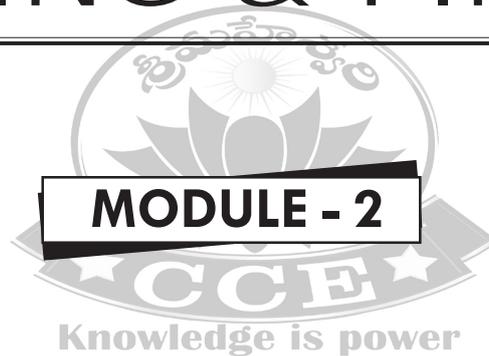


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*Principles of*  
**BANKING & FINANCE**

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**MODULE - 2**

**CCE**  
Knowledge is power

## LESSON - 8

# OTHER BANKING SERVICES

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Accepting deposits is not only one activity of a bank. Banks offer various other services to customers.

In the context of banking, the services offered by a bank can be extremely wide.

**Some of these are listed below:**

### **Fund-based Services**

Banks accept deposits and raise other debt and equity funds with the intention of deploying the money for a profit.

- The income that a bank earns, as a percentage of its loans and investments, is **its Gross Yield**.
- The interest it pays as a percentage of the resources mobilised is its **cost of funding**.
- **Gross Yield less the Cost of Funding** represents its **Gross Spread**.
- **Gross Spread less Administrative and Other Costs** is its **Net Spread**.

Fund-based services are thus a key determinant of the bank's spreads. The lending takes several forms.

### **Fund-based Services for Business People:**

**Bank Overdraft:** It is a facility where the account holder is permitted to draw more funds than the amount in his current account.

**Cash Credit:** It is an arrangement where the working capital requirements of a business are assessed based on financial projections of the company, and various norms regarding debtors, inventory and creditors. Accordingly, a total limit is sanctioned. At regular intervals, the actual drawing power of the business is assessed based on its holding of debtors and inventory. Accordingly, funds are made available. Funding could come from a consortium of bankers, where one bank performs the role of lead banker. Alternatively, the company may make multiple banking arrangements.

**Bill Purchase / Discount :** When **Party A supplies goods to Party B**, the payment terms may provide for a **bill of exchange (traditionally called hundi)**. A bill of exchange is an **unconditional written order from one person (the supplier of the goods) to another (the buyer of the goods), signed by the person giving it (supplier), requiring the person to whom it is addressed (buyer) to pay on demand or at some fixed future date, a certain sum of money, to either the person identified as payee in the bill of exchange, or to any person presenting the bill of exchange.**

- When payable on demand, it is a **Demand Bill**
- When payable at some fixed future date, **it is a Usance Bill**.

Thus the supplier of the goods can receive his money even before the buyer makes the payment, through a **Bill Purchase / Discount facility** with his banker. It would operate as follows:

- The supplier will submit **the bill of exchange**, along with Transportation Receipt to his bank.
- The supplier's bank **will purchase the bill (if it is a demand bill) or discount the bill (if it is a usance bill) and pay the supplier.**
- The supplier's bank will send the bill of exchange along with **Transportation Receipt to the buyer's bank, which is expected to present it to the buyer for payment, if it is a demand bill and for acceptance, if it is a usance bill.**
- The buyer will receive the Transportation Receipt only on payment or acceptance, as the case may be.

**Term Loan / Project Finance:** Banks largely perform the role of working capital financing. With the onset of universal banking, some banks are also active in funding projects. This would entail assessing the viability of the project, arriving at a viable capital structure, and working out suitable debt financing facilities. At times, the main banker for the business syndicates part of the financing requirement with other banks.

### **Fund-based Services for Individuals**

Bank credit for individuals could take several forms, such as:

**Credit Card:** The customer swipes the credit card to make his purchase. His seller will then submit the details to the card issuing bank to collect the payment. The bank will deduct its margin and pay the seller. The bank will recover the full amount from the customer (buyer). The margin deducted from the seller's payment thus becomes a profit for the card issuer. So long as the customer pays the entire amount on the due date, he does not bear any financing cost. He may choose to pay only the minimum amount specified by the bank. In that case, the balance is like a credit availed of by him. The bank will charge him interest on the credit. Such a mechanism of availing of credit from the credit

card is called **revolving credit**. It is one of the costliest sources of finance – upwards of 3% p.m. Besides, even for a few days of delay in payment, the bank charges penalties. Similarly, penalties are charged if the credit card outstanding crosses the limit specified by the bank.

