



Digital Banking

Notes





Digital Payments - Anytime Payment

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Learning Objectives

- Know what is a Digital Payment
- Gain knowledge of Cashless Economy
- Learn about 10 Types of Digital Payment Methods in India
- Learn how to get Banking cards?
- Learn how to Use *99#?
- Learn how to use AEPS?
- Learn how to use UPI?
- Learn how to use a mobile wallet?
- Learn how to Use a Prepaid Card?
- Learn how to Use BHIM App?
- Know benefits of Digital Payments

Notes



Digital Payment

- A digital payment occurs when goods or services are purchased through the use of various electronic mediums.
- There is no use of cash or cheques in this type of payment method.
- As part of the 'Digital India' campaign, the government aims to create a 'digitally empowered' economy that is 'Faceless, Paperless, Cashless'.

Notes



Cashless Economy

- In a cashless economy, all transactions are carried out using different types of payment methods and this does not involve the physical use of money for the purchase of various goods and services.

Notes



Banking Cards



USSD



AEPS



UPI



Mobile Wallet



Banks Pre-paid Cards



Point of Sale



Internet Banking



Mobile Banking



Micro ATMs

Notes



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Types of Digital Payment Methods in India

1. Banking cards
2. USSD
3. Aadhaar Enabled Payment System (AEPS)
4. UPI
5. Mobile Wallets
6. Bank pre-paid cards
7. Point of Sale (PoS)
8. Internet Banking
9. Mobile Banking
10. Bharat Interface for Money (BHIM) app

Notes



Banking cards

- Cards are among the most widely used payment methods and come with various features and benefits such as security of payments, convenience, etc.
- The main advantage of debit/credit or prepaid banking cards is that they can be used to make other types of digital payments.

Notes



Banking cards

- Some of the most reputed and well-known card payment systems are **Visa, Rupay and MasterCard**, among others.
- Banking cards can be used for online purchases, in digital payment apps, PoS machines, online transactions, etc.

Notes



USSD

- Another type of digital payment method, *99#, can be used to carry out mobile transactions without downloading any app.
- These types of payments can also be made with no mobile data facility.
- This facility is backed by the USSD along with the National Payments Corporation of India (NPCI).

Notes



USSD

- The main aim of this type of digital payment service is to create an environment of inclusion among the underserved sections of society and integrate them into mainstream banking.
- This service can be used to initiate fund transfers, get a look at bank statements and make balance queries. Another advantage of this type of payment system is that it is also available in Hindi.

Notes



How to Use *99#?

- This service can be used by dialling *99#, after which the customer can interact with an interactive voice menu through their mobile screen.
- To use the service the mobile number of the customer should be the same as the one linked to the bank account
- The next step is to register for USSD, MMID (Mobile Number Identifier) and MPIN

Notes



AEPS

- Expanded as Aadhaar Enabled Payment System, AEPS, can be used for all banking transactions such as balance enquiry, cash withdrawal, cash deposit, payment transactions, Aadhaar to Aadhaar fund transfers, etc.
- All transactions are carried out through a banking correspondent based on Aadhaar verification.

Notes



AEPS

- There is no need to physically visit a branch, provide debit or credit cards, or even make a signature on a document.
- This service can only be availed if your Aadhaar number is registered with the bank where you hold an account.
- This is another initiative taken by the NPCI to promote digital payments in the country.

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How to use AEPS?

- It is very simple to use AEPS, all you need to do is to provide the accurate Aadhaar number and the payment will be successfully made to the concerned merchant

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UPI

- UPI is a type of interoperable payment system through which any customer holding any bank account can send and receive money through a UPI-based app.
- The service allows a user to link more than one bank account on a UPI app on their smartphone to seamlessly initiate fund transfers and make collect requests on a 24/7 basis and on all 365 days a year.
- The main advantage of UPI is that it enables users to transfer money without a bank account or IFSC code.

Notes



UPI

- All you need is a Virtual Payment Address (VPA).
- There are many UPI apps in the market and it is available on both Android and iOS platforms.
- To use the service one should have a valid bank account and a registered mobile number, which is linked to the same bank account.
- There are no transaction charges for using UPI. Through this, a customer can send and receive money and make balance enquiries.

Notes



How to use UPI?

- Download the app on Android or iOS platform
- Register for the service by providing bank account details
- Create a VPA, get an MPIN

Notes



Mobile Wallets

- A mobile wallet is a type of virtual wallet service that can be used by downloading an app.
- The digital or mobile wallet stores bank account or debit/credit card information or bank account information in an encoded format to allow secure payments.
- One can also add money to a mobile wallet and use the same to make payments and purchase goods and services.
- This eliminated the need to use credit/debit cards or remember the CVV or 4-digit pin.

Notes



Mobile Wallets

- Many banks in the country have launched e-wallet services and apart from banks, there are also many private players.
- Some of the mobile wallet apps in the market are Paytm, MobiKwik, Freecharge, etc.
- The various services offered by mobile wallets include sending and receiving money, making payments to merchants, online purchases, etc.
- Some mobile wallets may charge a certain transaction fee for the services offered.

Notes



How to use a mobile wallet?

- Download the app
- Register for the service by following instructions and providing all details
- Load money

Notes



Bank pre-paid cards

- A prepaid card is a type of payment instrument on to which you load money to make purchases.
- The type of card may not be linked to the bank account of the customer.
- However, a debit card issued by the bank is linked with the bank account of the customer.

Notes



How to Use a Prepaid Card?

- Apply for the card
- Get pin
- Load money from your bank account/debit card

Notes



PoS terminals

- Traditionally, PoS terminals referred to those that were installed at all stores where purchases were made by customers using credit/debit cards.
- It is usually a hand held device that reads banking cards.
- However, with digitization the scope of PoS is expanding and this service is also available on mobile platforms and through internet browsers.
- There are different types of PoS terminals such as Physical PoS, Mobile PoS and Virtual PoS.

Notes



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PoS terminals

- such as Physical PoS, Mobile PoS and Virtual PoS.
- Physical PoS terminals are the ones that are kept at shops and stores.
- On the other hand, mobile PoS terminals work through a tablet or smartphone.
- This is advantageous for small time business owners as they do not have to invest in expensive electronic registers. Virtual PoS systems use web-based applications to process payments.

