Chapter - III

A THEORETICAL ANALYSIS OF FINANCIAL SERVICES OF BANKS
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The reforms in the banking sector on account of new economic policy and the innovative techniques on account of information technology, the Indian banks offer financial services to the customers of banks in numerous ways. As such, an attempt has been made in this chapter to examine the recent developments made by banks in offering financial services. So as to study the merits and demerits of the different financial services. The analysis is being done in the following paragraphs.

3.1 CONCEPT OF FINANCIAL SERVICES

The financial service industry nationally and internationally is huge. Growing, and of critical significance to the health of the global economy as well as that of individual business, investors, consumers and employees. The financial services is a process by which funds are mobilized from a large number of savers and make the available to all those who are in need of it and particularly to corporate customers\(^1\). A well-developed financial services industry is absolutely necessary to mobilize the savings and allocate them to various invest able channels and thereby to promote industrial development in a country.

Table 3.1- Definition of Financial Services².

<table>
<thead>
<tr>
<th>Service/Product Market</th>
<th>Banking and Credit</th>
<th>Insurance</th>
<th>Securities and Brokerage</th>
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<tbody>
<tr>
<td>Personal</td>
<td></td>
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<td></td>
<td>Current Accounts</td>
<td>Life Insurance</td>
<td>Equities:</td>
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<td></td>
<td>Retail Deposits</td>
<td>Non life</td>
<td>Broking Unit</td>
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<td></td>
<td>Travellers cheques</td>
<td></td>
<td>Trusts Pensions</td>
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<td></td>
<td>Consumer Finance</td>
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<td></td>
<td>Credit cards</td>
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<td></td>
<td>House Mortgages</td>
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<td></td>
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<tr>
<td>Corporate</td>
<td>Loan Guarantees</td>
<td>Non-Life</td>
<td>Corporate finance</td>
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<td></td>
<td>Exposure Credit</td>
<td>Express Liberty</td>
<td>Investment</td>
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<td></td>
<td>Leasing Venture</td>
<td>Insurance</td>
<td>Stock Market</td>
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<td></td>
<td>Capital</td>
<td>Broking</td>
<td>Investment Fund</td>
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<td></td>
<td>Business Loans</td>
<td>Reinsurance</td>
<td>Management</td>
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<td></td>
<td>International</td>
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<td>EquitiesVs. Writing</td>
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<td></td>
<td>Lending</td>
<td></td>
<td>Money Broking</td>
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<td></td>
<td>Eurocurrency</td>
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<td>Bullion Broking</td>
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<tr>
<td></td>
<td>deposits</td>
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<td>Money market</td>
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<td></td>
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<td>deposit Offshore</td>
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<td></td>
<td></td>
<td></td>
<td>exchange</td>
</tr>
</tbody>
</table>

From the above table 3.1 the definition of financial services made under two heads personal and Corporate. I have taken various services with respect to current Account and Credit Cards offered by banks.

3.2 CURRENT ACCOUNT

A current account is an account that is generally opened by business people for their convenience. Usually, a banker does not allow any interest on this account. Even then, people come forward to deposit money on current account because of two important privileges namely (1) Overdraft facility and (2) Other facilities like collection of cheques, transfer of money and rendering agency and general utility services. The current account is a running account and, therefore, it never becomes time barred.

Special Characteristics

The special characteristics of such an account are as follows.

1. The primary objective of current account is to save big customers as big businessmen, joint stock companies, public authorities, etc. From the risk of handling cash themselves.

2. The cost of providing current account facility is considerable to the bank since they undertake to make payments and collect the bills, drafts, cheques for any number of times daily. The Reserve Bank of India's directives prohibit payment of interest on current accounts up to 45 days.

3. The current deposit account holders enjoy certain additional privileges,
a. The bank collect third party cheques and cheques with endorsement for their current account holders.

b. The banks grant loans and advances.

That is why current account holders do not mind a banker charging some commission for services. Even though a banker does not allow any interest, he charges interest on overdraft on a day-to-day basis.

