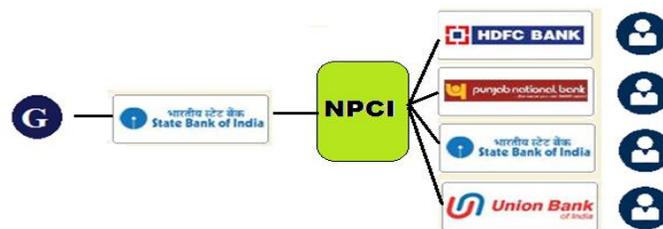


PAYMENT SYSTEMS AND NEGOTIABLE INSTRUMENTS

Payment systems in India

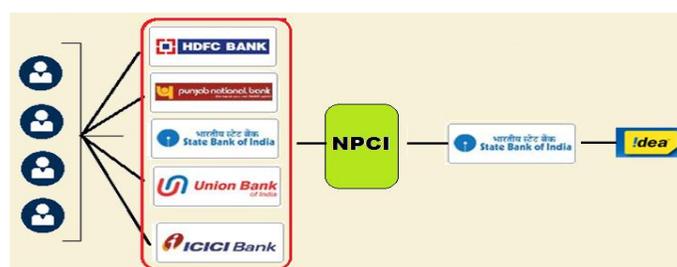
Payment systems in India	
Paper-based Payments	cheques, drafts--60% of the volume of total non-cash transactions -(MICR) technology-Speed Clearing -CTS-2010
Electronic Payments	Electronic Clearing Service (ECS) –debit- credit Electronic Funds Transfer (EFT) National Electronic Funds Transfer (NEFT) System Real Time Gross Settlement (RTGS)System
Pre-paid Payment Systems	smart cards, magnetic stripe cards, internet accounts, internet wallets, mobile accounts, mobile wallets, paper vouchers, etc.
Mobile Banking Online Transactions	
ATMs	61,000 ATMs in India-5 times in a month without being charged – recredit failed transactions within 12 working day
Point of Sale (POS) Terminals /	for purchases of goods and services by means of credit/debit cards. include online payment gateways

Such payments are made on a timely-basis like a year, half a year, etc. and used to pay salaries, dividends or commissions



Electronic Clearing Services (ECS Debit)

Known as many-to-one or "debit-pull" facility this method is used mainly for small value payments from consumers/ individuals to big organizations or companies. It facilitates individual payments like telephone bills, electricity bills, online and card payments and insurance payments

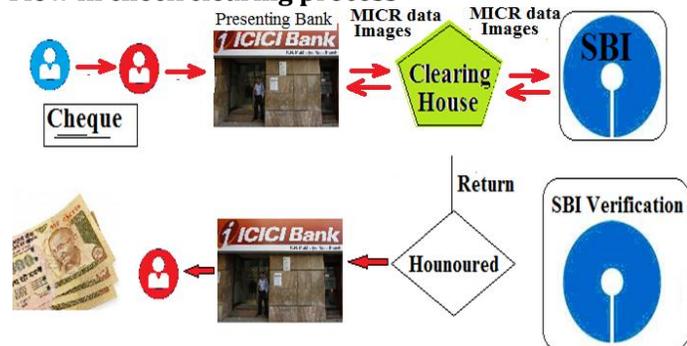


Cheque truncation system CTS –

It is a online image-based cheque clearing system where cheque images and magnetic ink character recognition (MICR) data are captured at the collecting bank branch and transmitted electronically.

Cheque truncation means stopping the flow of the physical cheques issued by a drawer to the drawer branch and only an electronic image of the cheque is sent to the drawer branch along with the relevant information like the MICR fields, date of presentation, presenting banks etc

Flow in check clearing process



Electronic Clearing Service (ECS Credit)

Known as "Credit-push" facility or one-to-many facility this method is used mainly for large-value or bulk payments where the receiver's account is credited with the payment from the institution making the payment.

Basis for comparison	Credit Card	Debit Card
Meaning	. The <u>payment is made by the bank</u> on the customer's behalf.	payment is made <u>through the customer's account</u> linked to the card.
Bank Account	The bank <u>account is not prerequisite</u> for issuing a credit card.	The <u>bank account is a must</u> for issuing a debit card.
Limit	Limit is determined according to the <u>credit rating</u> of the holder.	Limit will be <u>less than the money lying in the bank account</u> .
Interest	<u>Interest is charged</u> when payment is not made to the bank within a specified time period	No interest charged

Real-time gross settlement (RTGS)

1. Settlement in 'real time' means payment transaction is not subjected to any waiting period.
2. 'Gross settlement' means the transaction is settled on one to one basis without bunching with any other transaction.