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Plastic money

- Plastic money is a term used for credit cards and debit cards. It is a type of payment that allows customers to make purchases without using cash.
- Plastic money is convenient and can be used anywhere that accepts credit cards. Many people use plastic money for everyday purchases, such as groceries.
- There are two main types of plastic money: credit cards and debit cards.
- Credit cards are issued by banks, allowing customers to borrow money up to a certain limit.
- Debit cards are linked to a bank account and allow customers to spend money they already have.

Notes



Plastic Money Use

- **Plastic Money** may refer to the use of plastic cards like debit/credit cards in the form of electronic transactions.
- Credit cards and debit cards are referred to as plastic money. It is a form of payment that enables consumers to make transactions without spending cash.
- **Plastic money is versatile and convenient.** The invention of plastic money was made possible by technology.
- Through this article, we will cover all the necessary details one needs to know about plastic money. The article discusses the types and benefits of using Plastic Money in India.

Notes



AXIS BANK



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Importance Of Plastic Money

1. Convenience:

- Carrying around a wad of cash can be cumbersome and dangerous. With plastic money, all you need is a card, and you are good to go.

2. Safety:

- If you lose cash, it has gone for good. But if you lose a credit or debit card, you can cancel it and get a replacement.

3. Rewards:

- Many credit cards offer rewards points that can be redeemed for travel, merchandise, or cash back.

4. Protection:

- When you use a credit card, you have protection against fraud and theft.

5. Universal Acceptance:

- Plastic money is more convenient, safe, and rewarding than cash. It is also more widely accepted, making it the preferred choice for many people. Plastic money is accepted everywhere, online and offline. This is especially useful for travelers.

Notes



Various Types of Plastic Money

Credit Cards

- Credit cards are a type of plastic money. They allow you to borrow money from a bank or other financial institution. You can use this money to buy things. However, you will need to repay the money plus interest.

Debit Cards

- Debit cards are another type of plastic money. They are linked to your bank account. This means that you can use them to withdraw cash or make payments directly from your bank account.

Prepaid Card

- Prepaid cards are another type of plastic money. They are like debit cards, but you load them with money in advance. This means that you can only spend the money that you have loaded onto the card.

Contactless Cards

- Contactless cards are a newer type of plastic money. They use radio waves to communicate with a card reader. This means that you can make payments without having to insert or swipe your card.
- Plastic money is very convenient to use. However, you need to be careful with it. You should only use plastic money from reputable sources. You should also be careful about how much money you spend on your card. If you do not repay your debts, your credit rating will be affected.

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Components of a Debit Card

Bank name

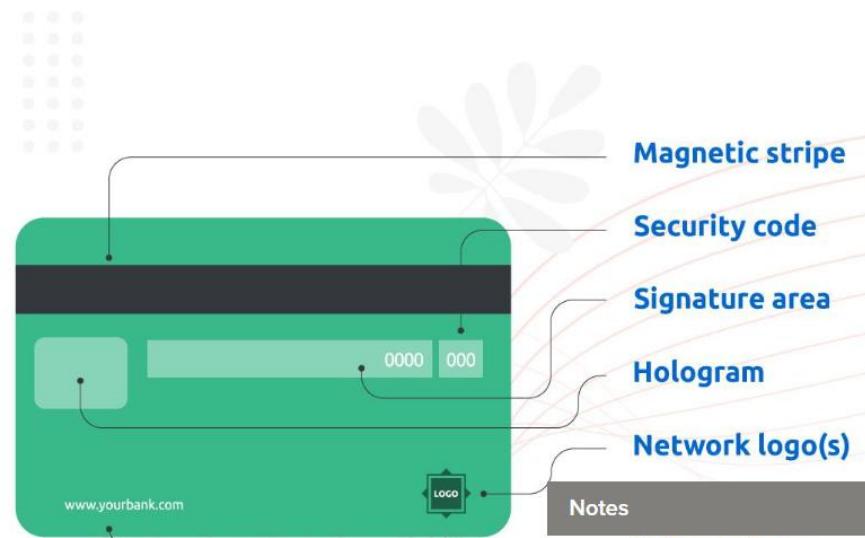
Smart chip

Card number

Expiration date

Customer name

Payment network logo

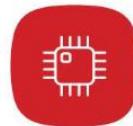


Types of Debit Cards



Payment Platform

- Visa Debit Card
- MasterCard Debit Card
- RuPay Debit Card



Technology

- Contactless Debit Card
- Chip & Pin Debit Card
- Magnetic Stripe Debit Card



Usage

- Prepaid Debit Card
- Virtual Debit Card
- International Debit Card
- Business Debit Card
- Disposable Debit Card

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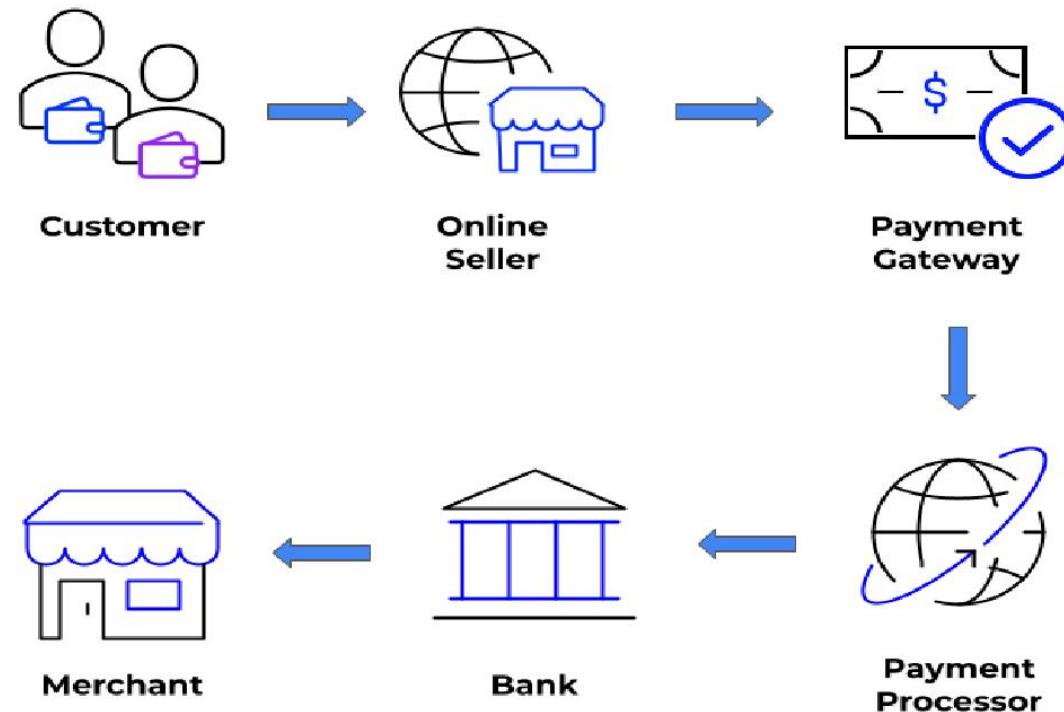