**Personal Loan:** This is a form of unsecured finance given by a bank to its customer based on past relationship. The finance is given for 1 to 3 years. Cheaper than credit card, but costly. It is not uncommon to come across interest rates of 1.5% p.m. plus 2-3% upfront for making the facility available plus 3-5% foreclosure charges for amounts pre-paid on the loan. At times, banks convert the revolving credit in a credit card account to personal loan. Such a conversion helps the customer reduce his interest cost and repay the money faster. This is however a double edged sword. Once the credit card limit is released, customers tend to spend more on the card and get on to a new revolving credit cycle.

**Vehicle Finance:** This is finance which is made available for the specific purpose of buying a car or a two-wheeler or other automobile. The finance is secured through hypothecation of the vehicle financed. The interest rate for used cards can go close to the personal loan rates. However, often automobile manufacturers work out special arrangements with the financiers to promote the sale of the automobile. This makes it possible for vehicle-buyers to get attractive financing terms for buying new vehicles.

**Home Finance:** This is finance which is made available against the security of real estate. The purpose may be to buy a new house or to repair an existing house or some other purpose. The finance is secured through a mortgage of the property. The finance is cheaper than vehicle finance. As with vehicle finance, real estate developers do work out special arrangements with financiers, based on which purchasers of new property can get attractive financing terms.

### Non-Fund-based Services

These are services, where there is no outlay of funds by the bank when the commitment is made. At a later stage however, the bank may have to make funds available. Since there is no fund outflow initially, it is not reflected in the balance sheet. However, the bank may have to pay. Therefore, it is reflected as a contingent liability in the **Notes to the Balance Sheet**. Therefore, such exposures are called **Off Balance Sheet Exposures**.

When the commitment is made, the bank charges a fee to the customer. Therefore, it is also **called fee-based business**.

### For Business

**Letter of Credit:** When Party A supplies goods to Party B, the payment terms may provide for a Letter of Credit. In such a case, **Party B (buyer or opener of L/C) will approach his bank (L/C Issuing Bank)** to pay the beneficiary (seller) the value of the goods, by a specified date, against presentation of specified documents. The bank will charge the buyer a commission, for opening the L/C. The L/C thus allows the Part A to supply goods to Party B, without having to worry about Party B's credit-worthiness. It only needs to trust the bank that has issued the L/C. It is for the L/C issuing bank to assess the credit-worthiness of Party B. Normally, the L/C opener has a finance facility with the L/C issuing bank. The L/C may be inland (for domestic trade) or cross border (for international trade).

**Bank Guarantee:** In business, parties make commitments. How can the beneficiary of the commitment be sure that the party making the **commitment (obligor)** will live up to the commitment? This comfort is given by a guarantor, whom the beneficiary trusts. Banks issue various guarantees in this manner, and recover a guarantee commission from the obligor. The guarantees can be of different kinds, such as **Financial Guarantee, Deferred Payment Guarantee and Performance Guarantee**, depending on how they are structured.

**Loan Syndication :** This investment banking role is performed by a number of universal banks.

### For Individuals

- Sale of Financial Products such as mutual funds and insurance is another major service offered by universal banks.
- Financial Planning and Wealth Management, again, are offered by universal banks.
- Executors and Trustees – a department within banks – help customers in managing succession of assets to the survivors or the next generation. Lockers – a facility that most Indian households seek to store ornaments and other valuables.

## DIFFERENT MODES OF MONEY REMITTANCE SERVICES

### Demand Draft / Banker's Cheque / Pay Order

Suppose A needs to make a payment to B. In the normal course, A would sign a cheque for the requisite amount and give it to B.