3. Money transfer takes place in the books of the RBI, the payment is taken as final and irrevocable.

National Electronic Funds Transfer (NEFT)

Transaction cleared in hourly batches is run in order to speed up the transactions

	NEFT	RTGS
Meaning	Transfer in near real time basis.	Transferred exactly at the same time of transaction
Introduced in	2005	2004
Basis	Deferred Net Settlement (DNS)	One to One
Business Hours	On all working days (except 2nd & 4th Saturday) 8:00 am to 7:00pm	On all working days (except 2nd & 4th Saturday) 9:00 am to 4:30pm
Settlement cycle	12 Settlements in a working day	Continuous Settlement
Operates on	Hourly batches	Real time
Ceiling limit	No such min. limit, but the maximum amount per transaction is restricted to Rs. 50,000	Minimum - 2 lakh, Maximum - No limit
Appropriate for	Small value transaction	High value transaction
Processing	Comparatively Slow	Fast

Bharat Bill Payment System (BBPS) is an integrated bill payment system in India offering interoperable and accessible bill payment service to customers through a network of agents, enabling multiple payment modes, and providing instant confirmation of payment.

Rupay Card

- 1) India's first domestic payment card network, RuPay, to compete with Visa Inc and MasterCard Inc.
- 2) The RuPay payment network set up by (NPCI) at the behest of banks in India.
- 3) The main objective is to reduce overall transaction cost for the banks in India by introducing competition to international card schemes.
- 4) NPCI has plan to provide full range of credit service like RuPay ATM, RuPay MicroATM, Debit, Prepaid and Credit Cards which will be accepted across various channel POS, Internet, IVR, Mobile etc.



Financial inclusion

Socio economic conditions-

70% population reside in villages—remote & inaccessible.

40% below poverty line—lack of repayment ability & capacity. Lack of education & awareness. All these conditions lead to lack banking service penetration in India.

What is Financial Inclusion?

To give access to every poor and marginalised for banking, credit, insurance and investment services.

Why we need Financial Inclusion?

Benefits

1. Poor & marginalised get banking services
2. Small scale industries get easy credit/loans
3. Banks can enlarge their business
4. Economy -- It Turns savings into investment. Circular flow of income=helps the economy- Insurance /investment/savings. It also Protects family against unfortunate circumstances.

Major Initiatives for financial inclusion

1. Post office: savings account & saving schemes.
2. Government has nationalized Banks and insurance companies, made them serve low income groups and rural areas.
3. Government helped setting up Regional rural banks, Cooperative banks, Primary Agriculture societies.
4. Lead bank schemes: RBI assigns a district to a particular bank. That Bank will be responsible for promoting banking services and financial literacy, in that district.
5. Government launched Swabhiman project to extend banking services to rural areas.
6. RBI permitted Business Correspondents (BC) system. Banks extend their services to villagers with help of these agents.
7. Bhartiya mahila bank setup and owned by GOI, exclusively for women is a initiative towards financial inclusion.
8. RBI has ordered the banks to open at least 25 per cent of their new branches in unbanked rural centres.
9. RBI's No Frills accounts for poor people. Later renamed to Basic Savings Bank Deposit Account (BSBDA).
10. Government's Direct Benefit Transfer (DBT) initiative. PMJDY

Services under Financial inclusion

1. **Giving Access to Credit (Loans)**
2. **Giving More Access to Investment**
3. **Giving Access to Insurance**



Giving Access to Credit (Loans)

1. Priority sector lending targets.
2. NABARD=>Microfinance, Various schemes for Self-help groups.
3. Interest Subvention scheme for farmers.

Kisan Credit Card (KCC) to help people get loans easily

Giving More Access to Investment

1. National Savings certificates
2. Public Provident Funds
3. New Pension Scheme
4. Rajiv Gandhi Equity Savings Scheme
5. inflation indexed bond

Giving Access to Insurance

Post office: has tied up with LIC, offering variety of insurance schemes, particularly targeting rural junta e.g. Gram Surakha, Suvridha, Sumangal etc.

