



**UNIT 5 INNOVATION IN
INDIAN BANKING
SECTOR**

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INTRODUCTION

The term “Innovation” means ‘to make something new’

Banks no longer restricted themselves to traditional banking activities, but explored newer avenues to increase business and capture new market.

INDIAN BANKING

SECTOR

- From the time bank of bengal(1806), qualitative and quantitative changes taken place
- With 1935 regulation, the RBI was proclaimed the central bank of India
- In the 1990s, greater emphasis being placed on technology and innovation
- New concept like personal banking, retail banking, total branch automation, etc were introduced

INNOVATIONS IN INDIAN BANKING SECTOR

**Category I: Types Of Innovative
Banking**

Category II: Types Of Product & Services

Category III: Electronic Systems

Types of Innovative Banking

1.E-BANKING

Enables people to carry out most of their banking transaction using a safe website which is operated by their respected bank

Advantage

- Faster & more convenient transaction
- No longer required to wait in long queues
- Opening of account simple & easy
- Apply for bank loan
- Cost effective for banker side
- Fund transfer become faster & convenient
- Stock trading, exchanging bonds & other investment

2. CORE

BANKING

- Depositing and lending of money
- Core banking solution
- Knowing customers needs



3. CORPORATE BANKING

Financial services to large corporate & MNCs

Services:

- Overdraft facility
- Domestic and international payments
- Funding
- Channel financing
- Letters of guarantee
- Working capital facility for domestic & international trade

BANKING

- Creating funds and wealth of clients
- Fund creating in two ways :
 - **Corporate Finance**
 - Professional sales person providing advice on stock trading
 - **M & As**

- **5. RURAL BANKING**

- It provides & regulates credit services for the promotion & development of rural sector mainly agriculture, SSI, cottage and village industries, handicrafts and many more.

- □ **Examples Of Regional Rural Banks** are NABARD, HARYANA STATE COOPERATIVE APEX BANK LIMITED, SYNDICATE BANK, UNITED BANK OF INDIA

- □ **KIOSK BANKING**



6. NRI BANKING

This facility is designed for diverse banking requirements of the vast nri population spread across the globe.

- NRE (Non Resident External Account)
- NRO (Non Resident Ordinary Account)
- FCNR (Foreign Currency Non Resident Account)

7.RETAIL BANKING

It refers to banking in which banks execute transaction directly with individual , rather than corporate banks. It is also known as 'One stop shop' .

Services:

- Saving and checking accounts
- Mortgage
- Housing Finance
- Auto Finance
- Consumer Durable Loans
- Personal Loans
- Educational Loans
- Credit Cards



TYPES OF PRODUCTS & SERVICES

1. TOTAL BRANCH AUTOMATION

- Speed up bank transactions and less error
- More customer friendly and flexible
- Towards paperless transactions

2. ANY BRANCH BANKING

It is a facility for customers to operate their account from any of the same banks network branch

Facilities available:

- Cash withdrawal & Cash deposits
- Account statement
- Facility to issue multi- city cheques
- Fund transfer
- Balance enquiry
- Purchase of demand drafts pay order
- Repayment of loan account

3. DELIVIAI

SERVICES

- It offers secure and convenient way to keep track your securities and investment over a period of time without the hassle of handling physical documents
- It provide facility of online trading

4. MICROFINANCE

It refers to a movement that envisions a world in which low income households have permanent access to a range of high quality financial service to finance their income producing activities, build assets, stabilize consumption and protect against risks.



5. PLASTIC MONEY

- Plastic money are the alternative to the cash or standard money
- Convenient to carry
- Generic term for all types of bank cards, debit cards, credit cards, smart cards

6. MOBILE BANKING

- The account that can travel with you.
- Facility one can bank from anywhere, at any time, & in any condition or any how

Facilities are:

- Balance enquiry
- Fund transfer
- Chequebook request, etc



Type of Electronic Systems

1. ATM

- It stands for 'Automatic teller machine'
- In simple words, it is 'simple to use self service solution'
- Value added services like recharge their mobile, pay the utility bills, mutual fund transactions, etc

2. RTGS

- It stands for 'Real time gross settlement system'
- It is a fund transfer mechanism where transfer of money takes place from one bank to another on a 'real time' and on 'gross basis'.
- This is the fastest possible money transfer system through the banking channel.
- It is different from EFT and NEFT
- It is primarily for large volume transaction
- The time taken for effecting funds transfer from one account to another is normally 2 hours

5.