Various Types of Plastic Money

The card can also be differentiated on the basis of technology some of which are listed below:

- **Magnetic Strip Card:** Magnetic strip was introduced on cards in the late 1970s. Magnetic strips contain data that can be read only through physical contact or swiping action. **Magnetic stripe cards have PINs** with them which have to be provided in order to authenticate the transaction.
- **Smart Card:** These cards contain a chip which is an integrated circuit. Smart cards also contain magnetic stripes.

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CREDIT CARD

VS.

DEBIT CARD

- You borrow money from a lender in order to make purchases with credit.
- You are responsible for paying back purchases made with this card.
- Your credit limit determines how much money you can use.
- You can access a cash advance from an ATM, but additional fees may apply.
- Using this form of card can impact your credit score.



- You use the money in your bank account to make purchases.
- Payment is withdrawn from your account once the merchant approves your transaction.
- Your bank account balance determines how much money you can use.
- You can withdraw money from an ATM.
- This form of card does not impact your credit score.

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Internet Banking

- Internet banking refers to the process of carrying out banking transactions online.
- These may include many services such as transferring funds, opening a new fixed or recurring deposit, closing an account, etc.
- Internet banking is also referred to as e-banking or virtual banking. Internet banking is usually used to make online fund transfers via NEFT, RTGS or IMPS.

Notes



Internet Banking

- Banks offer customers all types of banking services through their website and a customer can log into his/her account by using a username and password.
- Unlike visiting a physical bank, there are no time restrictions for internet banking services and they can be availed at any time and on all 365 days in a year. There is a wide scope for internet banking services.

Notes

Mobile Banking

- Mobile banking is referred to the process of carrying out financial transactions/banking transactions through a smartphone.
- The scope of mobile banking is only expanding with the introduction of many mobile wallets, digital payment apps and other services like the UPI.
- Many banks have their own apps and customers can download the same to carry out banking transactions at the click of a button.
- Mobile banking is a wide term used for the extensive range or umbrella of services that can be availed under this.

Notes



Bharat Interface for Money (BHIM) app

- The BHIM app allows users to make payments using the UPI application.
- This also works in collaboration with UPI and transactions can be carried out using a VPA.
- One can link his/her bank account with the BHIM interface easily.
- It is also possible to link multiple bank accounts.

Notes



Bharat Interface for Money (BHIM) app

- The BHIM app can be used by anyone who has a mobile number, debit card and a valid bank account.
- Money can be sent to different bank accounts, virtual addresses or to an Aadhaar number.
- There are also many banks that have collaborated with the NPCI and BHIM to allow customers to use this interface.

Notes

A screenshot of a web browser window. The title bar shows three tabs: "(9) Majhe Majhe Tobo Dekha Pe", "Lumen", and "PDF to JPG Converter | Convert". The main content area displays the Manipal Global Skills Academy logo and the title "Bharat Interface for Money (BHIM) app". Below the title is a bulleted list of features. In the bottom right corner of the page, there is a "Notes" button. At the very bottom of the image, a Windows taskbar is visible, featuring a search bar, pinned icons for File Explorer, WhatsApp, Microsoft Edge, and others, and system status icons for weather, battery, and connectivity.



How to Use BHIM App?

- Download and install the BHIM app
- Choose a language
- Register for the service by providing mobile number linked to bank account
- Add bank-related information and set up a UPI PIN by following the given instructions

Notes



Benefits of Digital Payments

- Faster, easier, more convenient: One of the biggest advantages of cashless payments is that it speeds up the payment process and there is no need to fill in lengthy information. Also, with the move to digital, banking services will be available to customers on a 24/7 basis and on all days of a year, including bank holidays.
- Economical and less transaction fee: There are many payment apps and mobile wallets that do not charge any kind of service fee or processing fee for the service provided. The UPI interface is one such example, where services can be utilized by the customer free of cost.

Notes



Benefits of Digital Payments

- Waivers, discounts and cashbacks: There are many rewards and discounts offered to customers using digital payment apps and mobile wallets. There are attractive cash back offers given by many digital payment banks.
- Digital record of transactions: One of the other benefits of going digital is that all transaction records can be maintained. Customers can track each and every transaction that is made, no matter how small the transaction amount this.

Notes



Benefits of Digital Payments

- One stop solution for paying bills: Many digital wallets and payment apps have become a convenient platform for paying utility bills. Be it mobile phone bills, internet or electricity bills, all such utility bills can be paid through a single app without any hassle.
- Helps keep black money under control: Digital transactions will help the government keep a track of things and it will help eliminate the circulation of black money and counterfeit notes in the long run. Apart from this, this may also give a boost to the economy as the cost of minting currency also goes down.

Notes



Discussion Points

- How are digital payments better than cash?
- What are the different security requirements of digital payments?
- What are the objectives of digital transactions?
- How do digital payments work?
- How are digital payments important?

Notes



ECS & NACH

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Learning Objective:

In this session, you will learn:

- The significance ECS
- ECS Debit and ECS Credit
- The significance NACH
- Features of NACH

Notes



Electronic Clearing Service or ECS

- Electronic Clearing Service or ECS is a method of transferring funds electronically and is generally used for bulk transfers. This method is used for funds which are both repetitive and periodic in nature.
- It is usually used by large organisations or institutions for bulky transfers like salaries, fees, pensions, interests, dividends, loan instalments, etc. Electronic Clearing Service or ECS method can also be used for paying bills.

Notes



Types of Electronic Clearing Services

There are basically two types of Electronic Clearing Services or ECS

- Electronic Clearing Service or ECS Credit
- Electronic Clearing Service or ECS Debit

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ECS Credit

- Electronic Clearing Service or ECS credit is used for offering to large beneficiaries by raising debit against the bank account of the customer or user institution.
- ECS credit includes payments towards dividends, interests, salaries, pensions, etc.