Weather based crop insurance loans for farmers

Aam Admi Bima Yojana(AABY)

Rashtriya Swasthya Bima Yojana (RSBY)

Rajiv Gandhi Shilpi Swasthya yojana (one type of Health insurance)

Next we will discuss some financial inclusion initiatives in detail

BSBDA

Basic Savings Bank Deposit Account' or No-frills accounts -

1. It is a basic savings a/c with bank including other normal banking services.
2. Earlier opened 'no-frills' account with 'nil' or very low minimum balances will now be converted into BSBDA as per RBI guidelines.
3. It is part of the financial inclusion plan of India.
4. An individual is eligible to have only one BSBDA a/c in one bank.
5. Holders of 'Basic Savings Bank Deposit Account' will not be eligible for opening any other savings account in that bank.
6. **Main Points of the BSBDA:**
7. i. Total credits in such accounts should not exceed 1 lakh rupees in a year.
8. ii. Maximum balance in the account should not exceed 50,000 Rs at any time
9. iii. The total of debits by way of cash withdrawals and transfers will not exceed 10,000 rupees in a month
10. iv. Foreign remittances cannot be credited to Small Accounts without completing normal KYC formalities
11. v. Small accounts are valid for a period of 12 months initially which may be extended.

12. vi. Small Accounts can only be opened at CBS linked branches of banks or at such branches

Business correspondents (BC)

BCs are bank representatives. They personally go to the area allotted to them and carry out banking.

They help villagers to open bank accounts - help in banking transactions. (Deposit money, take money out of savings account, loans etc.).

BCs carries a mobile device → The villager gives his thumb impression or electronic signature, and gets the money → BCs get commission from banking in return.

Priority sector Lending-

Priority sector refers to sectors of the economy which may not get timely and adequate credit. Typically, these are small value loans to farmers for agriculture and allied activities, micro and small enterprises, poor people for housing, students for education and other low income groups and weaker sections.

Sectors include for PSL

- (i) Agriculture & allied
- (ii) Micro and Small Enterprises
- (iii) Education
- (iv) Housing
- (v) Export Credit
- (vi) Others

Categories For PSL	Domestic commercial banks / Foreign banks with 20 and above branches	Foreign banks with less than 20 branches
Total Priority Sector	40	32
Total agriculture	18	No specific target.
Advances to Weaker Sections	10	No specific target.

Kisan Vikas Patra (KVP)-

it is a savings instrument. The new KVP is like a 'Small savings schemes' such as the Public Provident Fund (PPF) and the National Savings Certificates (NSCs). It was discontinued three years ago was launched again.

Major features of the new Kisan Vikas Patra:

The Interest obtained in it is 8.7%.

1. Tenure will be eight years and four months (100 months).
2. Invested amount doubles in 100 months.
3. The Minimum lock-in period will be two years and six months.

Liquidity details:

1. reasonably liquid but lesser liquid than bank deposits. KVP can be encashed in 8 equal instalments per month after the lock-in period.

- This can be transferred to another person by endorsement and delivery - This confers unmatched anonymity to the holder of the instrument.
- The KVP can also be given as collateral. Unlike other schemes like PPF and NSCs, the KVP does not have a tax advantage interest on it will be fully taxable.
- Minimum investment in KVP will be Rs.1,000 - PAN will not be required for Know your customer (KYC) -How to get KVP: This will be sold initially through post offices across the country, but later through some government-owned banks also.

3. Crossed Cheque

Crossing of cheque means drawing two parallel lines on the face of the cheque with or without additional words like "& CO." or "Account Payee" or "Not Negotiable". A crossed cheque cannot be encashed at the cash counter of a bank but it can only be credited to the payee's account.

4. Ante-Dated Cheque

If a cheque bears a date earlier than the date on which it is presented to the bank, it is called as "ante-dated cheque". Such a cheque is valid upto 3 months from the date of the cheque.

5. Post-Dated Cheque

If a cheque bears a date which is yet to come (future date) then it is known as post-dated cheque. A post dated cheque cannot be honoured earlier than the date on the cheque.

6. Stale Cheque

If a cheque is presented for payment after 3 months from the date of the cheque it is called stale cheque. A stale cheque is not honoured by the bank.

7. A self cheque

A self cheque is written by the account holder as pay self to receive the money in the physical form from the branch where he holds his account.

