

Chapter #04

# Payments

## Retail Banking

# Payments

- ✓ A **payment system** is any system used to settle financial transactions through the transfer of monetary value and includes the institutions, instruments, people, rules, procedures, standards and technologies that make such an exchange possible
- ✓ The payments are majorly classified into DOMESTIC & INTERNATIONAL
- ✓ Widely used modes of Domestic payments are
  - ✓ Cash
  - ✓ Instrument based
  - ✓ Electronic based
- ✓ Widely used modes of International payments are
  - ✓ Electronic





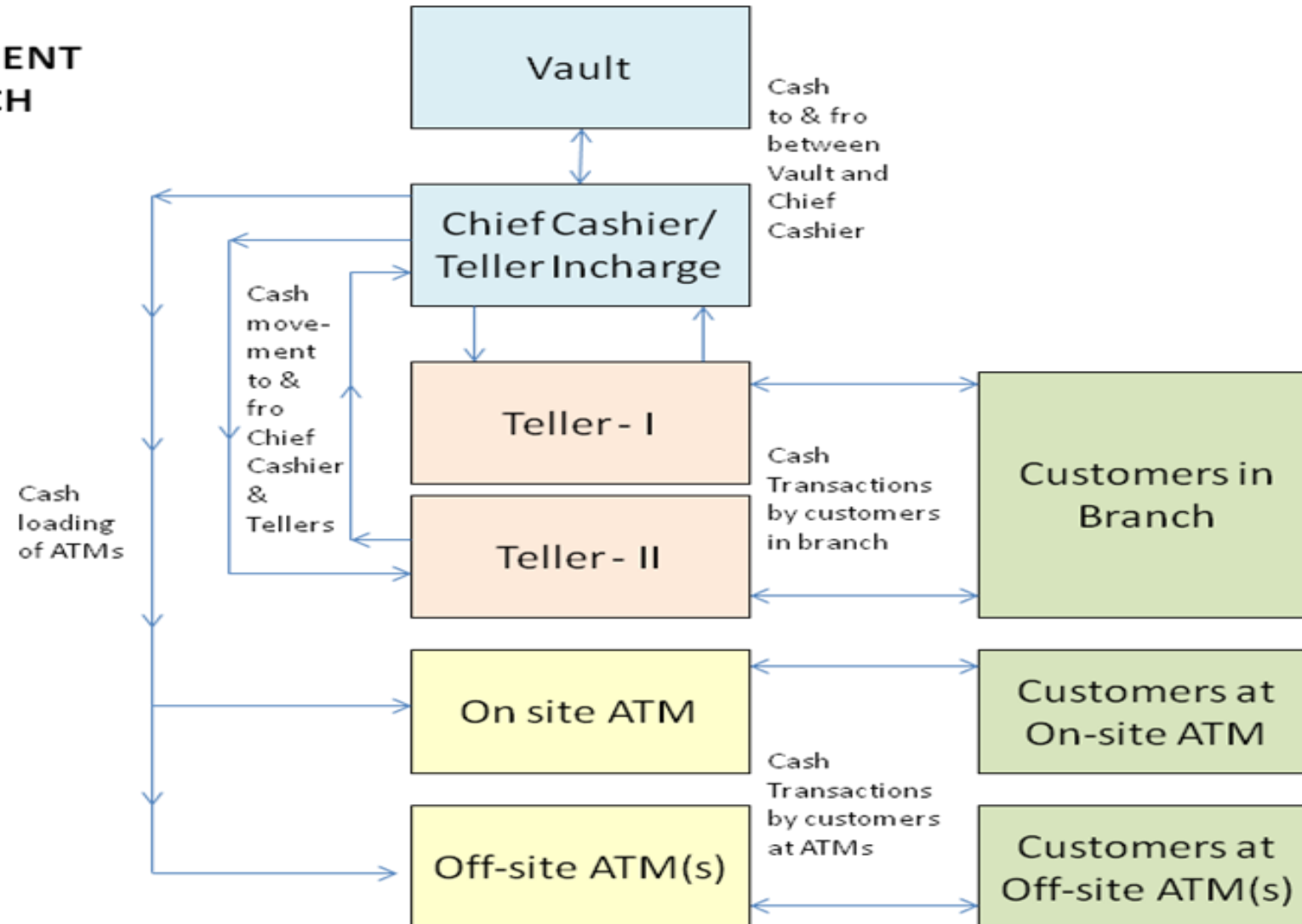
# Domestic Payments

## CASH PAYMENTS

- ✓ The most commonly and widely used type of payment which involves physical cash.
- ✓ Cash payments has two types - Cash Deposit and Cash withdrawal
- ✓ Cash deposit means depositing of physical cash of any amount to account which can be SELF or THIRD PARTY
- ✓ Cash withdrawal means withdrawal of physical cash of any amount from account which can be SELF or THIRD PARTY
- ✓ Banks have to maintain cash, even through it does not generate any income, to ensure that the customers get cash as and when they desire. This calls for a very strong supply chain and safe keeping system.
- ✓ Cash in a bank branch is in the Vault, Chief Cashier/Teller In charge, Cashier/Teller and in ATMs (on-site and off-site)

# Domestic Payments

## CASH MOVEMENT IN A BRANCH





# Domestic Payments

## Instrument based payments:

- ✓ Instrument based payment is otherwise called as paper based payments(Cheques, drafts etc.,)
- ✓ Cheque is a negotiable instrument given to the account holders using which the customer can withdraw funds , transfer funds from his account to another account
- ✓ Cheque is normally required for all kind of fund transfer when the customer walks in to the branch.
- ✓ While doing the transfers, The bank officials needs to validate and confirm the below before honoring the instrument
  - ❖ Signature of the customer
  - ❖ Available balance
  - ❖ Value date of the cheque



# Domestic Payments

## Electronic based:

- ✓ If a fund transfer is initiated by the bank electronically where the physical cash is not involved
- ✓ This type of transfer can be done by the customer itself with the help of mobile banking or internet banking
- ✓ Using electronic based payments a customer can transfer funds within the same bank or to other bank in the same country
- ✓ Below are the types electronic transfer
  - ❖ NEFT - National Electronic Funds Transfer
  - ❖ RTGS - Real Time Gross Settlement
  - ❖ ECS - Electronic clearing service
  - ❖ IMPS - Interbank Mobile Payment Service