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ECS Debit

- Electronic Clearing Service debit is used by large organisations or institutions for raising debits to a large number of customer accounts, which may include the customers of utility services, borrowers, investors, etc.
- This type of Electronic Clearing Service is useful for payment of bills and dues like water bill, phone bill, tax collections, instalments, insurance premiums, payments towards mutual funds investments, etc. so, basically all the payments that are repetitive or periodic in nature.

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NACH

- NACH stands for National Automated Clearing House.
- This platform is for clearing funds and it was set up by the NPCI (National Payments Corporation of India) to do away with the two-factor authentication requirement of electronic interbank transfers and process recurring high-volume transactions of both low and high value, automatically.
- For example, if you apply for a health insurance plan today and sign up for the NACH facility with the bank, your premiums will get paid automatically from your account without you having to initiate or track them.

Notes



Difference between NACH and ECS

NACH	ECS
NACH is an automated and web-based process.	ECS involves a manual process and, hence, takes time to settle a transaction
You get a Unique Mandate Reference Number (UMRN) that can be used for future references	ECS does not provide a reference number
NACH has a very convenient application process and involves minimal paperwork	ECS involves a significant amount of paperwork and has a high chance of rejection
NACH payments are settled in a day	ECS payments can take up to 4 days to settle
NACH has a dedicated dispute management system	ECS has no dedicated dispute management
NACH registration gets confirmed by the end of 1 week	ECS registration process can take anywhere between 25 to 30 days

Notes



Types of NACH

- **NACH Debit**
- NACH debit is designed to make the process of collecting recurring payments like EMIs, bills, etc., easier for organisations. It helps automatically deduct funds from a large pool of customers in a safe and secure way by means of a single settlement. Organisations can also track NACH debit transactions via online channels.
- **NACH Credit**
- NACH credit allows authorized businesses to make sizable payments directly into the bank accounts of a large pool of beneficiaries. A centralized unit controls the high-value transactions done through a single system. Corporates and other large organisations can leverage the NACH credit facility to distribute salaries, interest, etc.

Notes



Objectives of NACH

- NACH functions as a centralised system for multiple ECS systems.
- It uses technology to offer an advanced platform that is capable to handle huge volumes of repetitive payments.
- The rules and practices for electronic transactions are easy to follow and common for all participants.
- It supports Aadhaar-based and mobile-based ACH transactions.

Notes



eNACH and eMandate

- e-NACH and e-Mandate are simply services that aid both customers and merchants in handling recurring payments. While both deliver the same results, they are slightly different in their structure.
- On one hand, e-NACH is facilitated by NPCI, which covers more than 40+ banks. On the other hand, e-Mandates are managed by individual banks and are available for only a handful of them.
- If you were to opt for e-NACH, you would need to fill up a form online on your bank website and get it approved from the destination bank.
- For an e-mandate, you can set it up directly by completing a one-time netbanking transaction for authorisation on the merchant website.

Notes



Clearing Services

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IMPS

- IMPS provides robust & real time fund transfer which offers an instant, 24X7, interbank electronic fund transfer service that could be accessed on multiple channels like Mobile, Internet, ATM, SMS.
- IMPS is an emphatic service which allow transferring of funds instantly within banks across India which is not only safe but also economical.
- Currently on IMPS, 647 members are live which includes banks & PPIs.
- This service is available 24x7, throughout the year including Sundays and any bank holiday.

Notes



The participants for IMPS

- Remitter (Sender)
- Beneficiary (Receiver)
- Banks
- National Financial Switch - NPCI

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Objectives of IMPS

- To enable bank customers to use mobile instruments as a channel for accessing their banks accounts and remit funds
- Making payment simpler just with the mobile number of the beneficiary
- To sub-serve the goal of Reserve Bank of India (RBI) in electronification of retail payments
- To facilitate mobile payment systems already introduced in India with the Reserve Bank of India Mobile Payment Guidelines 2008 to be inter-operable across banks and mobile operators in a safe and secured manner
- To build the foundation for a full range of mobile based Banking services.

Notes



Uses of IMPS

- Customers can use the IMPS service to:
- Transfer funds
- Receive payments
- Make merchant payments
- Perform mobile banking transactions

Notes



What are the features of IMPS?

- IMPS is one of the fastest and one of the most reliable ways to conduct inter-account money transfers.
- Immediate Payment Service (IMPS) is a fast, safe and secure way to send and receive funds.
- IMPS works on both net-banking and mobile platforms and its services are available at all times even on public and bank holidays and bank off-days.
- Money can be sent to any beneficiary through IMPS mobile platform by only providing his/her mobile no. and Mobile Money Identifier (MMID).
- Bank account nos. are not necessarily required for IMPS fund transfer if you are transacting through mobile. Transfer notification is sent by the bank to both the payer and the payee when the transfer is complete.

Notes



What are the features of IMPS?

- The IMPS fund transfer limit currently is Rupees 5 lakh per day. The minimum allowed transaction value in IMPS is Rupees 1.
- To conduct transactions through the IMPS, you shall have to follow the below steps:
- Register for mobile banking or net banking of your bank account.
- If accessing the IMPS fund transfer through mobile banking, you should have the beneficiary's Mobile Money Identifier (MMID) and your MPIN (Mobile PIN).
- If you are transferring money through IMPS net-banking, you need the payee's account details such as account name, no., IFSC, etc. to pay the beneficiary.

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Details Necessary to Make an IMPS Transaction

- In order to make a payment or transfer funds through IMPS, you must have at least one of the following details about the beneficiary:
- Mobile number and Mobile Money Identifier (MMID)
- Bank account number and IFSC
- Aadhaar number

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How to Make IMPS Money Transfer?

- You can make IMPS money transfer through the following methods:
- Mobile phones through SMS
- Smartphones through net banking or mobile app
- Laptop/desktop/tablet through internet banking
- ATM with your ATM card

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The generic procedure to make an IMPS transfer

- **Step 1:** Choose the channel you would like to transfer money with and log in with your credentials.
- **Step 2:** Enter the MMID and mobile number of the recipient. Instead, you can enter the bank account number and IFSC or Aadhaar number as well.
- **Step 3:** Enter the amount you would like to transfer.
- **Step 4:** Enter the remarks or the purpose of the money transfer.
- **Step 5:** Now, enter your PIN to authenticate the transfer request.
- **Step 6:** Transfer will be initiated successfully. Once done, both the sender and the receiver will get an SMS confirming the same.

