

UNIFIED SERVICES MODEL: AN INNOVATIVE MODEL FOR BANKING SERVICE DELIVERY

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ABSTRACT

Banks play a major role in the healthy functioning of the economy by providing a channel for the movement of financial resources from where they are available to where they can be best utilized. In the absence of an effective banking channel it is not possible to imagine an economy that has healthy growth rate through various forms of investments. We are in the era of Information Technology. Banking system is extensively using Information Technology to provide services to its customers. Still it can be observed that our banking system has duplication in many aspects of its service delivery which is adding to the cost of operation of the system. There is a need for unification of services that can reduce the duplication of efforts and bring the services of both commercial as well as co-operative banks to the customers more effectively. In this direction this paper suggests a “Unified Services Model” for payment and settlement system which uses the technology more effectively to deliver banking services to the customers.

Key Words: Banking, Unified Services Model, ATMs, POS devices

Introduction:

Banks play a major role in the healthy functioning of the economy by providing a channel for the movement of financial resources from where they are available to where they can be best utilized. In the absence of an effective banking channel it is not possible to imagine an economy that has healthy growth rate through various forms of investments.

Basic functions of the banks are to accept deposits and lend loans. Retail transactions of the customers of banks, hence, in the form of making deposits, withdrawals or transfer of deposits, though give a feeling of not so important activity taking place in a bank today, are part of the prime functions of the bank and they play a major role in the banking system's existence and smooth functioning. Hence, it is important that banks give importance to the services connected with these activities and make it convenient to customers to use banking channels for all their monetary transactions and thereby improve the efficiency of the economy at large.

Use of technology in banking:

We are in the era of Information Technology. Banking system is extensively using Information Technology to provide services to its customers in the form of ATMs, ECS debit and Credit facilities, NEFT and RTGS services, etc. Banking system can be considered effective when it is able to provide banking facilities to all parts of the country and all sections of the society and disseminate the policies of the Central Bank to the economy effectively. No doubt that the use of Information Technology in banking has improved the efficiency of banks and their effectiveness but there is still scope to improve our banking system such a way that the service delivered to the customers is more effective and larger sections of the society get included into the banking system.

Need for Unification of Services:

It can be observed that our banking system has duplication in many aspects of its service delivery which is adding to the cost of operation of the system. The major duplication of effort is seen in the Automated Teller Machine (ATM) network and that of Point of Sale (POS) devices that is being followed. Every bank is forced to have ATM and POS devices next to that of its competing bank in order to make sure that it is not losing customer and revenue to its competing banks. This has resulted in clustering of ATMs, reduction in number of transactions per ATM and increase in average cost of every transaction taking place. With the increase in restrictions on free usage of debit cards, this problem will persist.

It can also be observed that the cooperative banks that have a major role to play in our developing economy have almost been out of the service channels like Automated Teller Machine (ATM) network. Mainly due to small volume of business that they carry out,

localization of business and cost involved in establishing the network, etc. If the cooperative banks are brought to the main stream banking, one of the major hurdles in our economy in the form of financial non-inclusion can be eliminated to a great extent.

Hence, there is a need for unification of services that can reduce the duplication of efforts and bring the services of both commercial as well as co-operative banks to the customers more effectively. In this direction this paper suggests a “Unified Services Model” for payment and settlement system which uses the technology more effectively to deliver banking services to the customers.

Unified Services Model (USM):

Duplication of effort can be minimized and better services can be delivered to the customers through Unified Services Model which will have a centralized payments corporation that will look after the establishment and maintenance of ATM network, issue of debit and prepaid cards, POS devices, etc. and thereby linking all banks, both commercial and cooperative, with their customers for the service delivery with greater convenience and effectiveness.

Setting up Unified Services Model:

1. **Payments Corporation:** Payments corporation promoted by the Commercial Banks in the country with investment in proportion of their volume of business and controlled by the Central Bank (the Reserve Bank of India) should be issuing Debit Cards, Pre-paid Cards and provide Point of Sale (POS) Devices in a manner such that an individual will have only one debit card linked to all his bank accounts irrespective of the banks, whether commercial or cooperative, and their locations, one Pre-paid Card for one individual and a business outlet will need only one POS device. PAN/TAN/TIN can be used to identify individuals and organizations so that duplications can be eliminated. In the absence of PAN Individuals can be identified by Aadhaar Number. By making the Cards independent of the banks, the number of cards issued is reduced and the customers will have the convenience of carrying only two cards with them – one Debit Card and one Pre-paid Card.