FINACLE

This system provides the holistic and integrated transformation approach, complete with solutions and services

Finacle solutions addresses the requirements of retail, corporate and universal banking worldwide like

- Core banking solution
- E-banking solution
- Mobile banking solution
- Wealth management
- CRM requirements, etc



DEBIT CARD &

CREDIT CARD



INTRODUCTION

- A few years ago it was easy to tell the difference between a credit card and a debit card.
- You used your debit card at the ATM with a personal identification number, and you used your credit card for purchases.
- But today both types of cards carry familiar credit company logos, both can be swiped at the checkout counter and both can be used to make online purchases.

CARD

- Debit card is a plastic card which provides an alternative payment method to cash for purchases.
- Functionally, it can be called an electronic check, as the funds are withdrawn directly from either the bank account, or from the remaining balance on the card.
- It is also known as **BANK CARD** or **CHECK CARD**.
- Debit cards can also allow for instant withdrawal of cash, acting as the **ATM card** for withdrawing cash and as a cheque guarantee card. Merchants can also offer "cash back"/"cash out" facilities to customers, where a customer can withdraw cash along with their purchase.



I4 MAESTRO DEBIT CARD



FIRST DEBIT GOLD CARD

Visa debit

Embossed card number starts with 4

First four digits repeated above or below the embossed card number



The delta symbol may appear on reverse

'Flying V'

The words DEBIT CARD

Switch/Maestro debit

Embossed card usually number starts with 6



Switch/Maestro logo appears on front or back

DEBIT CARD

- It is used instead of a check to make purchases, anywhere Visa is accepted
- It is used instead of a credit card to pay bills such as utilities, insurance and car payments
- Point-of-sale funds are drawn from primary checking account and Choose from three card designs
- PIN-system security, Change your PIN at any Merchants Bank branch, No annual fee

TYPES OF DEBIT CARD

1. **ONLINE DEBIT CARD**
2. **OFFLINE DEBIT CARD**
3. **PREPAID DEBIT CARD**
4. **ELECTRONIC PURSE CARD**
5. **CARDS FOR MAIL, TELEPHONE & INTERNET USE ONLY**

1. ONLINE DEBIT CARD

- Online debit cards require electronic authorization of every transaction.
- The debits are reflected in the user's account immediately.
- The transaction may be additionally secured with the personal identification number (PIN) authentication system and some online cards require such authentication for every transaction, essentially becoming enhanced automatic teller machine (ATM) cards.
- One difficulty in using online debit cards is the necessity of an electronic authorization device at the point of sale (POS) and sometimes also a separate PIN pad to enter the PIN, although this is becoming common place for all card transactions in many countries. Banks in some countries, such as Canada and Brazil, only issue online debit cards.
- In the United Kingdom, Solo and Visa Electron are examples of online debit cards, which are typically issued by banks to customers whom the bank does not want to go overdrawn under any circumstances, for example under-18s.

2. OFFLINE DEBIT CARD

- Offline debit cards have the logos of major credit cards or major debit cards and are used at the point of sale like a credit card.
- This type of debit card may be subject to a daily limit, and/or a maximum limit equal to the current/checking account balance from which it draws funds. Transactions conducted with offline debit cards require 2–3 days to be reflected on users' account balances.
- In the United Kingdom, Maestro (formerly Switch) and Visa Debit (formerly Delta) are examples of offline debit cards.

3. PREPAID DEBIT CARD

- Prepaid debit cards, also called reloadable debit cards or reloadable prepaid cards, are often used for recurring payments.
- The payer loads funds to the cardholder's card account.
- Particularly for US-based companies with a large number of payment recipients abroad, prepaid debit cards allow the delivery of international payments without the delays and fees associated with international checks and bank transfers.