# Domestic Payments

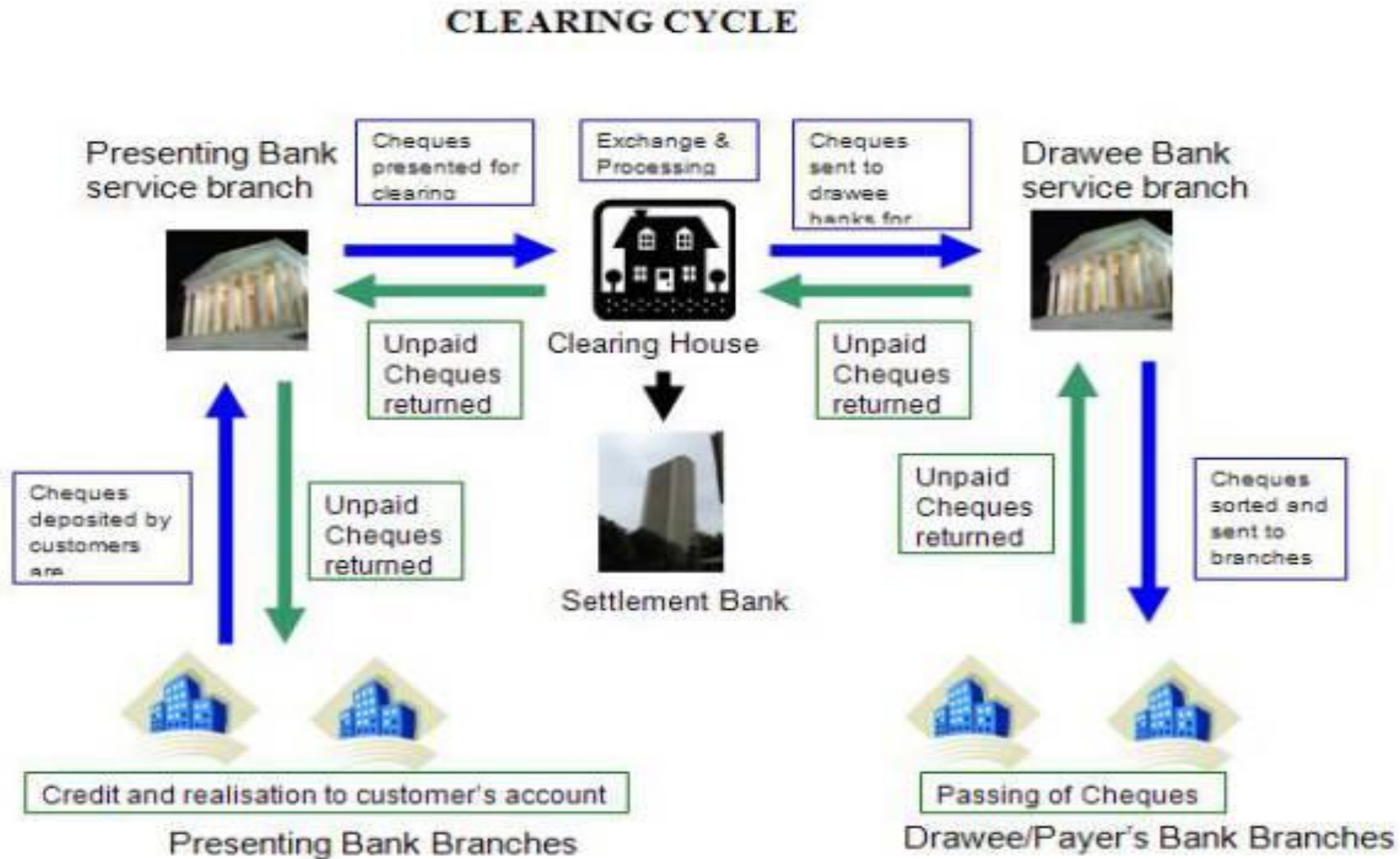
## Cheque Clearing System

- ✓ **Clearing** is an arrangement through which a bank exchanges cheques drawn on other banks for those drawn on it. In the absence of such an arrangement, each bank will have to present cheques to each of the other banks for receiving payment of cheques over which they have a claim. The cheque clearing system provides a easy, systematic, efficient and cost-effective method of clearing cheques.
- ✓ The primary objective of the clearing house is to facilitate the speedy and economic way of collecting cheques, bills and other documents payable or deliverable at or through offices of the members and sub-members of the house situated in that town by a system of systems of clearing.
- ✓ The Clearing Settlement is a daily time bound activity to process millions of cheques. Therefore it is necessary that there are strict regulatory processes and procedures.
- ✓ If balance is insufficient or signatures differ or for any other reason the cheque cannot be paid, it is returned back to the bank through the same Clearing Mechanism on the following occasion.
- ✓ It is however obligatory that the 'unpaid' cheque is returned within the stipulated time. The presenting bank can refuse to accept the returned cheque after stipulated time.



# Domestic Payments

## Cheque Clearing System







# Domestic Payments

## Demand Drafts & Pay orders

- ✓ Demand Draft is an instrument which is issued by a bank branch favoring a particular person / organization, and will be drawn on a branch of the bank.
- ✓ Pay Order or Banker's Cheque is an instrument, which is used for effecting local payments, i.e. within the same city. Pay Orders are also used by bank branches for making their own payments.
- ✓ Unlike Demand Drafts, Pay Orders have to be presented at the issuing branch for payment
- ✓ Below are the operations related to DD or PO
  - ✓ Issue of DD/PO
  - ✓ Cancellation of DD/PO
  - ✓ Issue a Duplicate DD/PO
  - ✓ Realization of DD/PO
  - ✓ Stop payment of DD/PO



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