

Role of NEFT and RTGS in Indian Banking

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Abstract: India is in its developing stage, and information technology has a great impact on the development. Indian banking sector is a key element in development and is mature in terms of supply, product range and widen its service in the rural areas itself. Indian banks were finding difficult to compete with international banks in terms of customer service, without the use of information technology. Recently different techniques are used in banking sector to improve its performance. This research paper focuses on the two important payment systems used in Indian banking sector and its influence in the better working of banking services. NEFT and RTGS are the payment system that will help to improve the functions. The computerization and use of technology in banks has helped in a number of ways. Minimized cost of operation, minimized transaction cost, improved customer services, overall efficiency and improved front end operations. High delivery cost, slow revenue growth and high time delay brings the change from conventional payment system to computerized payment system.

Key words: NEFT, RTGS

I. INTRODUCTION

Conventional method of payment system is replacing by the new technologies. The Reserve Bank of India is encouraging alternative methods of payment which will bring security and efficiency to the payment system and make the whole process easier for banks. Indian banking system is growing successfully by implementing new innovations of electronic payment systems in the banking sector. For several years Indian banking services are done through paper based transactions. But the introduction of e-payment increased the growth of the banks. RBI has played an important role in facilitating e-payments by making it compulsory for banks to route high value transactions through Real Time Gross Settlement (RTGS) and National Electronic Fund Transfer (NEFT) and National Electronic Clearing Services (NECS) which has encouraged individuals and businesses to switch to electronic methods of payment. India support different types of payment and settlement system.

- ❖ Real time gross settlement system
- ❖ Electronic clearing service – Credit
- ❖ Electronic clearing service – Debit
- ❖ Credit cards and debit cards
- ❖ National electronic fund transfer
- ❖ Immediate payment service

Introduction of these systems bring some advantages to the banking sector

- ❖ Minimized cost of operation

- ❖ Minimized transaction cost for customers
- ❖ Improving customer service
- ❖ Increased overall efficiency
- ❖ Enhancement of competitive efficiency
- ❖ Strengthening of back end administration process
- ❖ Furthering of financial inclusion

II. OBJECTIVES OF THE PAPER

- ❖ To study the new technology in banking sector
- ❖ To analyze the working of new systems in Indian economy

III. INNOVATIONS OF TECHNOLOGY IN BANKING SECTOR

Innovation in technology increases the functioning of Indian banking sector. Technology is not only changing the environment but also the relationship with customers. Every technology is using to provide convenience to the customers. Customer is the key component which will brings growth and profit. In order to satisfy the customers, the functions should be completed on time with less cost. The technological innovations will helps to achieve this. This will help to minimize the cost and save time. The major systems used for payment are

A. Real Time Gross Settlement System (RTGS)

RTGS was launched by RBI in 2004 which enabled a real time settlement on a gross basis. It is the continuous settlement of funds transfers individually on an order by

order basis. It is a fund transfer mechanism where transfer of money takes place from one bank to another on a real time and gross basis. Through this system the banks can transfer the funds without wasting time. The transactions will proceed as soon as they processed. The money transfer takes place in the books of the RBI, the payment is taken place as final and irrevocable. Every branch can charge the according to their willing, so it may be different from one bank to another. But RBI has set an upper limit for the fees. It will help to transfer large value of fund which will helpful for the financial intermediaries. The minimum value of transaction is Rs.200000. The customers can access RTGS facility between 9 am to 4 pm

TRANSACTIONS	CHARGE
Inward remittance	Free
Outward remittance 2lakh to 5 lakh	Not exceeding Rs.30 per transaction
Outward remittance above 5 lakh	Not exceeding Rs.55 per transaction

It involves two steps of networking: Intra bank (networking of branches within the bank) and interbank (networking of banks and other participants through a central hub). In India perfection of networking within the banks still a distant possibility. In fact, it poses a considerable challenge to the public sector banks with a large network of branches. It will help to reduce the systematic risk in high value payments. The system will have a substantial impact on current operations in the banks, particularly in the area of treasury, payment division, corporate banking and cash management. It is true that the implementation of RTGS will deprive banks of free float of funds but this will more than compensated by reduction in the operational cost and gain out of same day deployment of cash due to continues settlement.

The advantage of RTGS is having the savings in money to support any payment transaction. The disadvantage are the gross system been at risk of gridlock from not having enough money. RTGS system provides security for its transactions.

B. National Electronic Fund Transfer (NEFT)

NEFT is a nation-wide payment system facilitating one to one fund transfer. Under these scheme individuals, firms and corporates can electronically transfer funds from

any bank branch to any person who has account in any other bank branch in the country participating in the scheme. There is no limit on the cash to be transferred. NEFT operates in hourly basis; there are eleven settlements on week and five settlements on Saturdays. Indian financial system code is used to identify the originating and destination branches which will provide data security.

TRANSACTION	CHARGE
Inward transaction at destination branches	Free
Outward transaction at originating branch Up to Rs.1 lakh	Not exceeding Rs.5 plus service tax
Outward transaction at originating branch Rs.1 lakh to Rs.2 lakh	Not exceeding Rs.15 plus service tax
Above Rs.2 lakh	Not exceeding Rs.25 lakh plus service tax

Benefits of NEFT

- ❖ Secure and efficient
- ❖ Low cost
- ❖ Highly reliable
- ❖ Eliminate delays
- ❖ The remitter need not send the physical cheque to the beneficiary
- ❖ The beneficiary need not visit the bank for depositing the paper instrument
- ❖ Credit confirmation will send by SMS or mail

IV. CONCLUSION

In India the usage of internet is increasing rapidly. Technologies became an essential part of the day to day lifestyle. Everyone wants to do maximum works within short span of time. Banking is a key activity in the daily working of every individual. The conventional procedures of payment system require large time for settling and also inure large cost. By the introduction of electronic payment systems the bank payment activities became more efficient than conventional system. It brings savings of money and time. But in India there are lots of difficulties to introduce the new technologies. But with the support of RBI the e-payment can be introduced successfully.

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