

**Emerging Trends in bank Fund Transfer: A Category of the Indian Banking System**

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**ABSTRACT**

Indian Banks have leveraged technology and introduced innovative banking products and services to attract and retain customers. In the present day banking upgraded information technology is built in for all the banks to attract more customers, provide efficient services and to survive in the competition apart from achieving the profit which is a main goal of the business. The banking industry has experienced a series of significant transformations in the last few decades for instance, Automated Teller Machine, Real Time Gross Settlement, National Electronic Fund Transfer, Instant Mobile Payment Service, Electronic Fund Transfer, Virtual banking, Electronic Payment Service, Electronic Data Interchange, Tele-Banking are such technological channels available to the customers for quick and efficient service anytime and anywhere. The present paper examines the new dynamics and technologies for funds transfer in Indian Banking System in the changing scenario.

**Keywords:** Technology, RTGS, NEFT and IMPS

**Introduction**

In India banking as an industry originated in the late 18<sup>th</sup> century and primarily catered to the needs of British. Post-independence, the nationalization of major private sector banks in 1969- important milestone in the Indian banking system which made banking accessible to the unbanked population in India. The Traditional path of banking sector took its reforms towards 'Modern banking system' after Liberalization policy in 1991. The modern banking brought internet revolution in Indian public and private sector banks. The RBI brought a transformational change by computerizing the bank branches, introducing MICR-based cheque clearing, modernization of payment service and settlements through Electronic Clearing Service (ECS), ATM, RTGS, NEFT were all significant landmarks in the banking technology revolution system. The current and recent trends in banking sector is moving towards E-Banking or Virtual-Banking. People are using RTGS ,NEFT facilities to transfer their funds through online-banking.

### **Objectives of the Study**

The main objectives of the present study are;

- To understand the limitations of traditional funds transfer
- To understand the various technologies used in interbank funds transfer
- To understand user persona on using electronic medium versus traditional medium based funds transfer
- To understand the contribution of Indian Banks to the electronic medium based transactions in India

### **Methodology**

The present study is in exploratory nature and the methodology for collecting the data for the present study is based on secondary data only.

### **Technologies used in Interbank Funds Transfer:**

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

National Electronic Fund Transfer is a nationwide payment system facilitating one-to-one funds transfer. It settles the transactions under batches. Under this scheme, individuals, firms and corporate 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. Individuals who do not have a bank account (walk-in customers) can also deposit cash (Max. Rs. 50,000/-) at the NEFT enabled branches with instructions to transfer funds using NEFT.

NEFT operates through the core banking system in India [through core banking all banking operations of all banks can be connected to a central computer kept at a data centre]. Only NEFT enabled banks can provide this NEFT service.

**Fund Limit:** There is no limit on the amount to be transferred as minimum but maximum amount possible is Rs. 2 Lakhs but can vary between banks. Also NEFT transactions are conducted between banks on net settlements basis, meaning they are conducted in batches and not at the same time as the transactions.

NEFT operates in hourly batches. There are eleven settlements from 9 AM to 7 PM on week days (Monday to Friday) and five settlements from 9 AM to 1 PM on Saturdays. The beneficiary can expect to get credit for the first nine batches on week days (i.e. transactions from 9 AM to 5 PM) and

the first four batches on Saturdays (i.e. transactions from 9 AM to 12 PM) on the same day and also, timings might vary slightly from bank to bank.

### **Real Time Gross Settlement (RTGS)**

Real Time Gross Settlement System is funds transfer system where transfer of money takes place from one bank to another bank on a “real time” and on “gross” basis.

Settlement in “real time” means payment transaction is not subjected to any waiting period. The transactions are settled as soon as they are processed. “Gross Settlement” means the transaction is settled on one to one basis without bunching or netting with any other transactions.

**Fund Limit:** RTGS system is primarily meant for large value transactions. The minimum amount to be remitted through RTGS is Rs. 2 Lakhs. There is no upper limit for RTGS transactions but however can vary between banks.