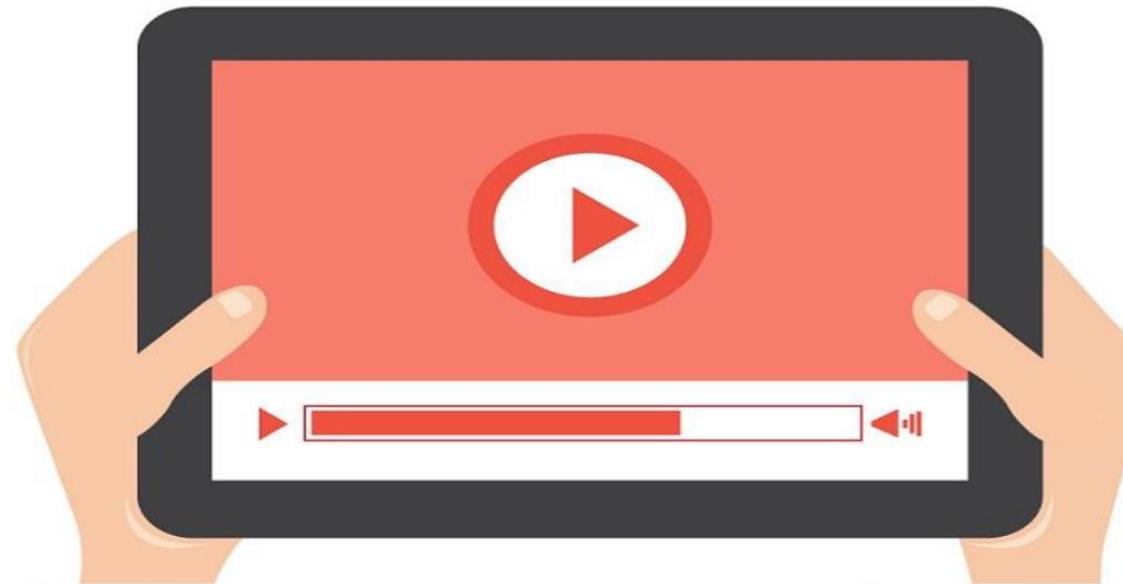
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IMPS transfer



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Inter Bank Transfer

Inter Bank Transfer is a special service that allows an individual to transfer funds electronically to accounts in other banks in India through the following two modes:

- **RTGS**
- **NEFT**

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RTGS

The acronym “**RTGS**” stands for ‘Real Time Gross Settlement’.

RTGS is a funds transfer system where money is moved from one bank to another in ‘real-time’, and on gross basis.

‘Real-time’ means that the payment transaction isn’t subject to any waiting period.

The transaction will be completed as soon as the processing is done, and gross settlement means that the money transfer is completed on a one to one basis without clustering with another transaction.

This system is maintained by the RBI, and is available during working days for a given number of hours.

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NEFT

The acronym “NEFT” stands for National Electronic Funds Transfer. It is an online system for transferring funds from one financial institution to another within India usually the banks. Fund transfers through the NEFT system do not occur in real-time basis and the fund transfer settles in 23 half-hourly batches. The RBI has not specified any minimum or maximum limit on the transfer amount. The details required for a typical NEFT transfer are the name of the beneficiary, account number and account type, name of the bank, and the Indian Financial System Code (IFSC) of the bank.

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Transaction limit under Retail / Corporate Internet Banking

RTGS/NEFT

Type	Minimum	Maximum
RTGS	Rs. 2 Lakhs	No Limit
NEFT	No Limit	No Limit

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Mandatory information for RTGS & NEFT payment

The Remitter has to provide the following details:

- Amount to be remitted
- Account no. to be credited
- Name of the beneficiary bank
- Name of the beneficiary customer
- Sender to receiver information, if any
- IFSC code of the receiving branch.
- Mobile number of the remitter.

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Difference between RTGS Vs. NEFT

The fundamental difference between RTGS and NEFT, is that while RTGS is based on gross settlement, NEFT is based on net-settlement. Gross settlement is where a transaction is completed on a one-to-one basis without bunching with other transactions.

On the other hand a Deferred Net Basis (DNS), or net-settlement means that the transactions are completed in batches at specific times. Here, all transfers will be held up until a specific time. RTGS transactions are processed throughout the working hours of the system.

RTGS transactions involve large amounts of cash, basically only funds above Rs 200,000 may be transferred using this system. For NEFT, any amount below Rs 200,000 may be transferred, and this system is generally for smaller value transactions involving smaller amounts of money.

Notes

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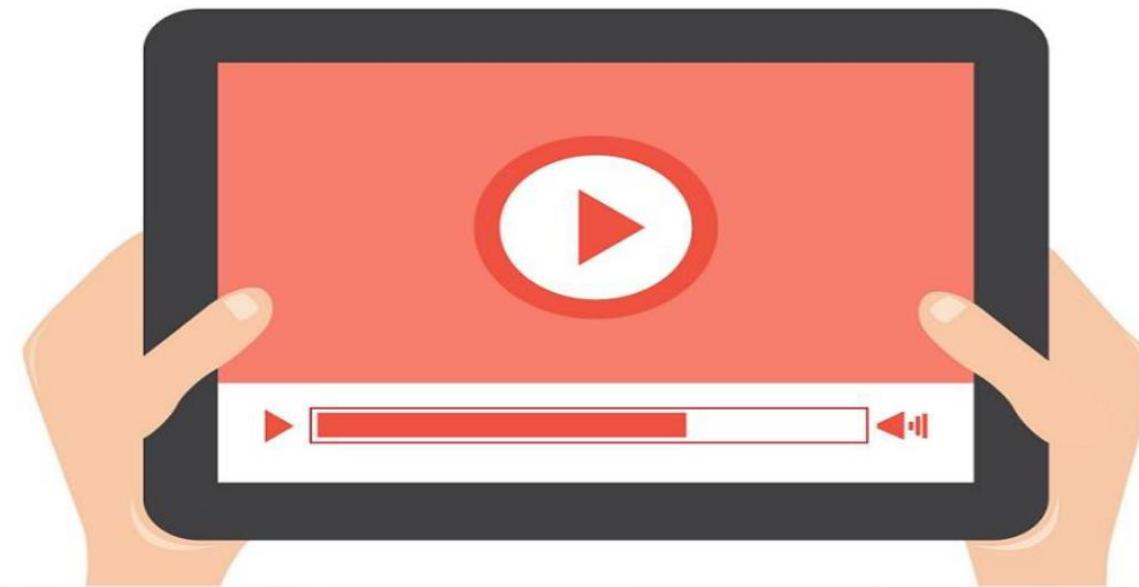
TABLE OF DIFFERENCES BETWEEN NEFT & RTGS