- If it is a **bearer cheque**, B can go to A's bank and withdraw the money.
- If it is a **crossed cheque**, B will deposit the cheque in his bank account or can **endorse (Transfer)** that cheque on any other's name. But cheque is payable only through a bank account.
- If it is an **A/C Payee only** cheque B will deposit the cheque in his bank account but he cannot endorse it on to any other person. Because endorsement of cheque is restricted by issuer writing 'A/C Payee only'

B wants to be sure that the money would be received i.e. the cheque would not be bounced for any reason. In such a situation, B will insist on a **Demand Draft / Banker's Cheque**. **If both A and B are in the same city, then the bank would issue a Pay Order**. A will have to buy the instrument from a bank, bearing the prescribed charges.

A will then send it to B, who will deposit it in his bank account.

### **National Electronic Funds Transfer (NEFT)**

#### **What is NEFT?**

**National Electronic Funds Transfer (NEFT)** is a nation-wide payment system facilitating one-to-one funds transfer. Under this Scheme, individuals, firms and corporates can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country participating in the Scheme. For being part of the NEFT funds transfer network, a bank branch has to be NEFT-enabled.

#### **Who can transfer funds using NEFT?**

Individuals, firms or corporates maintaining accounts with a bank branch can transfer funds using NEFT. Even such **individuals who do not have a bank account (walk-in customers)** can also deposit cash at the NEFT-enabled branches with instructions to transfer funds using NEFT. However, such cash remittances will be restricted to a maximum of **Rs.50,000/- per transaction**. Such customers have to furnish full details including complete address, telephone number, etc. NEFT, thus, facilitates originators or remitters to initiate funds transfer transactions even without having a bank account.

#### **What is IFSC?**

In order to issue the instruction, the transferor should know not only the beneficiary's bank account no. but also the **IFSC (Indian Financial System Code)** of the concerned bank. **IFSC is an alpha-numeric code that uniquely identifies a bank-branch participating in the NEFT system. This is an 11 digit code with the first 4 alpha characters representing the bank, and the last 6 numeric characters representing the branch. The 5th character is 0 (zero).** The settlement of funds between originating and receiving banks takes place centrally at **Mumbai. IFSC is used by the NEFT system** to route the messages to the destination banks / branches. Once the NEFT instruction has been issued, it will be affected between the concerned banks in the next settlement. During weekdays, between **8 am and 7 pm, there are 12 settlements i.e. every hour**. On Saturdays, there are **6 hourly settlements** between **8 am and 1 pm**.

#### **When can the beneficiary expect to get the credit to his bank account?**

The beneficiary can expect to get credit for the first ten batches on week days (i.e., transactions from 8 am to 5 pm) and the first five batches on Saturdays (i.e., transactions from 8 am to 12 noon) on the same day. For transactions settled in the last two batches on week days (i.e., transactions settled in the 6 and 7 pm batches) and the last batch on Saturdays (i.e., transactions handled in the 1 pm batch) beneficiaries can expect to get credit either on the same day or on the next working day morning (depending on the type of facility enjoyed by the beneficiary with his bank).

#### **Transfer of Funds through RTGS system**

**RTGS stands for Real Time Gross Settlement.** It is quite similar to the **NEFT or National Electronic Fund Transfer system**. However, the key difference is how long a transaction takes to be completed. As the name suggests, in the RTGS system, **transactions are processed and settled continuously in real time and funds are transferred immediately.** In the NEFT system, **payments are deferred.** NEFT transactions are processed on an hourly basis when conducted during operable hours. **NEFT is an electronic fund transfer system that operates on a Deferred Net Settlement (DNS) basis** which settles transactions in batches. In DNS, the settlement takes place with all transactions received till the particular **cut-off time**. These transactions are netted (payable and receivables) in NEFT whereas in RTGS the **transactions are settled individually.** For example, currently, NEFT operates in hourly batches. **[There are twelve settlements from 8 am to 7 pm on week days and six settlements from 8 am to 1 pm on Saturdays.]** Any transaction initiated under NEFT, after a designated **settlement time** would have to wait till the next designated settlement time. Contrary to this, in the **RTGS transactions are processed continuously throughout the RTGS business hours.**

**What is the essential information that the remitting customer would have to furnish to a bank for the remittance to be effected?**

The remitting customer has to furnish the following information to a bank for initiating a RTGS remittance:

1. Amount to be remitted
2. Remitting customer's account number which is to be debited
3. Name of the beneficiary bank and branch
4. The IFSC Number of the receiving branch
5. Name of the beneficiary customer
6. Account number of the beneficiary customer
7. Sender to receiver information, if any

#### **Transfer Funds through IMPS using Mobile Number and MMID**

The key requirement for sending money through RTGS or NEFT payment systems is to add the payee's details. This often takes an entire day to process. If you do not want to wait, and instead would want to send the money immediately, the **Immediate Payment Service (IMPS)** is for you. As many as 60 banks offer this service,

according to the **National Payments Corporation of India**.