8. "A **truncated cheque**" means a cheque which is truncated during the course of a clearing cycle, either by the clearing house or by the bank whether paying or receiving payment, immediately on generation of an electronic image for transmission, substituting the further physical movement of the cheque in writing. The expression "clearing house" means the clearing house managed by the Reserve Bank of India or a clearing house recognised as such by the Reserve Bank of India.'

Crossing a cheque

- General crossing-** In a general crossing, simply two parallel transverse lines, with or without the words 'not negotiable' in between, may be drawn. The effect is that the payment of the cheque will not be made at the counter, it can be collected only through a banker.
- Special crossing-** In a special crossing, the name of a banker with or without the words 'not negotiable' is written on the cheque. Such a cheque is crossed specially to that banker. It should be noted that two transverse parallel lines are necessary for a general crossing, whereas for a special crossing, no such lines are necessary. The effect is that amount of the cheque only through the bank named in the cheque.

General crossing	Special crossing
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Negotiable instruments

According to section 13 of the Negotiable Instruments Act, 1881, a negotiable instrument means "promissory note, bill of exchange, or cheque, payable either to order or to bearer". Cheque It is an instrument in writing containing an unconditional order, addressed to a banker, sign by the person who has deposited money with the banker, requiring him to pay on demand a certain sum of money only to or to the order of certain person or to the bearer of instrument."

Checking the cheque!



Types of Cheque

1. Bearer Cheque or open Cheque

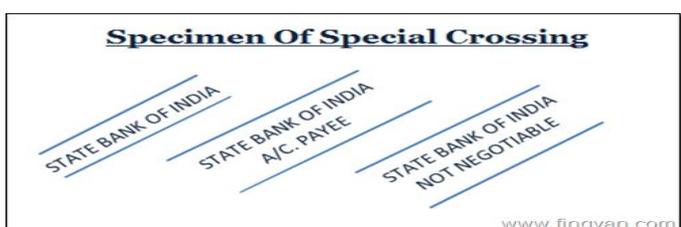
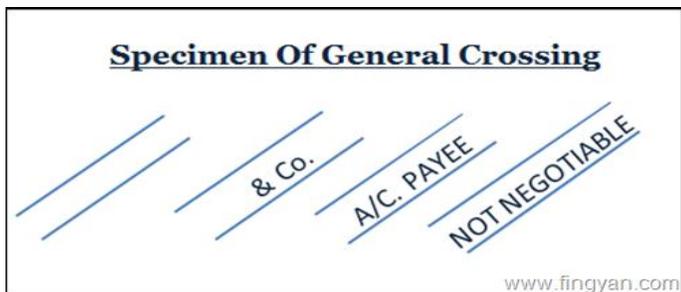
When the words "or bearer" appearing on the face of the cheque are not cancelled, the cheque is called a bearer cheque. The bearer cheque is payable to the person specified therein or to any other else who presents it to the bank for payment.

2. Order Cheque

When the word "bearer" appearing on the face of a cheque is cancelled and when in its place the word "or order" is written on the face of the cheque, the cheque is called an order cheque. Such a cheque is payable to the person specified therein as the payee, or to any one else to whom it is endorsed (transferred).

Two parallel lines must	No necessity of parallel lines
Enchased by any banker	Only enchased by the bank shown under crossing
Less safe	More safe
Can be converted into sp. Crossing	No

Drawer	Customer of the bank.	Bank itself.
Parties Involved	Three Parties- Drawer, Drawee, Payee.	Two Parties- Drawer, Payee.
Dishonour	Yes, due to insufficient balance or other similar reasons.	No



Parties of a Cheque:

There are three parties to the cheque

- 1. Drawer or Maker**
- 2. The bank** - on whom the cheque is drawn (i.e. the bank with whom the account is maintained by the drawer)
- 3. Payee** - Payee is the person whose name is mentioned on the cheque to whom or to whose order the money is directed to be paid.

Demand draft

Demand Draft is a negotiable instrument used for the transfer of money from one place to another

Basis for Comparison	Cheque	Demand Draft
Meaning	Cheque is a negotiable instrument which contains an order to the bank, signed by the drawer, to pay a certain sum of money to a specified person.	Demand Draft is a negotiable instrument used for the transfer of money from one place to another.
Payment	Payable either to order or to bearer.	Always payable to order of a certain person.
Issuance	Cheque is issued by an individual.	Demand Draft is issued by a bank.
Bank Charges	No	Yes