RTGS: A New Realm for Banking Industry

Mandakini Garg,

Assistant Professor, College of
Management Studies,
Kanpur, India

Mansi Shukla,

Assistant Professor, College of
Management Studies,
Kanpur, India

Abstract

The global economy depends largely on the banking system to make payments and settlement of the transactions. Across globe, Banking sector is growing at a faster pace which has solved the problem of many customers as services are available to them at their convenience and they can avail these services anywhere at any time. The entire banking system is enhancing their performance as the paper –based payment systems has been replaced by Electronic Payments systems. With the passage of time, banks had started using IT –enabled payment systems such as Real Time Gross Settlement (RTGS), National Electronic Fund Transfer (NEFT), and National Electronic Clearing Services (NECS), so that it becomes convenient for both banks and customers for performing remittance or payment transactions. RTGS improves the efficiency of the banking operations, reduces settlement risk and facilitates financial innovations. Now RTGS is becoming user friendly for customers for interbank large value fund transfer .It also reduces cost and minimizes the time of the customers. The RTGS system was introduced in India in March 2004 now extends to 77,093 branches at the end of June 2011.

The present study focuses on the awareness and awakening of RTGS services provided by the banks. .

Introduction

An effective and efficient payment system works as a fuel in lubricating the liquidity flow of the economy. Payment and settlement system is the backbone of the country. They work as arteries for conducting trade, commerce and other forms of business activities including remittance in various countries. It helps in enriching the economic growth and development. The payment and settlement system is very important component for the financial development of any country.

There are million transactions happening every single day all over the world. To maintain adequate flow of transactions, there are various payment systems used by different countries. With the passage of time interbank transactions have been increased dramatically due to tremendous financial innovation and globalization of financial markets. Example FEDWIRE and CHIPS account are used in US to transact around $2.6 trillion transactions daily. FEDWIRE is used to transmit most large value transactions in the US including transactions associated with settling retail payment system such as cheques and credit cards. In fact, Fedwire is the world's oldest RTGS system. To overcome the drawbacks of FEDWIRE, a new improvised system came into existence known as RTGS. In this payment system, instructions between banks are processed and settled individually and continuously throughout the day as opposed to net settlement system such as paper clearing house. With the help of paper work, processing was carried out usually at the end of the day. But with the help of RTGS funds are transferred and processed with the same day. In 1985 only three banks have started this service in order to avoid the deferred payments. With lieu of time, 16 banks all over the world have started using this service. At the end of 2006, the use of RTGS systems had diffused to 93 of the world's 174 central banks. In today's scenario, 198 branches in India are using RTGS services. (RBI, 2012) CHIPS are used to settle the dollar legs of foreign exchange transactions. With due course of time, there is huge expansion of whole sale transactions in the banks.

As wholesale transactions are taken care by the central bank so it becomes very difficult for the central bank to synchronize all the payment activities. Central banks tend to support the interbank system by infusing the NETTING system. In a netting system, the settlement