The payments corporation should also be the sole organization that will establish and maintain the ATM network in the Country. This will reduce the cluttering of ATMs and enhance rational distribution of ATMs such that large geographical areas are covered by the ATMs. Cooperative banks will need technological up-gradation to be part of USM. Cost involved in technological up-gradation can be a hindrance but cooperative banks can do it on a step by step basis with the support from commercial banks and Reserve Bank of India.

2. **ATM Transactions:** Use of one debit card for all the bank accounts will require that the customer selects the account in which he wishes to transact. The customers can be given the option to create default account for transactions so that routine transactions and POS transactions can be carried out without any inconvenience. This enhances the convenience for the customers as they need to carry a single debit card irrespective of the number of accounts held by them. Also the customers can have the flexibility to select the account in which they have the required balance to carry out the transactions without making them use different cards to see which account has sufficient balance required for the transaction.
3. **Point of Sale Transactions:** Point of Sale transaction facility is the most underutilized system. The POS devices are being utilized only for receiving payments from the customers. In the USM we can enhance the use of POS devices to withdraw as well as to deposit small or limited amount of money (limit needs to be exercised to take security measures) especially in areas where ATMs are not available and customer needs currency notes for some transactions. Using POS devices to carry out two way transactions can help to cover areas that are unbanked and it is not economical to have an ATM or bank branch. Thereby the financial inclusion can take place especially by having POS transactions in Fair Price Shops or Kirana Stores which are available in convenient localities and accessible to all in the vicinity.
4. **Prepaid Cards:** At the same time the payments corporation under USM should provide the customers with the prepaid cards that can be used to carry out the small transactions which are not economical to carryout using debit cards. For example to buy tickets in the bus, to pay for newspaper and milk in the morning, to pay for auto, etc. Already this form of arrangement is being followed within small cartels and it can be made a general phenomenon under USM.
5. **Transaction Settlement:** The major aspect in the financial transactions is the transaction settlement. Under USM, the Country can be divided into territories and each territory can be assigned to a commercial bank that has wide presence in the territory to make sure that the ATMs are functioning with enough currency notes. This will reduce the burden of banks in keeping money locked in ATMS. The transactions carried out by the customers can be settled by the payments corporation through transaction netting process on regular intervals of time so that the liquidity of the banks is maintained.

Benefits of Unified Service Model:

1. Economy in operations by removal of duplication and clustering of efforts.

2. Reduced restrictions on the use of cards for payments and thereby encouraging people to use banking channels.
3. Greater convenience for the customers in the form of carrying less number of cards with them and easy access to ATMs and POS devices to carry out transactions.
4. The USM encourages use of card based transactions as against currency note based transactions. This will lead to reduction the use of currency notes and coins and thereby the associated difficulties and costs.
5. Increased use of banking channels, card based payments and reduction in the use of currency notes can positively enhance our efforts on fighting ill effects of black money.
6. With card based payments, customers will require very less cash withdrawals and their deposits will be maintained in the banks. This will enhance the interest income to the customers and at the same time will give scope to banks to earn better income through better utilization of deposits.
7. Use of POS devices for two way transactions and prepaid cards, especially in unbanked areas, will foster financial inclusion.

Conclusion:

The banking system of India needs to incorporate innovative changes by effective use of technology in service delivery to achieve efficiency in operations and financial inclusion. The Unified Service Model proposed in this paper can be one such change that can make our banking system more effective and efficient in terms of services provided to the customers as well as the cost of operations of the banking system. The success of Unified Service Model will require open hearted acceptance of the model both by banks as well as the customers and the effort the banks will put to educate their customers and the public at large about the benefits of utilizing banking services on one hand and about how to use the banking services like ATMs and POS devices on the other to their advantage and to the advantage of economy at large.