4. ELECTRONIC PURSE CARD

- Smart-card-based electronic purse systems (in which value is stored on the card chip, not in an externally recorded account, so that machines accepting the card need no network connectivity) were tried throughout Europe from the mid-1990s, most notably in Germany.

5. CARDS FOR MAIL, TELEPHONE & INTERNET USE ONLY

- Special pre-paid Visa cards for Mail Order/Telephone Order (MOTO) and Internet use only are made available by a small number of banks. They are sometimes called "virtual Visa cards", although they usually do exist in the form of plastic. An example is 3V.
- Such a card prevents fraud by a card number thief even if the card is not blocked, because the customer normally does not store any money on the sub-account and fraudulent transactions do not get authorized by the bank.

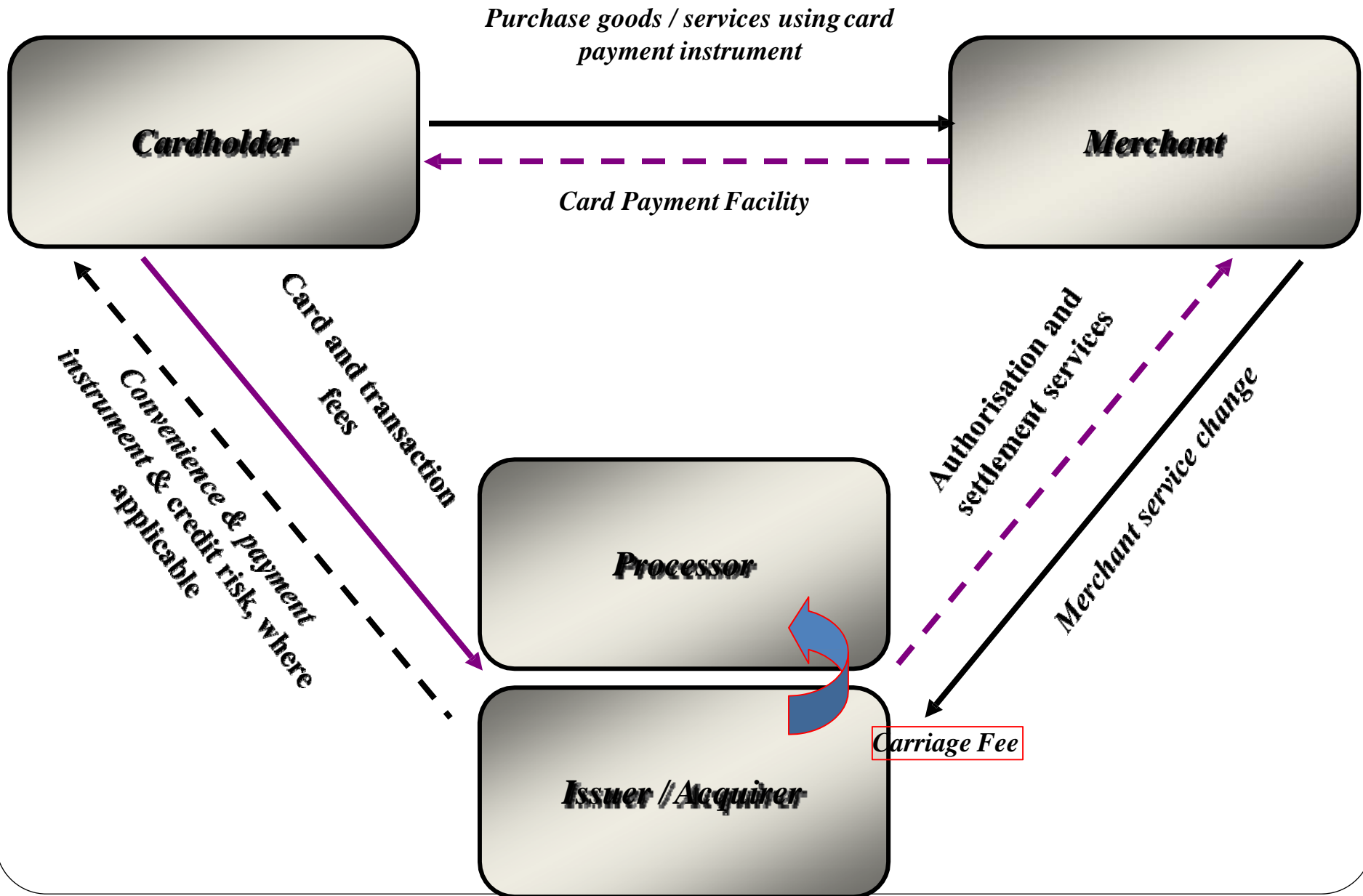
ADVANTAGES

1. A consumer who is not credit worthy and may find it difficult or impossible to obtain a credit card can more easily obtain a debit card.
2. Use of a debit card is limited to the existing funds in the account to which it is linked.
3. For most transactions, a check card can be used to avoid check writing altogether.
4. Like credit cards, debit cards are accepted by merchants with less identification.
5. Unlike a credit card, which charges higher fees and interest rates when a cash advance is obtained, a debit card may be used to obtain cash from an ATM or a PIN-based transaction at no extra charge, other than a foreign ATM fee.