### **Process of NEFT OR RTGS transfer**

The remitting customer has to furnish the following information to a bank for effecting NEFT / RTGS remittance

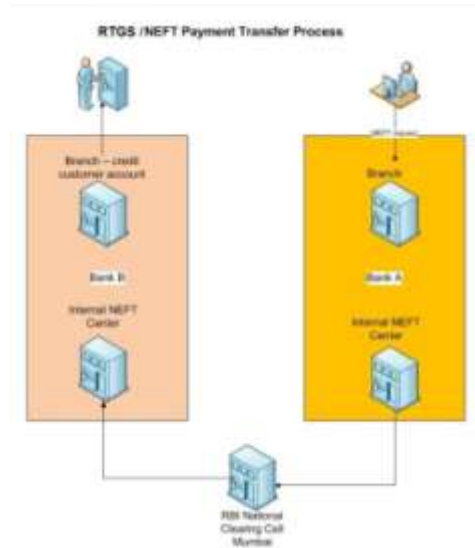
1. Amount to be remitted
2. Remitting customer’s account number which is to be debited
3. Name of the beneficiary bank
4. Name of the beneficiary customer
5. Account number of the beneficiary customer
6. The IFSC (Indian Financial System Code) number of the receiving branch, which is unique for a bank
7. Mobile Number | Email ID (to receive transaction related information)

### **Flowchart of NEFT/RTGS**

Once the above details are furnished by an online user, who wishes to transfer an amount to a beneficiary, below back ground process gets initiated,

- The originating bank branch prepares a message and sends the message to its pooling center (also called the NEFT Service Centre)
- The pooling center forwards the message to the NEFT Clearing Centre (operated by National Clearing Cell, Reserve Bank of India, Mumbai) to be included for the next available batch

- The Clearing Centre sorts the funds transfer transactions destination bank-wise and prepares accounting entries to receive funds from the originating banks (debit) and give the funds to the destination banks(credit). Thereafter, bank-wise remittance messages are forwarded to the destination banks through their pooling center (NEFT Service Centre)



#### **Benefits of NEFT & RTGS:**

##### ***To Customers,***

1. The beneficiary need not visit his/her bank for depositing the paper instruments
2. The beneficiary need not be apprehensive of loss/theft of physical instruments or the happening of fraudulent encashment
3. The remitter need not send the physical cheque/draft to the beneficiary
4. Remitter can initiate the remittances from his home using internet banking also
5. Credit confirmation is sent by SMS or email

##### ***To Banks,***

1. Cost effective
2. It can prohibit fraudulent encashment
3. It reduces the burden of work and improves staff, technical skills
4. Customer retainment and customer relationship can be maintained

**Transaction Persona (Limit, Timings, Fees):**

| Transaction Timings   | NEFT                  | RTGS                | IMPS                  |
|---|-----------------------|---------------------|-----------------------|
| Monday to Friday  | 8:00 AM to 6:30 PM    | 9:15 AM to 4:15 PM  | 24x7                  |
| Saturdays   | 8:00 AM to 12:30 PM   | 9:15 AM to 1:45 PM  | 24x7                  |
|   |                       |                     |                       |
| Transaction Limits  | NEFT                  | RTGS                | IMPS                  |
| Minimum   | Re 1                  | Rs 2 lakh           | Re 1                  |
| Maximum   | Rs 10 lakh            | Rs 10 lakh          | Rs 2 lakh             |
|   |                       |                     |                       |
| Transaction Charges   | NEFT                  | RTGS                | IMPS                  |
| Amounts upto Rs 10,000  | Rs 2.50 + Service Tax | Not Applicable      | Rs 2.50 + Service Tax |
| Amounts above Rs 10,000 and upto 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 and upto Rs 5 lakh (Incl. Rs 2 lakh for RTGS) | Rs 25 + Service Tax   | Rs 25 + Service Tax | Not Applicable        |
| Amounts above Rs 5 lakh and upto Rs 10 lakh                           | Rs 25 + Service Tax   | Rs 50 + Service Tax | Not Applicable        |

\*

(\*The above illustration is only for reference and particular to one single bank and would vary from bank to bank)

**Instant Mobile Payment Service (IMPS)**

Using Immediate Payment Service (IMPS), a relatively newer service, users can transfer money immediately from one account to the other account, within the same bank or accounts across other banks. Similar to NEFT, there is no minimum amount for transactions, but the maximum amount possible is Rs 5 lakhs, which is again, can vary between banks.

IMPS is a payment service introduced by National Payments Corporation of India (NPCI). The service, launched as an instant mobile remittance solution in November 2010, has today evolved as a multi-channel, multi-dimensional remittance platform. The IMPS platform today is capable of processing P2P(Person to Person), P2A (Person to Account) and P2M (Person to Merchant) remittance and transactions can be initiated from Mobile, Internet as well as ATM channel. In addition to banking customers, non-banking customers can also avail the IMPS facility through Reserve Bank of India (RBI) approved PPIs.