**Multicity Banking**

Multicity banking is also called as core banking; it was launched for the customers with effect from 1st September 2005. It is one of the branch services offered by banks. An account holder can do his transaction anywhere in the country by using any of his bank branches as a local branch. Customers' cheque will be payable at par instantly in various locations. The cheques are personalized with the customer name pre-printed and will be issued from a centralized location.

All banking is based on trust; public confidence is the main source of the successful working of banks. Such confidence can be created and maintained if working of the bank is not too much susceptible to fraud.

The term fraud many are defined as any “behaviour by which one person indents to gain a dishonest advantages over another”.

3. WWW.Everbank.com

4. WWW.KVB.org
Now a day most of the banks are computerized, Electronic machines are to verify signatures to avoid frauds. Computerization of banks makes the customers transactions easy, fast and also reduces the mistakes. Most of the computerized banks are connected with Internet. It makes way to maintain the customer information in a central location called centralized banking. The customers are allowed to do their transaction from anywhere in the country. The customers are no need to take the cash, cheques books where they are going. ATM cards makes simple safe.

The technology used in banking sector gives comfortable way to the customers to do their transaction. Computerization avoids manual calculations and mistakes on overdraft, interest, cheques clearance etc., the following paragraph gives you the various technologies used in banking sectors.

3.3 New Technologies in Banking

The development of technology improves the customer service, productivity and operational efficiency of banks is well recognized. Banks in India have introduced many new techniques and a considerable degree of mechanization and computerization in their operations. By the end of June 1996, they had installed 13,522 advanced ledger-posting machines (ALPM) at 4,238 branches, and 895 mini-computers at their regional and zonal offices at 441 branches.

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They have introduced mechanized cheques clearance, using Magnetic Ink Character Recognition (MICR) technology. There is a process of setting up exclusive data communication network for banks known as BANKNET.

Banks are now switching to personal computers and LAN/WAN systems. In 1996 June, the banks had installed 2,120 PCs, LAN at 916 branches, WAN at 174 branches, 937 signature storage and retrieval systems, and 315 on-line terminals. The RBI has put in place Electronic Funds Transfer (EFT) system, Delivery Vs payments (DVP) system, Electronic clearing services and RBINET. Steps taken to setup a very small Aperture Terminal (VSAT) Network which will cover all banks and financial institutions to serve a number of tasks like MIS, data warehousing, transaction processing, currency chat accounting ATMS, EFT, EDT, SMART/credit cards, etc.

The most ubiquitous medium of electronic payment spreading in developed countries. The Automated Teller Machines (ATMs) are popularly used to provide financial services to the customers.

3.4 Credit Cards

The use of credit cards originated in USA during 1920. Franklin National Bank Issued its first form Credit Card in 1951. Today credit cards are also called Plastic Money. The standard cards are primarily
plastic cards on which all the important information is provide which include name of the card holder, name of the bank branch in which the card has issued, the validity date and the limit up to which the cardholder can make use of the card for purchasing goods and services.

The Credit card is a convenient medium of exchange, which enables its holders to buy goods from Member-Establishment without using money. The credit card holder is required to pay neither an interest to the bank or a higher price for goods purchased: he/she pays only a fee to the bank for the facility. The card-issuing bank pays to the seller as soon as goods are sold but charges the buyer after 30 to 45 days. The bank bears the risk that the cardholder might default. For all this, the bank gets commission from the seller about 2.5 to 5% of the value of the goods sold. Banks as well as non-bank establishments can issue the credit cards.

Benefits of Credit cards

Benefits of Card Holder

✓ It is safe and secure
✓ Very easy to keep records
✓ It is convenient to transfer amount from one place to another place.
✓ It gives convenient credit facility to the customers.
✓ The card universally accepted by all merchants.
Benefits to Merchants

✓ Boosts the sales because customers are no need to pay cash immediately
✓ Transactions can be easily validated
✓ No risk of customer cheque bounce.

Benefits to Issuer Banks

✓ Boosts credit by earning interest income.
✓ Banks can expand their market area.