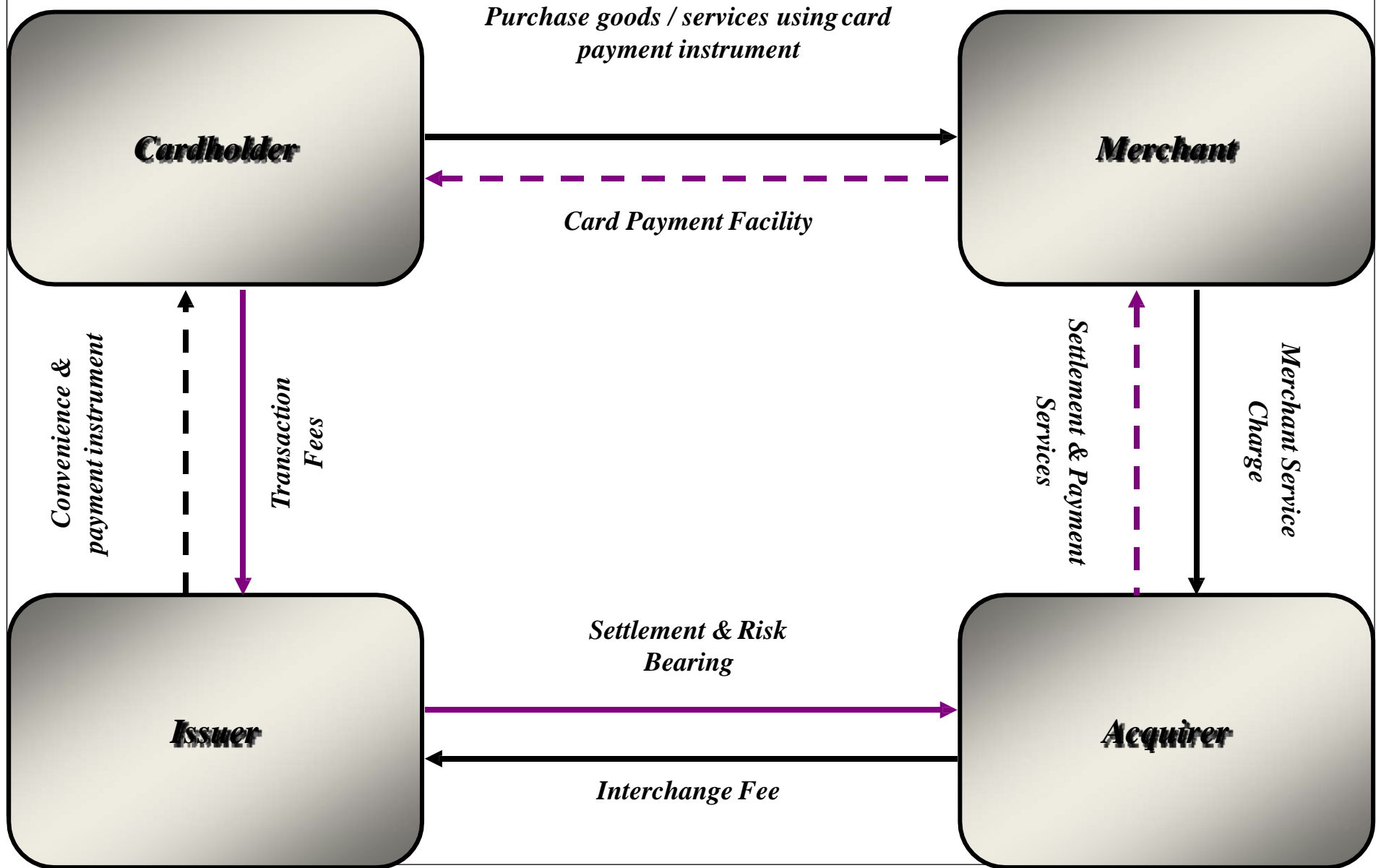
DISADVANTAGES

- Some banks are now charging over-limit fees or non-sufficient funds fees based upon pre-authorizations.
- Many merchants mistakenly believe that amounts owed can be "taken" from a customer's account after a debit card (or number) has been presented.
- In some countries debit cards offer lower levels of security protection than credit cards.

THE THREE PARTY MODEL



THE FOUR PARTY MODEL



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.
- 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 7810 standard.

Partnercard, Secondary Card, Company Card...