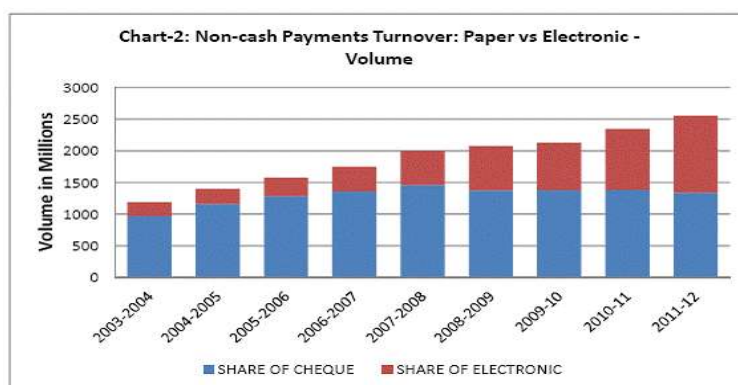
This can be payments for utility bills, mobile or DTH recharge, credit card bills, grocery bills, travel ticketing, online shopping and even educational institutes fee payments through this channel.



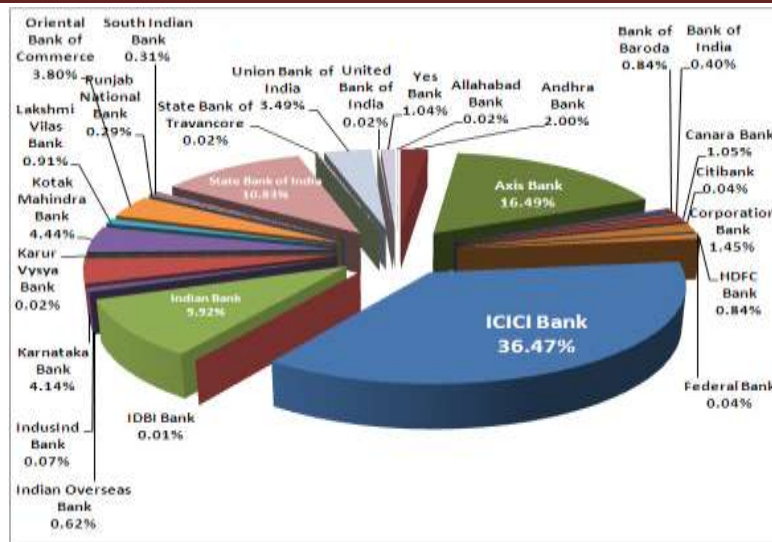
**Advantages of IMPS over NEFT and RTGS**

1. Instant Transfer of Money: -It happens instantly within few seconds, so it's practically real time money transfer, unlike NEFT or RTGS which works in batches and takes time in money transfer
2. Transfer without Internet Connection: -The money can be transferred just using your mobile phone through SMS or using the mobile application, hence we can do the money transfer even while moving/travelling and just with a mobile connection
3. Money transfer even on Holidays and outside working Hours: - We can literally make transfers in early morning, midnight or whatever time we want unlike NEFT or RTGS, where it doesn't allow money transfer on holidays or even Sundays
4. No Need to disclose Bank account number and other details: - With only mobile number and MMID, we can transfer the amount and thus can secure the bank account details

Data Analysis and Interpretation



Indian Banks penetration persona in electronic funds transfer,



From the above study regarding the electronic fund transfer particularly with three dimensions of RTGS, NEFT, IMPS clearly reveals that:

- ❖ The funds transaction over electronic medium is increasing its popularity and thus increasing its usage by ~ 3% - 5% year on year
- ❖ However, the traditional funds transfer is still the major inclination among bank customers
- ❖ In India, **ICICI Bank** has evolved as a leading bank in terms of its users using electronic medium for any kind of funds transfers followed by **Axis Bank**
- ❖ NEFT is a fastest means of transferring the funds. Now-a-days customers are using this service more and more as it is advantageous time saving and secured payment. As the fund limit is Rs 2 lakhs it is more used by customers often to transfer small amounts.
- ❖ RTGS is yet another fastest technology to transfer the funds. As the minimum amount to be transferred is above Rs 2 lakhs it is very beneficial to transfer the huge amount within a fraction of seconds. It is also used by more number of customers particularly who have huge fund transfers.
- ❖ IMPS is an easy and immediate mode of transferring the funds. Its usage is continuously increasing by the customers, as most of the people are mobile users and the process of transferring funds through IMPS is performable by the common people.

### Conclusion

It can be concluded from the study that there were three dynamics in today's banking sector is highly beneficial to the customers. The filling up of applications to perform the RTGS, NEFT is simple; as such it can be easily used by both rural and urban customers. However, comparatively the banks has to take still more steps to increase the coverage of rural customers by creating awareness about the way of using these services.

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