Credit Card Industry Structure

Any one can apply for the cards at the branch level and the branch manager have the authority to recommend the application to the cards issuing authority. After processing the information, which takes 15 to 30 days (various from card to card), the authority takes the decision whether can issue the card to the customer or not.
The above diagram clearly shows the flow of information from one end to another end. The links between the points are made by using telephone lines for 24 hours all days, so the transactions are updated to the corresponding records immediately.

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3.5 Instruments used to provide Financial Services.

Financial instrument refers the documents represent financial claims on assets. There are many instruments used to provide financial services. Such as, Treasury Bills, Certificate of Deposits, Commercial paper, Hawala and payment cards.

**Treasury Bills**

Treasury Bills (TBs), the principal instrument of short-term borrowing by government, occupy an important position in the Indian money market. An important aspect is the ‘Funding’ it refers to the Government conversion of the outstanding into dated securities\(^7\).

**Certificate of Deposits**

Certificate of Deposits (CDs) were introduced in 1989 to mobilize large value deposits. It can be issued only by scheduled commercial banks. The minimum deposit that could be accepted from a single subscriber should not be less than Rs. 1 Cr the CDs above Rs.1 Cr will be multiple of Rs. 25 lakhs.

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\(^7\)ibid, p-656
**Commercial Papers**

Commercial paper was introduced in January 1990 with a view to enabling corporate to diversify their souring of short-term borrowing as well as to provide investors with an additional instrument for investment.

**Hawala**

Hawala is an important funds transfer system in practice for a long time. However, public interest has increased since September 11, 2001 only. Its traditional role is transferring money between individuals and families, often in different countries. It is used in money regions for transferring funds, both domestically and internationally.

**Payment Cards**

Different types of payment cards are used in the financial service market. They are depicted below.

![Payment Cards Diagram]

- Pay Later Cards
- Pay Now Debit Cards
- Pay Before Pre-Payment Cards
- ATM Only
- ATM Plus point of sale
- Change/Debit
- Credit Cards
- Stored Value Cards
Debit Card

A Debit card like an ATM card, directly access a customers account. The debit card is a hybrid of ATM card and credit card. The debit card directly access a debits a designated savings bank account. Debit card can be used at merchant locations to buy goods and services or at ATMs.

Prepaid/ Stored Value Cards

These cards on which value is stored, and for which the holder had paid the issuer in advance. There is limited purpose prepaid cards can be used for a limited number of well-defined purposes. It is restricted to number of identified points of sale with in specified locations. These cards used to pay for phone calls, train and bus tickets, high ways tools, video games, carwashes and refreshment. It is basically pay-now-buy-later: it is the reverse of the credit card concept.

Private Label Cards

These cards are uniquely tied to the retailers issuing the card and can be used only in that retailer's store. The credit for the private label card could be extended by a bank that may have a contractual agreement with the retailers.
Affinity group cards

A credit card designed in the form of common interest or relationship such as professions, alumni, retired persons organization etc.

Smart Cards

A smart card is a credit card with an embedded computer chip. Using special terminals designed to interact with the embedded chip.

Agricultural credit cards

21 public sector banks gave credit cards to some top ranking agriculturists and cultivators. These schemes of credit cards are not very popular with middle and low-income groups. Income tax difficulties and high interest rates charged by banks are some rigorous terms as to the repayment of overdraft facility have led to less popularity of these credit cards in recent years.

Super smart card

With a microchip struck at the back, this can be used as an electronic ID and to check bank balances. It can be plugged into an electronic retailing network for booking airline tickets, paying the stock market, transferring money or just buying goods.
Shop cards

This card issued by chains of large departmental stores. A single card is used for paying petrol or phone calls issued by oil or telephone companies. In India, the big hotel chains Taj oberoi, welcome group and centaur issue their own cards to boost business.

