

# Things to Know About Payment Systems for Banking & SSC Exams

In line with Government reforms, Prime Minister Narendra Modi has pushed Indians to adopt cashless transactions, giving the digital payments sector a significant boost. **Digital Payment Systems** for Banking like **NEFT, RTGS, MTSS** are going to occupy the largest part of transactions. With the unmatched jump in growth of E-Commerce in the world, knowledge of these **Cashless Transaction** modes has become very necessary for aspirants of IBPS, SSC and other banking exams. Awareness of these payment processes are very important and it is also expected in General Awareness section. **Aadhar Card based Payment** initiative by the Government of India is also explained in this article.

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## Payment Systems for Banking

**Definition:** According to Bank of International Settlement (BIS), a payment system consists of instruments, banking procedure and typically inter-bank funds transfer that ensures and facilitates the circulation of money.

A payment system is any system used to settle financial transactions through the transfer of monetary value and includes the institutions, instruments, people, rules, procedures, standards, and technologies that make such an exchange possible.

Payment systems are also used to settle financial transactions for products in the equity markets, bond markets, currency markets, futures markets, derivatives markets, options markets, and to transfer funds between financial institutions both domestically and internationally.

### A. Payment Systems for Banking - RTGS

Real-time gross settlement systems (RTGS) are funds transfer systems where the transfer of money or securities takes place from one bank to another on a **"real-time"** and on **"gross"** basis. Settlement in **"real time"** means that payment transaction does not require 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 transaction. Once processed, payments are final and irrevocable.

It was introduced in 2004 to facilitate predominantly the settlement of interbank payments on a real-time and gross basis so as to reduce the incidence of risks in the payment systems.

#### Important features of RTGS:

- Its main purpose is to enable electronic cash transfer having accounts in bank branches.
- It is a fund transfer system which is moved from one bank to another in real time and on the gross basis.
- It means that the payment transaction isn't subject to any waiting period. The transaction will be completed as soon as the processing is done, and gross settlement means that the money transfer is completed on a one to one basis without clustering with another transaction.
- The transaction is treated as final and irrevocable as the money transfer occurs in the books of the RBI. This system is maintained by the RBI, and it is available only during working days for a given number of hours.
- The minimum limit is 2, 00, 000 Rs. and there is no maximum limit.

## **B. Payment Systems for Banking - NEFT**

The main purpose of NEFT is to enable electronic cash transfer having accounts in bank branches. It is used for transferring funds from one financial institution to another within India especially banks. It was launched in November 2005 and was assigned to every bank. It was made mandatory by the RBI for all banks to migrate to NEFT. No minimum and maximum limit for cash remittance.

#### Important features of NEFT :

- NEFT came into existence in 2005.
- It is a modification of Special Electronic Fund Transfer (SEFT).
- NEFT is an online fund transfer activity through the electronic wire.
- It is used nationwide by individuals or institutions.
- Only NEFT enabled bank branches can transact.
- The amount does not immediately transfer but the Transactions are done in specific batches during fixed time.
- Those who have not bank account can use NEFT by depositing cash to NEFT enabled branches.
- NEFT is both secure and convenient.
- It takes place 11 hours on weekdays, 5 hours on Saturday and Sunday there is no NEFT transactions.
- No limit for minimum or maximum transfer amount.

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### Working of NEFT:

- Remitting bank requests for NEFT
- Request is registered by NEFT servers
- Request is cleared on the basis of the input.
- RBI servers bunch up all the NEFT requests and clear it in hourly batches.

## Difference between Payment Systems for Banking NEFT and RTGS:

Criteria	NEFT	RTGS
<b>Acronym</b>	National Electronic Fund Transfer	Real TimeGross Settlement
<b>Arrangement</b>	Done in batches and slower	Real-time transfer and faster
<b>Timings on weekdays &amp; weekends</b>	8:00am-6:30pm (Mon-Fri) 8:00am-12:30pm (Sat)	9:00am-4:30pm (Mon-Fri) 8:00am-1:30pm (Sat)
<b>Minimum Transfer Limit</b>	No minimum amount	2 Lakhs
<b>Maximum Transfer Limit</b>	No Limits	No Limits
<b>Credit in Beneficiary Account</b>	Happens in hourly batch between banks	Real-Time between the banks
<b>Charges as per RBI</b>	Up to 10,000: <u>Rs. 2.5</u> from 10,001 - 1 lakh: <u>Rs. 5</u>	Up to 2-5 lakhs: <u>Rs. 25-30</u> Above 5 lakhs: <u>Rs. 50-55</u>