**The IMPS system** is available on both the phone and the computer, but is predominantly used by those opting for mobile banking services. The key requirement for an IMPS transaction is not your bank account number, but your mobile number. You will need to register your mobile number and generate your MMID. The **Mobile Money Identifier (MMID)** is a **7 digit code** issued by a participating bank to their customer registered for mobile banking. Every account will have a unique **MMID**. This ensures its identification and security. So, to transfer money, **both the sender and receiver need to generate their MMID**. Then, you can log on to your bank's internet or mobile banking portal, and click on fund transfer via IMPS. Enter details of the mobile number, the MMID and the transaction amount. Then, punch in your transaction passwords and debit card details to verify the transaction. That's it. You are now done. The best part? **This can be done 24x7 unlike NEFT and RTGS transactions**. Banks may charge a small amount between Rs 2.5 and 15 for such transactions. This is excluding the service tax.

#### **How to Transfer Funds through IMPS using Account Number and IFSC Code?**

**The IMPS system needs both the recipient and sender to register their mobile numbers** and generate the MMID. **But what if the recipient is not registered or may be has no valid mobile number?**

To help such customers, an IMPS transaction can also be conducted using the **recipient's bank account number and IFSC Code**. The Indian Financial System Code (IFSC) is a unique code that helps identify which bank the account belongs to and the branch details. Once this is identified, the payment is directly transferred to the bank account. This can also be done 24x7. The bank charges may be the same as an IMPS transfer using mobile number and MMID.

#### **Transferring money through SMS**

The above three transfer systems helps credit money into the bank account. What if you want to send money to someone in cash-form? You can now do that through the SMS banking facility offered by many banks.

For such a cash-based transaction, the recipient does not need to have any bank account. All he or she needs is a mobile number. The beneficiary will have to go to an ATM of your bank and withdraw cash using the details received through SMS. There is no need for an ATM card. Simply put, you are giving the recipient a one-time opportunity to withdraw cash from account without using your ATM card. However, you will be specifying the exact amount of withdrawal, thus increasing the security. Once the recipient successfully punches in your mobile number, the two sets of codes given to the sender and the recipient as well as the correct amount, he or she will be able to successfully withdraw cash.

**International electronic Fund transfer through SWIFT (Society for Worldwide Interbank Financial Telecommunications)**

**SWIFT is solely a carrier of messages. It does not hold funds nor does it manage accounts on behalf of customers, nor does it store financial information on an on-going basis.** As a data carrier, SWIFT transports messages between two financial institutions. This activity involves the secure exchange of proprietary data while ensuring its confidentiality and integrity. SWIFT, which has its headquarters in **Belgium, has developed an 8-alphabet Bank Identifier Code (BIC)**.

For instance **HDFCINBB** stands for: HDFC = HDFC Bank, IN = India, BB = Mumbai. Thus, the **BIC** helps identify the bank. **A typical SWIFT instruction would read as follows:**

Please remit [amount in US\$] by wire transfer To HDFC Bank Mumbai from Account Number V801-890-0330-937 with Bank of New York, New York [Swift code IRVTUS3N] for further credit to account number XXXXXXXXXXXXXXX of Advantage-India Consulting Pvt. Ltd with HDFC Bank, Bhandra East Branch, Mumbai 400077, India.