ATM cards

An ATM card allows customers to access their accounts anywhere any time-24 hours a day, everyday of the year through automated teller machines. They can withdraw cash, transfer funds, find out their account balance and perform their financial transactions. The use of this facility is subject to the banks ATM terms and conditions. The use of this facility is subject to the banks ATM terms and conditions in addition to the terms and conditions governing VISA. The card validity is 3 years from the month of issue. We can derive the satisfaction of banking. ATM service gives you 24 hours 7 days a week banking service.

Features of ATM

1. Quick cash withdrawals in all days including Sunday and holiday.
2. You can deposit cash at any time using envelopes available in selected ATMs.
3. On the spot transaction(s) record.
4. The ATM gives you a printed record of all your transactions.
5. Additional services on request.
6. ATM also gives a statement of account of the latest 5 transactions on request.

7. ATMs are easy to use and safe.

**Security in ATM**

The complete security through our own special PIN (personal Identification Number) number. This PIN can be changed at any time when you access the ATM. Only your pin along with your card can operate your account through our ATM. For further security you can change your PIN to another number combination at any time you want.

**VISA Cards**

Most of the banks are incorporated with VISA apex authorized association. VISA cards are valuable substitute for cash/cheques. Card is valid Internationally and it is acceptable by more than 1 lakh Member Establishments (ME’s) for purchase of goods and services. As a Privileged holder of VISA you have the advantage of drawing cash to meet your emergency requirements from any of the bank branches. Some banks are incorporated with other bank.
Mopup Facility

This new service is offered by certain banks to recharge the BSNL SIM card by using ATM cards. Normally the mobile user will buy recharge coupon and get the recharge number by scratching the coupon. But now there is no need for that, the BSNL recharge option is displayed in the TM menu. The available recharge plans can be known by choosing the BSNL recharge number will be displayed on the screen or printed. At the end of this process the amount is debited on the account holder account credited on the BSNL account immediately.

3.6 RBI norms on credit cards

The Reserve bank of India (RBI) issued guidelines on credit operations of banks, asking card issuer to ensure to ensure that there is no delay in dispatching bills. Customer should be given at least a fortnight for making payment before the interest rates start getting charged.

The guidelines, based on the recommendations of the RBI constituted working group on regulatory mechanism for cards, asked the issuing bank or non-banking financial company to pay penalty to the recipient for unsolicited cards, amounting to twice the value of the charges.

In case, an unsolicited card is issued and activated without the consent of the recipient and the latter is billed for the same, the card

10 www.KVB.Org
issuing bank/NBFC shall not only reverse the charge forthwith, but also pay a penalty without demur to the recipient amounting to twice the value of the charges reversed unsolicited loans or other credit facilities should not be offered to customers.

**Wrong bills**

The credit card issuer not to issue wrong bills to customers. In case, a customer protests any bill the bank should provide explanation and if necessary, documentary evidence to customer within a maximum period of 60 days. The card issuer should quote annualized percentage rates (ADR) on card products separately for retail purchase and for card advance in case of any difference between the two. The late payment charges. Including the method of calculation of such charges and the number of days, should be prominently indicated.

The card issuing bank/NBFC should maintain a Do Not call Registry (DNCR) containing both cell phone and landline number of the customer and unwilling non-customers, who have informed the card issuing authorities that they do not wish to receive the unsolicited calls/SMS in this regard.

The central bank has given two months time to the card issuer to setup the DNCRs. The card issuing bank or the NBFC should ensure that DNCR numbers are not passed on to any unauthorized person or misused in any manner\(^{11}\).

\(^{11}\) Analyst, The ICFAI, University Press, November 2005, p81.
3.7 Conclusion

The financial services are a process by which funds are mobilized from large number of savers to borrowers. Computerization of banks has made drastic and dramatic revolution in financial services.

The It implementation on banks makes easier and quickness the customer transactions Electronic cards such as, ATM cards, Debit cards and International debit cards are providing financial services to the customers electronically.

Apart from the payment card there various cards available in the market such as private label card, Affinity group card, Smart card, Agricultural card, Super smart card and Shop card.

Customers are should not be compelled to have this card. But most of the customers are interested to have this card.