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## C. Payment Systems for Banking - IMPS

- IMPS is an instant interbank electronic fund transfer service through mobile phones.
- This service is available **24x7** for a transaction between **interbank**.
- It doesn't require any "batches". Though IMPS offers Instant Transfer.
- To be able to transfer fund through IMPS route you must first register for the immediate payment services with your bank.
- After successful registration, the bank will provide you "**Mobile Money Identifier(MMID)** and **Mobile Personal Identification number(MPIN)**."
- For transferring of funds the Minimum & Maximum amount is to be Rs.1 and Rs.2,00,000.

## D. Payment Systems for Banking - MTSS

- Money Transfer Service Scheme (MTSS) is a way of transferring personal remittances from abroad to beneficiaries in India.
- Through this only inward remittance into India such as remittances towards family maintenance and remittances favouring foreign tourists visiting India are permissible.
- No outward remittance allowed.
- Under the scheme, there is a tie-up between reputed money transfer companies abroad known as **Overseas Principals** and agents in India known as **Indian Agents** who would disburse funds to beneficiaries in India at ongoing exchange rates.
- The **Overseas Principal** should be a registered entity, licensed by the Central Bank / Government or financial regulatory authority of the country concerned for carrying on Money Transfer Activities.
- The country of registration of the Overseas Principal should be AML compliant. The Overseas Principal should obtain necessary authorization from the Department of Payment and Settlement Systems, Reserve Bank of India under the provisions of the Payment and Settlement Systems Act (PSS Act), 2007 to commence/ operate a payment system.
- To become an **Indian Agent**, the applicant should be an Authorized Dealer Category-I bank or an Authorized Dealer Category-II or a Full Fledged Money Changer (FFMC) or the Department of Posts. Further, the Indian agents can also appoint sub-agents which can be retail outlets, commercial entities having a place of business, and whose bonafides are acceptable to the Indian Agent.
- A cap of USD 2,500 has been placed on individual remittances under the scheme.



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- Only cross-border personal remittances, such as, remittances towards family maintenance and remittances favouring foreign tourists visiting India are allowed under this arrangement.
- Donations/contributions to charitable institutions/trusts, trade related remittances, remittances towards purchase of property, investments or credit to NRE Accounts are not allowed through this arrangement.
- Indian Agents need permission from the Regional Office concerned of the Foreign Exchange Department, Reserve Bank of India to operate under the MTSS framework.

## **E. Payment Systems for Banking - AEPS**

Aadhaar Enabled Payment System is a major initiative taken by Government of India to initiate a simple, secure user friendly mode of payment solution by Micro-ATM. It also empowers Cashless Economy in the country in future.

The basic meaning of AEPS is a customer can pay through Aadhaar Card, i.e. Empowering Cashless transactions in the country. Through Aadhaar Card a customer can access his/her bank account.

However, these days Government of India is also trying to empower bank customers to use Aadhaar as his/her main identity to access his/her respective Aadhaar enabled bank account and perform various transactions like balance enquiry, cash deposit, cash withdrawal, Pay through Aadhaar, etc.

The various Aadhaar Enabled services are:

- Balance Enquiry
- Cash Withdrawal
- Cash Deposit
- Aadhaar to Aadhaar Funds Transfer

Key steps for AEPS Transaction:



Advantages of AEPS Transaction:

1. Aadhaar enabled Payment platform is a very important tool to rule out all the fake data in the system concerning National Social Assistance Programme (NSAP).
2. The basic theme of Direct Benefit Transfer is to ensure that the beneficiary gets their benefit through Aadhaar Enabled Payment System (AEPS) which is an accountable, cost-effective and transparent.

So these were some important points about the Types of Payment Systems for Banking & SSC Exams in India. You can also find other important General Awareness Topics given below:

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