techno savvy: A majority of customers are not computer savvy.

- Unavailability of internet services: availability of internet band width and connectivity is not uniform.
- Competition: The nationalized banks and commercial banks have the competition from foreign and new private sector banks. Competition in banking sector brings various challenges before the banks such as product positioning, innovative ideas and channels, new market trends, cross selling ad at managerial and organizational part this system needs to be manage, assets and contain risk. Banks are restricting their administrative folio by converting manpower into machine power i.e. banks are decreasing manual powers and getting maximum work done through machine power. Skilled and specialized man power is to be utilized and result oriented targeted staff will be appointed.

Recommendations

The following are certain recommendations to popularise ebanking services/ products:

- Create awareness about e-banking: Banks should create awareness among people about e-banking products and services. Customers should be made literate about the use of e-banking products and services.
- Special arrangements by banks: Special arrangements should be made by banks to ensure full security of customer funds. Technical defaults should be avoided by employing well trained and expert technicians in field of computers, so that loss of data can be avoided. Banks should use latest technologies with timely updates to secure customers valuable money from the hands of hackers.
- Specialised training: Employees of banks should be given special technical training for the use of e-banking, so that they can further encourage customers to use the same.
- Organising seminars and workshops: Seminars and workshops should be organised on the healthy usage of ebanking especially for those who are ATM or computer illiterate.
- Cater to need of customers: E-banking services should be customised on basis of age, gender, occupation etc so that needs and requirements of people are met accordingly.

- Proper infrastructure: Government should make huge investments for building the infrastructure.
- Security arrangements by customers: Customers should never share personal information like PIN numbers, passwords etc with anyone, including employees of the bank. Documents that contain confidential information should be safeguarded. PIN or password mailers should not be stored, the PIN and/or passwords should be changed immediately and memorised before destroying the mail. Take simple precautions like changing the ATM PIN and online login and transaction passwords on a regular basis. Ensure that the logged in session is properly signed out.

CONCLUSION

E-banking is need of the hour. Though there are lots of hurdles in the way of smooth implementation of E-banking in India but at the same time E-banking has bright future in India. It is golden path for banking sector in India to maximize its profits and also the customer base. That's why E-banking can never be neglected. Moreover the recommendations provided in this research are useful for the banks and also for the customers for better service and satisfaction respectively. Thus only those banks will survive in the future which will manage the changes as per technological developments and customer requirements because future of the banks ultimately stays in the hands of customers. They should be satisfied at any cost.

Banks are making sincere efforts to popularise the e-banking services and products. Younger generation is beginning to see the convenience and benefits of ebanking. In years to come, e-banking will not only be acceptable mode of banking but will be preferred mode of banking.