#### **Banking Channels**

##### **Automated Teller Machines (ATMs)**

Initially, all banking services were offered from the bank branches. **Automated Teller Machines (ATMs)** made it possible for customers to handle their transactions at multiple ATM locations across the country. For transacting at an ATM, the customer inserts /swipes his/her Card in the ATM and enters his/her Personal Identification Number (PIN) issued by his/her bank. As per RBI guidelines, customers are entitled to 5 FREE transactions (Financial and Non-Financial) in a calendar month (for Savings Bank account holders only). Reserve Bank had put a **Rs 10,000 cap** per withdrawal from ATMs not owned by the bank in which the customer has an account, besides limiting such transactions to five in a month. **Rs 20/- per transaction is charged beyond this limit.** In the last three years, the number of ATMs has more than doubled to 1, 62,543 from 74,355.

##### **ATM Features:**

- **Cash Withdrawal:** The most popular service on our ATMs enables customers to withdraw up to a daily limit of Rs. 40,000/- (limit on Classic Debit Card. Higher value cards permit daily withdrawal limits of up to Rs. 1 lakh per day)
- **Fast Cash:** A service which enables you to withdraw your preferred amounts with just a touch. The options in the denomination of 100, 200, 500, 1000, 2000, 3000, 5000, 10,000 are available.

- **Pin Change:** One can change password at regular intervals.
- **Balance Enquiry:** One can view the balance which is displayed on the screen else can get a transaction receipt by selecting print.
- **Mini statement:** one can keep track of the transactions in their account by availing this service. Mini-statement gives an insight into the last 10 transactions in your account.
- **Card to Card Transfer:** Send cash in a flash from one SBI Debit Card to the other. Using this free and easy service, one can transfer up to Rs. 30,000/- per day instantly to anyone. All one need is Bank's debit card cum ATM Card, PIN and the beneficiary's debit card number. (Per transaction limit of Rs. 15,000/-).
- **Credit Card Payment:** Use this service to pay the bill of any Visa credit card.
- **Mobile Top-up:** One can recharge mobile prepaid connection from ATMs.
- **Cheque Book Request:** Order your cheque book without visiting the branch or filling in any transaction slips
- **Trust Donation:** one can make a donation to favorite charity.
- **Bill payment:** One can Use ATMs to pay their utility bills viz. bills of State Electricity Boards/Telephone bills/Tax authorities etc
- **Inter-mobile Mobile Payment System:** One can register for the IMPS service at all ATMs. This service allows one to transfer money to any other person with a registered IMPS number instantly.
- **White label ATM:** These are ATM's which are not owned by banks but by private ATM service providers. Customers from any bank can deposit or withdraw money from such ATM's. Banks pay a service fee to **White label ATM providers.**
- **Brown label ATMs:** The ATM is named under the brand of the sponsor bank but the ATM machine is not owned by the bank.

**Tele-banking**, supported by call centers and automated messaging made it convenient for customers to handle many services from their home. **E-banking (through the internet) and M-banking (through mobile phones)** have added another chapter of banking convenience. Thus, with the aid of technology, the service offering of banks and convenience of customers is continuously increasing.

#### NEFT/RTGS/IMPS Charges, Timings, Limits

Transaction Timings	NEFT	RTGS	IMPS
Monday to Friday	8:00 AM to 7 PM	9:15 AM to 4:15 PM	24x7
Saturdays	8:00 AM to 1 PM	9:15 AM to 1:45 PM	24x7

Transaction Limits	NEFT	RTGS	IMPS
Minimum	Re 1	Rs 2 lakh	Re 1
Maximum	No upper limit	No upper limit	Rs 2 lakh

Transaction Charges	NEFT	RTGS	IMPS
Amounts up to Rs 10,000	Rs. 2.50 + Service Tax	Not Applicable	Rs. 2.50 + Service Tax
Amounts above Rs 10,000 and up to Rs 1 lakh	Rs. 5 + Service Tax	Not Applicable	Rs. 5 + Service Tax
Amounts above Rs 1 lakh and upto Rs 2 lakh	Rs. 15 + Service Tax	Not Applicable	Rs 15 + Service Tax
Amounts above Rs 2 lakh (Above Rs 2 lakh to 5 lakh for RTGS)	Not exceeding Rs. 25 + Service Tax	Rs. 30 (inclusive of taxes)	Not Applicable
Amounts above Rs 5 lakh	Not exceeding Rs 25 + Service Tax	Rs. 55 (inclusive of taxes)	Not Applicable

\* IMPS Service on Internet and Mobile banking will be chargeable from April 1, 2012.