Criteria	NEFT	RTGS (Retail)
Settlement	Done in batches (Slower)	Real time (Faster)
Timings on Mon – Fri	8:00 am – 6:30 pm	9:00 am – 4:30 pm
Timings on Saturday	8:00 am – 12:30 pm	9:00 am – 1:30 pm
Minimum amount of money transfer limit	No Minimum	2 lacs
Maximum amount of money transfer limit	No Limit	No Limit
When does the Credit Happen in beneficiary account	Happens in the hourly batch Between Banks	Real time between Banks
Maximum Charges as per RBI	Upto 10,000 – Rs. 2.5 from 10,001 – 1 lac – Rs. 5 from 1 – 2 lacs – Rs. 15 Above 2 lacs – Rs. 25	Rs. 25-30 (Upto 2 – 5 lacs) Rs. 50-55 (Above 5 lacs) (Lower charges for first half of day)

Notes



NEFT IMPS RTGS DIFFERENCE



Notes



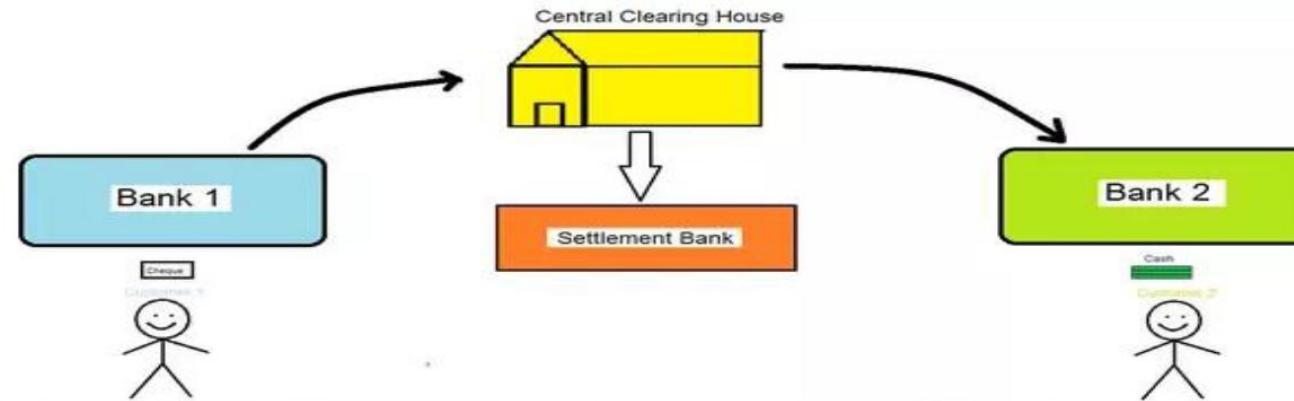
Learning Objective:

In this session, you will learn:

- Clearing and clearing period
- What is CTS
- Salient features of CTS
- CTS Process Flow
- Benefits of CTS

Notes

Clearing



- Clearing house reduces the hassles of banks in presenting the cheques manually on other bank branches on which cheques are drawn.
- It facilitates expeditious, efficient collection of cheques and other instruments.

Notes



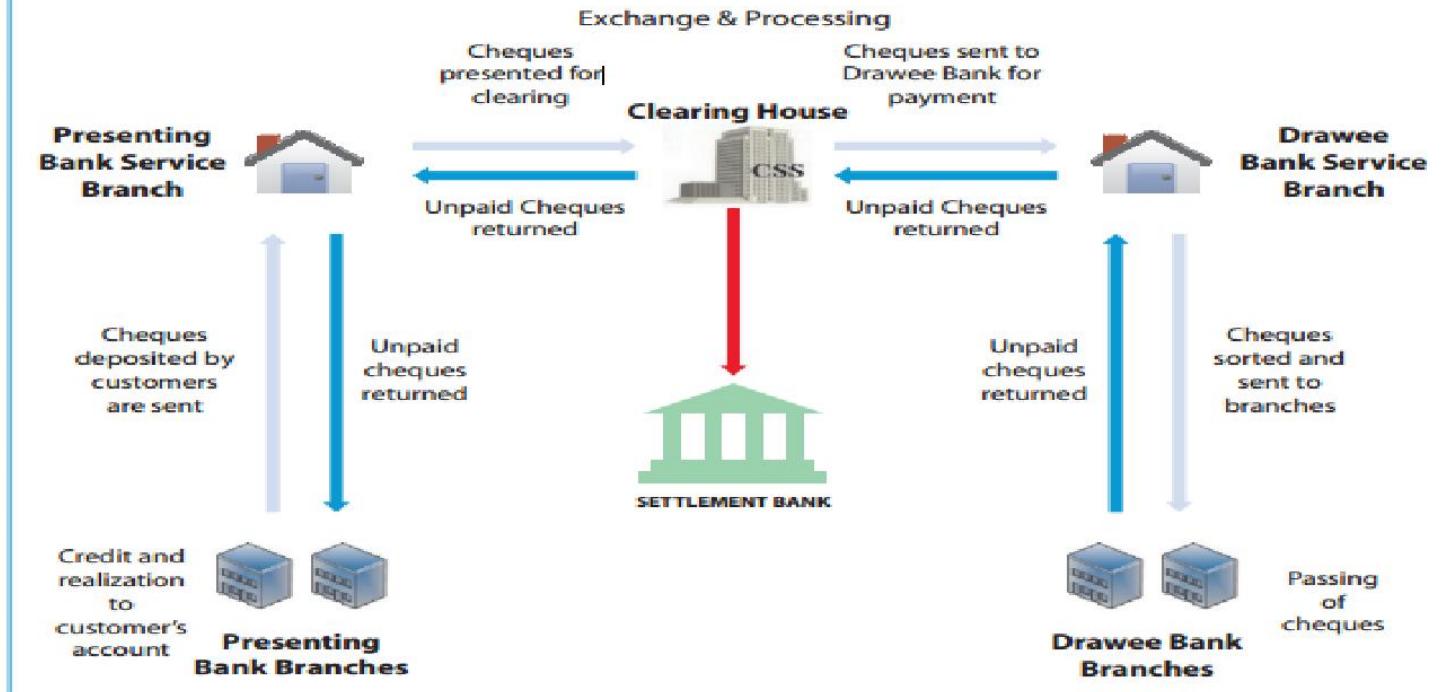
Cheque Clearing

Cheque clearing refers to the movement of a check from the deposit bank to the drawing bank through a process known as the “clearing cycle.”