Credit Card Type

Country & Company

Company Logo

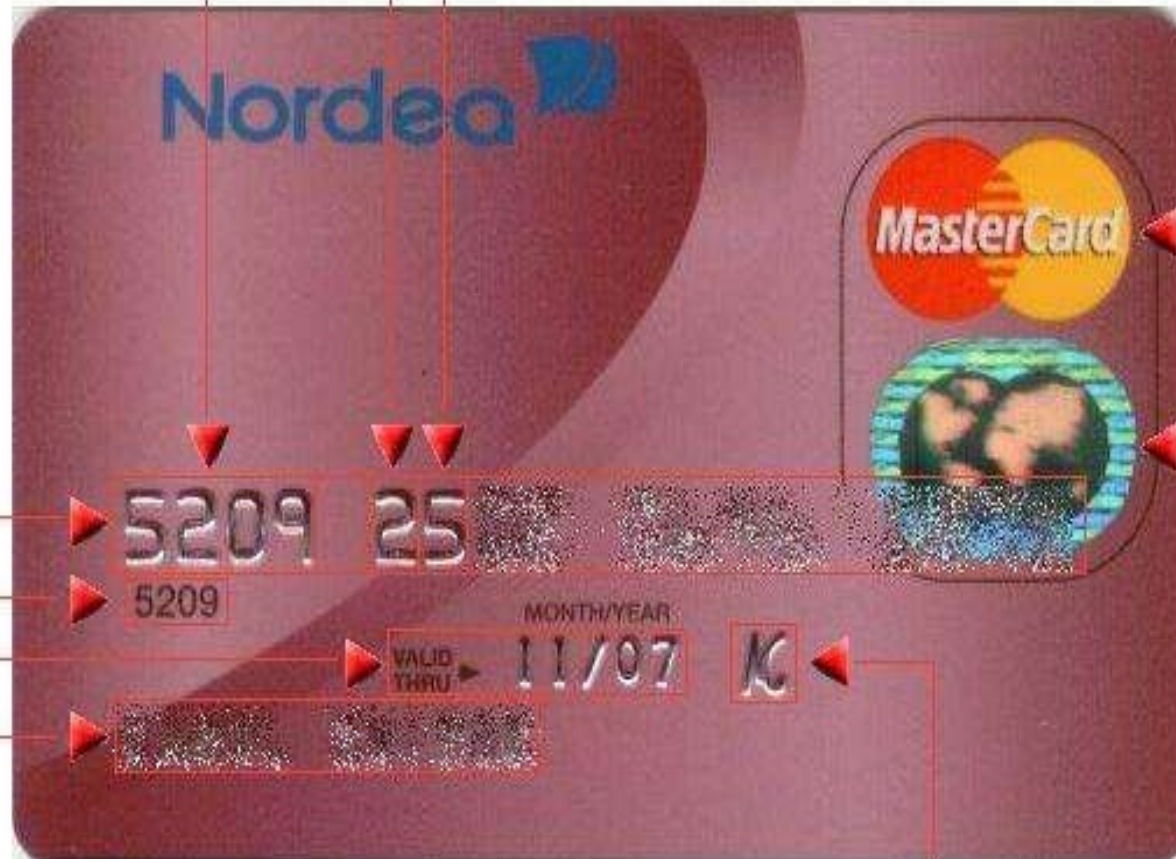
16 Digit Credit Card Number

First Four Digits Printed Below The Embossed Number

Expiry Date

First & Last Name

Embossed Character



WORKING PROCESS

- When a purchase is made, the credit card user agrees to pay the card issuer.
- The cardholder indicates his/her 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.
- 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.
- Card is obtained from a magnetic stripe or chip on the card, but is more technically an EMV card (Europay, MasterCard and VISA). i.e. VSDC – VISA, Mchip – MasterCard, AEIPS – American Express, J Smart - JCB

BENEFITS TO CUSTOMER

- due to intense competition in credit card industry, credit card providers offer incentives such as
- frequent flyer points
- gift certificates
- cash back
- low interest credit cards
- even 0% interest credit cards are available

BENEFITS TO MERCHANTS

- A credit card transaction is often more secure than other forms of payment, such as checks, because the issuing bank commits to pay the merchant the moment the transaction is authorized, regardless of whether the consumer defaults on the credit card payment.
- More secure than cash, because they discourage theft by the merchant's employees and reduce the amount of cash on the premises.
- Prior to credit cards, each merchant had to evaluate each customer's credit history before extending credit.

TYPES OF CREDIT CARDS

Secured Credit Cards: A secured credit card is a type of credit card secured by a deposit account owned by the cardholder. Typically, the cardholder must deposit between 100% and 200% of the total amount of credit desired. Thus if the cardholder puts down \$1000, they will be given credit in the range of \$500–\$1000.

Prepaid Credit Cards: A prepaid credit card is not a credit card, since no credit is offered by the card issuer: the card-holder spends money which has been "stored" via a prior deposit by the card-holder or someone else, such as a parent or employer. Prepaid cards can be issued to minors (above 13) since there is no credit line involved.

