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New Technology in Banking Sector in India:

Recent Technological Developments in Indian Banks!

In recent years, the Reserve Bank has endeavored to improve the efficiency of the financial system by ensuring the presence of a safe, secure and effective payment and settlement system. In the process, apart from performing regulatory and oversight functions the Reserve Bank has also played an important role in promoting the system's functionality and modernization on an on going basis.

The consolidation of the existing payment systems revolves around strengthening computerized cheque clearing, and expanding the reach of Electronic Clearing Services (ECS) and Electronic Funds Transfer (EFT).

The critical elements of the developmental strategy are the opening of new clearing houses, interconnection of clearing houses through the Indian Financial Network (INFINET) and the development of a Real- Time Gross Settlement (RTGS) System, a Centralized Funds Management System (CFMS), a Negotiated Dealing System (NDS) and the Structured Financial Messaging System (SFMS).

Similarly, integration of the various payment products with the systems of individual banks has been another thrust area.

ATM:

An automated teller machine (ATM) or automatic banking machine (ABM) is a computerized telecommunications device that provides the clients of a financial institution with access to financial transactions in a public space without the need for a cashier, human clerk or bank teller.

On most modern ATMs, the customer is identified by inserting a plastic ATM card with a magnetic stripe or a plastic smart card with a chip that contains a unique card number and some security information such as an expiration date or CVVC (CVV). Authentication is provided by the customer entering a personal identification number (PIN).

Using an ATM, customers can access their bank accounts in order to make cash withdrawals (or credit card cash advances) and check their account balances as well as purchase cell phone prepaid credit.

If the currency being withdrawn from the ATM is different from that which the bank account is denominated in (e.g.: Withdrawing Japanese Yen from a bank account containing US Dollars), the money will be converted at a wholesale exchange rate. Thus, ATMs often provide the best possible exchange rate for foreign travelers and are heavily used for this purpose as well.

ATMs are known by various other names including Automated Transaction Machine, automated banking machine, cash point (in Britain), money machine, bank machine, cash machine, hole-in-the-wall, Bancomat (in various countries in Europe and Russia), Multibank (after a registered trade mark, in Portugal), and Any Time Money (in India).

Debit Card:

A debit card (also known as a bank card or check card) is a plastic card that provides an alternative payment method to cash when making purchases. Functionally, it can be called an electronic cheque, as the funds are withdrawn directly from either the bank account or from the remaining balance on the card. In some cases, the cards are designed exclusively for use on the Internet, and so there is no physical card.

The use of debit cards has become widespread in many countries and has overtaken the cheque and in some instances cash transactions by volume. Like credit cards, debit cards are used widely for telephone and Internet purchases, and unlike credit cards the funds are transferred from the bearer's bank account instead of having the bearer to pay back on a later date.

Debit cards may also allow for instant withdrawal of cash, acting as the ATM card for withdrawing cash and as a cheque guarantee card. Merchants may also offer "cash back"/"cash out" facilities to customers, where a customer can withdraw cash along with their purchase.

Credit Card:

A credit card is part of a system of payments named after the small plastic card issued to users of the system. It is a card entitling its holder to buy goods and services based on the holder's promise to pay for these goods and services.

The issuer of the card grants a line of credit to the consumer (or the user) from which the user can borrow money for payment to a merchant or as a cash advance to the user. Usage of the term "credit card" to imply a credit card account is a metonym.

A credit card is different from a charge card, where a charge card requires the balance to be paid in full each month. In contrast, credit cards allow the consumers to 'revolve' their balance, at the cost of having interest charged. Most credit cards are issued by local banks or credit unions, and are the shape and size specified by the ISO/IEC 7810 standard as ID-1. This is defined as 85.60 x 53.98 mm in size.

How Credit Cards Work:

Credit cards are issued after an account has been approved by the credit provider, after which cardholders can use it to make purchases at merchants accepting that card.

When a purchase is made, the credit card user agrees to pay the card issuer. The cardholder indicates consent to pay by signing a receipt with a record of the card details and indicating the amount to be paid or by entering a personal identification number (PIN). Also, many merchants now accept verbal authorizations via telephone and electronic authorization using the Internet, known as a ‘Card/Cardholder Not Present’ (CNP) transaction.

Electronic verification systems allow merchants to verify that the card is valid and the credit card customer has sufficient credit to cover the purchase in a few seconds, allowing the verification to happen at time of purchase.