This is the manner in which payments from accounts are made and processed.

Notes

CHEQUE CLEARING CYCLE



Notes



Inward clearing

Inward clearing means the cheques received by the bank from other banks.

- Inward clearing cheques are the cheques drawn by the bank/branch customers on their account in favour of other parties.
- On receipt of the inward clearing, the cheques are posted to the various accounts on which they are drawn - meaning the accounts of the cheque issuer or drawer with the bank is debited to the account and the payment is made to the bank presenting the cheque.

Notes

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Outward clearing

Outward clearing means the cheques sent for collection.

- When a particular branch receives instruments drawn on the other bank within the clearing zone and sends those instruments for collection through the clearing arrangement is considered as Outward Clearing for that particular branch. This branch is known as collecting branch.
- In other words, inward clearing is for our branch and outward clearing is for other banks or branches. When we receive inward clearing we have to debit our customer account and when we receive outward clearing we have to send it to relevant bank for payment.

Notes

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Cheques clearing period

Day 1:

- Cheques deposited by customers up to a cut off time are taken for next day clearing.

Day 2:

- The concerned bank credits the customer's account for the amount of cheque.
- This is known as *Shadow credit* as funds stay locked and the customer cannot withdraw.
- Cheques are sent to clearing house, where settlement of funds takes place among the banks on net settlement basis.
- This is known as Outward Clearing for Presenting Bank

Notes



Cheques clearing period

Day 3:

- The drawee bank sends a revert to presenting bank on the fate (pass / dishonor) status of the cheque.
- This is known as Inward Clearing for Drawee Bank.
- If the cheque gets passed the customer's account gets clear funds. In case of dishonor the shadow balance is debited.
- Passed cheques are retained by drawee banks for records.
- Dishonored (bounced) cheques are returned to the Presenting bank.

Notes

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Cheque Truncation System (CTS)

What is CTS?

Cheque truncation means stopping the flow of the physical cheques issued by a drawer to the drawee branch.

The physical instrument is truncated at some point en route to the drawee branch and an electronic image of the cheque is sent to the drawee branch along with the relevant information such as the MICR fields, date of presentation and presenting banks.



Notes

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Cheque Truncation System

- Cheque Truncation System (CTS) is a cheque clearing system undertaken by the Reserve Bank of India (RBI) for faster clearing of cheques.
- A cheque truncation system promotes the processing of a cheque electronically through the Magnetic Ink Character Reader (MICR) data and a scanned image. The physical cheque is not required.
- Truncation means making something shorter. CTS has reduced the time taken in the payment processing of a cheque.

Notes

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Advantages Of Cheque Truncation System

The CTS benefits banks. Furthermore, it has changed the cheque clearance method in a way to save the time and effort of the employees in the bank.

- Customer Service - It enhances the customer experience.
- Operational Benefit - The process is faster and more advanced.
- Commercial Benefit - Low expenditure of resources on clerical work and stationery.
- Provides Fraud Prevention Mechanism - Secure method, preventing fraud.

Notes

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Process Of Cheque Truncation System (CTS)

Process Of Cheque Truncation System (CTS)

- Collection of Cheques
- Capturing of Data
- Security of Data
- Clearing House Interface
- Presentation Clearing
- Processing of Payment
- Completion of Cycle

Notes

CTS process Flow

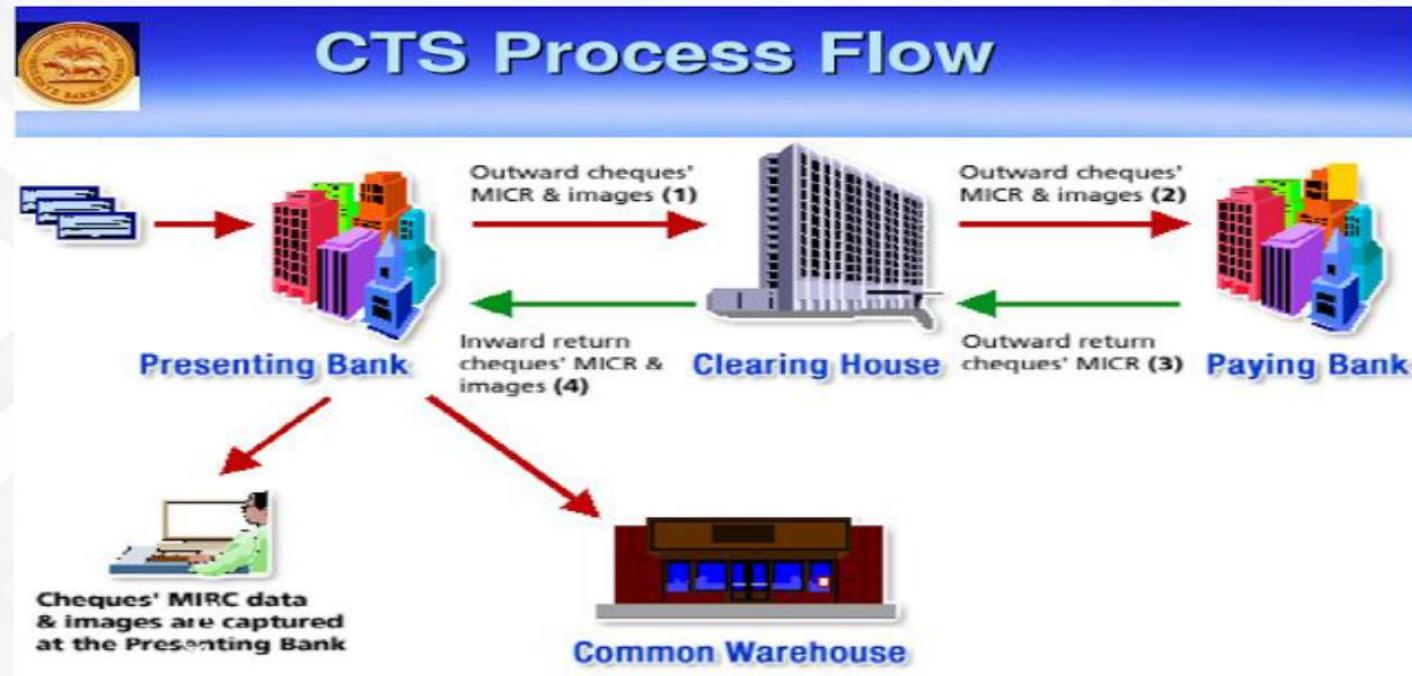


Illustration 1 : Cheque Truncation System Process Flow

Notes



Benefits from CTS

- Time, money and manpower expended on physical transfer of cheques from banks to clearing house are eliminated
- Clearing related frauds become less plausible
- Probability of cheques misplaced in transit is eliminated
- CTS is more advanced and more secure.
- It provides quicker clearance of cheques
- Reduces operational risk and risks related to paper clearing