1. BALANCE TRANSFER CREDIT CARDS:

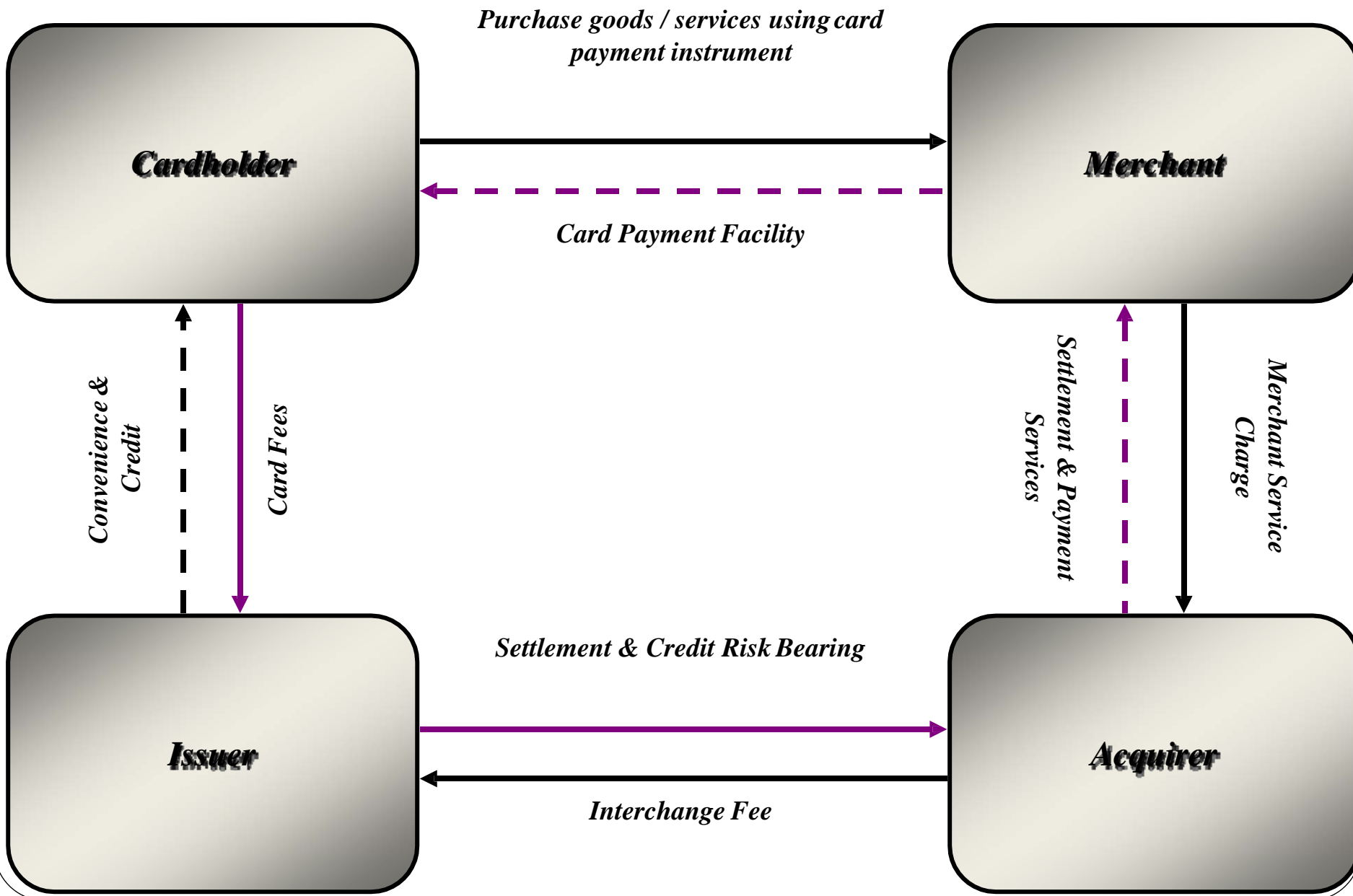
Balance transfer credit cards allow consumers to transfer a high interest credit card balance onto a credit card with a low interest rate. Typical in the market today are balance transfer credit cards with an introductory annual percentage rate (APR) of 0 percent, with that introductory or "teaser" rate lasting several months up to a year.

2. LOW INTEREST CREDIT CARDS: Low interest credit cards offer either a low introductory APR that jumps to a higher rate after a certain period, or a single low fixed-rate APR. Low interest cards can be very useful when consumers need make a large purchase because it allows several months to a year to pay it off with very low or no interest.

SECURITY

- Credit card security relies on the physical security of the plastic card as well as the privacy of the credit card number.
- Whenever a person other than the card owner has access to the card or its number, security is potentially compromised. i.e. security PIN is required
- Some merchants will accept a credit card number for in-store purchases, where upon access to the number allows easy fraud, but many require the card itself to be present, and require a signature.
- Thus, a stolen card can be cancelled, and if this is done quickly, will greatly limit the fraud that can take place in this way.
- The PCI DSS is the security standard issued by The PCI SSC (Payment Card Industry Security Standards Council).

THE FOUR PARTY MODEL



CONCLUSION

The BANKING sector in India has become stronger in terms of capital and the number of customers. It has become globally competitive and diverse aiming, at higher productivity and efficiency.

Exposure to worldwide competition and deregulation in Indian financial sector has led to the emergence of better quality products and services. Reforms have changed the face of Indian banking and finance. The banking sector has improved manifolds in terms of Technology, Deregulation, Product & Services, Information Systems, Etc

"With new opportunities unfolding Banking Sector, India is emerging as a global power in banking services in the next two decade."

THANK YOU