The verification is performed using a credit card payment terminal or Point of Sale (POS) system with a communications link to the merchant’s acquiring bank. Data from the card is obtained from a magnetic stripe or chip on the card; the latter system is in the United Kingdom and Ireland commonly known as Chip and PIN, but is more technically an EMV card.

Other variations of verification systems are used by ecommerce merchants to determine if the user s account is valid and able to accept the charge. These will typically involve the cardholder providing additional information, such as the security code printed on the back of the card, or the address of the cardholder.

Each month, the credit card user is sent a statement indicating the purchases undertaken with the card, any outstanding fees, and the total amount owed. After receiving the statement, the cardholder may dispute any charges that he or she thinks are incorrect.

Otherwise, the cardholder must pay a defined minimum proportion of the bill by a due date, or may choose to pay a higher amount up to the entire amount owed. The credit issuer charges interest on the amount owed if the balance is not paid in full (typically at a much higher rate than most other forms of debt).

Some financial institutions can arrange for automatic payments to be deducted from the user’s bank accounts, thus avoiding late payment altogether as long as the cardholder has sufficient funds.

Credit or Debit?

For consumers, the difference between a “debit card” and a “credit card” is that the debit card deducts the balance from a deposit account, like a checking account, whereas the credit card allows the consumer to spend money on credit to the issuing bank. In other words, a debit card uses the money you have and a credit card uses the money you don’t have.

“Debit cards” which are linked directly to a checking account are sometimes dual-purpose, so that they can be used as a credit card, and can be charged by merchants using the traditional credit networks. A merchant will ask for “credit or debit?” if the card is a combined credit+debit card.

If the payee chooses “credit”, the credit balance will be debited the amount of the purchase which is then withdrawn at a later date; if the payee chooses “debit”, the bank account balance will be debited the amount of the purchase and the money will be withdrawn from the bank account immediately.

Another option is to have a credit connected to the bank account so that if there is no money on it, the bank allows some negative balance according to a credit agreement. Then the customer does not have to choose credit or debit, the debit card turns into a credit card if there is not enough account balance.

The “debit” networks usually require that a personal identification number (PIN) be supplied. The “credit” networks typically require that purchases be made in person and often allow cards to be charged with only a signature, and/or picture ID.

However, most merchant agreements in the United States forbid picture ID as a requirement to use a Credit Card. This varies between countries, and in for example Sweden most merchants require picture ID unless a PIN code is used, or banks won’t cover merchant losses for stolen cards.

Equated Monthly Installment/Equal Monthly Installment (EMI):

A fixed payment amount made by a borrower to a lender at a specified date each calendar month. Equated monthly installments are used to pay off both interest and principal each month, so that over a specified number of years, the loan is paid off in full.

With most common types of loans, such as real estate mortgages, the borrower makes fixed periodic payments to the lender over the course of several years with the goal of retiring the loan. EMIs differ from variable payment plans, in which the borrower is able to pay higher payment amounts at his or her discretion. In EMI plans, borrowers are usually only allowed one fixed payment amount each month.

Electronic Funds Transfer (EFT):

Electronic Funds Transfer or EFT refers to the computer-based systems used to perform financial transactions electronically. A process allowing the lender or the borrower to transfer payments electronically between bank accounts or to a lender.

The term is used for a number of different concepts:

I. Cardholder-initiated transactions, where a cardholder makes use of a payment card

II. Direct deposit payroll payments for a business to its employees, possibly via a payroll services company

III. Direct debit payments from customer to business, where the transaction is initiated by the business with customer permission

IV. Electronic bill payment in online banking, which may be delivered by EFT or paper check Transactions involving stored value of electronic money, possibly in a private currency

V. Wire transfer via an international banking network (generally carries a higher fee)

VI. Electronic Benefit Transfer

Electronic Clearing Services (ECS):

It is a mode of electronic funds transfer from one bank account to another bank account using the services of a Clearing House. This is normally for bulk transfers from one account to many accounts or vice-versa. This can be used both for making payments like distribution of dividend, interest, salary, pension, etc. by institutions or for collection of amounts for purposes such as payments to utility companies like telephone, electricity, or charges such as house tax, water tax, etc or for loan installments of financial institutions/banks or regular investments of persons.

There are two types of ECS called ECS (Credit) and ECS (Debit).

1. ECS (Credit) is used for affording credit to a large number of beneficiaries by raising a single debit to an account, such as dividend, interest or salary payment.

2. ECS (Debit) is used for raising debits to a number of accounts of consumers/ account holders for crediting a particular institution.

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