Notes



Highlights of Cheque Truncation System Cheques

- All CTS cheques hold a watermark, with 'CTS-INDIA', which is visible when held against any light source.
- Pantograph (wavelike design) with hidden / embedded word 'VOID' become clearly visible in photocopies of a cheque.

Notes

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CTS compliant Cheque

Identify if your cheque(s) are CTS 2010 compliant.

How to identify CTS 2010 Standard cheque?

- 1 Bank/branch address along with IFSC code printed on the top left corner of the cheque.
- 2 Standard date format.
- 3 Printer name along with 'CTS 2010' printed on the extreme left of the cheque.
- 4 Axis Bank logo on the centre of the cheque.
- 5 'Please sign above' is mentioned on the bottom right corner of the cheque.

Notes

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CTS – Salient Features

- a) **Cheque printer details:** These are printed on the extreme left-hand side of the cheque. The printer details along with the words 'CTS-2010' are mentioned along the area where you tear the leaf from the cheque book.
- b) **Rupee symbol:** The new symbol of the Indian rupee is printed beside the area where the amount in figures needs to be written.
- c) **Details of the bank and its logo:** The bank details and its logo are printed on the face of the cheque. However, it is printed in invisible ink.
- d) **Signature space indicator:** The words 'please sign above' are mentioned indicating the space where you will need to sign the cheque.
- e) **Void pantograph:** This is a wavelike design, which is visible to the naked eye and seen below the area where the account number is printed.

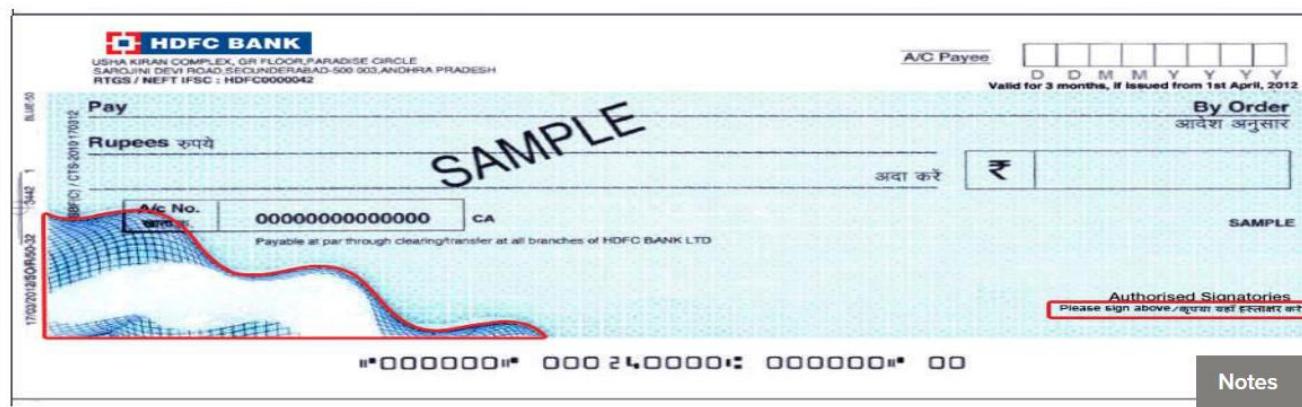
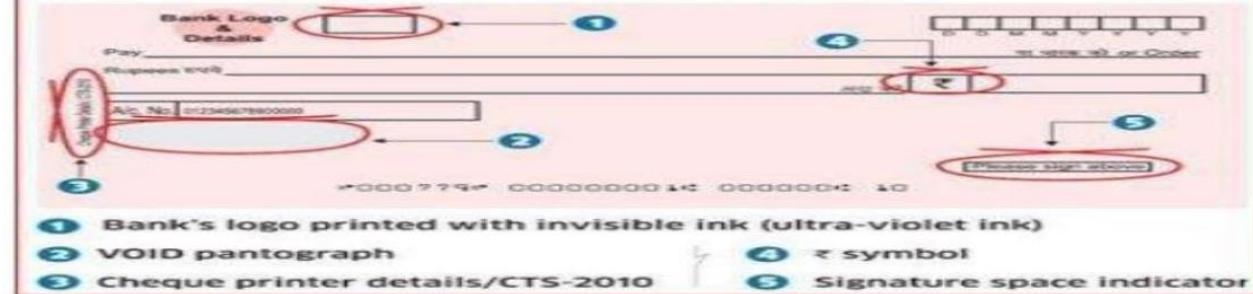
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CHEQUE TRUNCATION SYSTEM FORMAT

A Cheque in New Format



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Quiz

1. What is Outward clearing?

2. Whose accounts are credited in outward clearing?
Payee's or Drawer's?

3. What is Inward clearing ?

4. Whose accounts are debited in Inward clearing?
Payee's or Drawer's?

5. After the clearing where the cheques are retained?
In traditional clearing - Presenting Bank / Drawee Bank?
In CTS clearing - Presenting Bank / Drawee Bank?

Notes



Solution

1. What is Outward clearing?
 - Presenting bank sends the cheques to clearing house.
2. Whose accounts are credited in outward clearing?
 - Payee's accounts.
3. What is Inward clearing ?
 - Cheques are brought from Clearing house to Drawee bank for debiting.
4. Whose accounts are debited in Inward clearing?
 - Drawer's accounts.
5. After the clearing where the cheques are retained?
 - In traditional clearing - Drawee Bank.
 - In CTS clearing - Presenting Bank.

Notes



In this session we have discussed:

- Clearing and clearing period
- What is CTS
- Salient features of CTS
- CTS Process Flow
- Benefits

Notes



Thank You

Notes