A STUDY ON THE EFFECTIVENESS OF CLEARANCE AND REMITTANCE SYSTEMS AT BNP PARIBAS, CHENNAI.

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ABSTRACT

In the recent past, the Indian banking sector has undergone significant developments and investments. In this sector, there are huge opportunities and numerous challenges. Money laundering is a growing menace and it not only poses serious threat to the stability and integrity of the financial system but also to the sovereignty and safety of nations worldwide. In the coming days, challenges before banks would primarily lie in saving themselves from the growing threat of money laundering. The primary objective of the study was to determine the effectiveness of clearance and remittance systems at BNP Paribas Chennai and the secondary objectives were to compute and analyze the quantum of inward and outward clearances and remittances over a year, to identify and analyze the number of delayed inward and outward clearances and remittances over a year, to diagnose the causes of delay in inward and outward clearances and remittances, to provide suggestions to overcome the causes of the delay, to compute and analyze the quantum of inward and outward clearances and remittances over a year, to provide suggestions to overcome the causes of the delay and to understand the modes operandi of clearing and remittance system. The study reveals that the effectiveness of the clearance and remittance systems at BNP Paribas Chennai is good however it is suggested that the bank take steps to promote electronic fund transfers (ECS, RTGS and NEFT) among its clients, in order to improve efficiency and make transactions 100% effective.

Key words: ECS, RTGS, NEFT.

INTRODUCTION

The tempo of development for the Indian banking industry has been remarkable over the past decade. It is evident from the higher pace of credit expansion; expanding profitability and productivity similar to banks in developed markets, lower incidence of non- performing assets and focus on financial inclusion have contributed to making Indian banking vibrant and strong. Indian banks have begun to revise their growth approach and re-evaluate the prospects on hand to keep the economy rolling. Reserve Bank of India Act was passed in 1934 & Reserve Bank of India (RBI) was constituted as an apex body without major government ownership. Banking Regulations Act was passed in 1949. This regulation brought RBI under government control. Under the act, RBI got wide ranging powers for supervision & control of banks. The Act also vested licensing powers & the authority to conduct inspections in RBI. In 1955, RBI acquired control of the Imperial Bank of India, which was renamed as State Bank of India. In 1959, SBI took over control of eight private banks floated in the erstwhile princely states, making them as its 100% subsidiaries.

It was 1960, when RBI was empowered to force compulsory merger of weak banks with the strong ones. It significantly reduced the total number of banks from 566 in 1951 to 85 in 1969. In July 1969, government nationalized 14 banks having deposits of Rs. 50 crores & above. In 1980, government acquired 6 more banks with deposits of more than Rs.200 crores. Nationalization of banks was to make them play the role of catalytic agents for economic growth. The Narasimha Committee report suggested wide ranging reforms for the banking sector in 1992 to introduce internationally accepted banking practices. The amendment of Banking Regulation Act in 1993 saw the entry of new private sector banks. Banking industry is the back bone for growth of any economy. The journey of Indian Banking Industry has faced many waves of economic crisis. The general scenario of the world economy is very critical. It is the banking rules and regulation framework of India which has prevented it from the world economic crisis

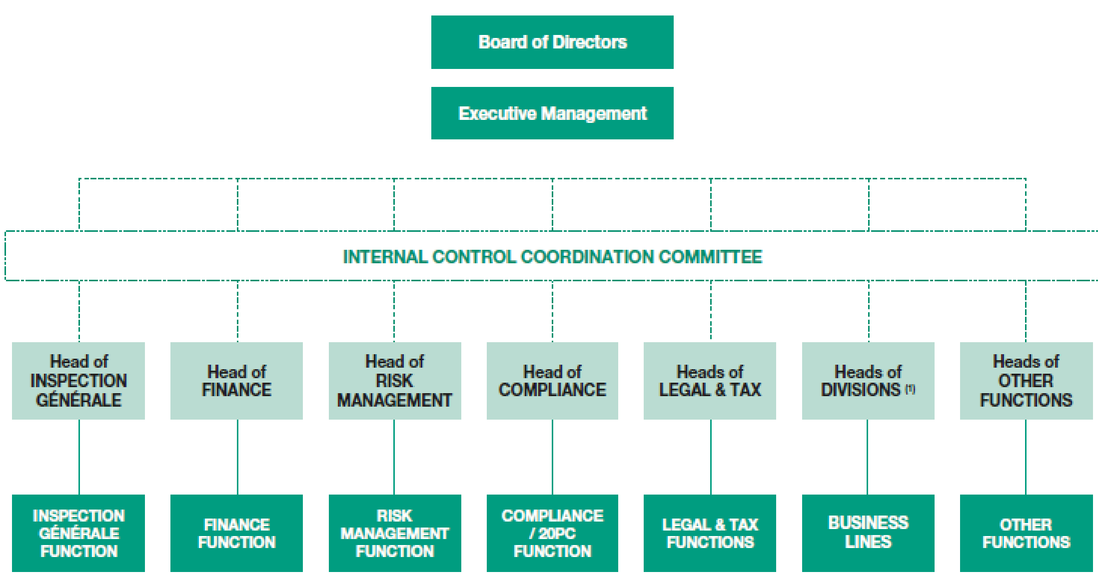
BNP PARIBAS

BNP Paribas is a leader in banking and financial services in Europe. The group is present in 78 countries and employs close to 1,90,000 people, including over 145,000 in Europe. The three main activities of BNP Paribas are,

- Retail banking
- Investment solutions
- Corporate & Investment Banking

By placing the customer firmly at the heart of its operations, "the bank of the changing world" has positioned itself as a responsible company at the service of its customers. It defines itself through its rigorous approach to managing risk, its capability to adapt and its ability to innovate. It has one of the highest credit ratings in its peer group with long term debt of the group currently ranked A+ by S&P, A2 by Moody's and A+ by Fitch. BNP Paribas is traded as Euronext: BNP, OTCQX: BNPQY. BNP Paribas is the main sponsor of the Tennis French Open in Roland Garros Stadium since 1971.

Chart showing organization structure of BNP Paribas



The primary objective is to study the remiittance systems at BNP Paribas Chennai. The secondary objectives where to compute and analyze the quantum of inward and outward clearances and remittances over a year, to identify and analyze the number of delayed inward and outward clearances and remittances over a year, to diagnose the causes of delay in inward and outward clearances and remittances, to provide suggestions to overcome the causes of the delay and to understand the modes operandi of clearing and remittance system.

RESEARCH REVIEW

Review of articles and other research work lends the researcher different viewpoints which eventually brings out a well-balanced result.

"Indian Banking Industry: challenges and opportunities" by Dr.Krishna A. Goyal and Vijay Joshi (2012). The banking industry in India has a huge canvas of history, which covers the traditional banking practices from the time of Britishers to the reforms period, nationalization to privatization of banks and now increasing numbers of foreign banks in India. Therefore, Banking in India has been through a long journey. Banking industry in India has also achieved a new height with the changing times. The use of technology has brought a revolution in the working style of the banks. Nevertheless, the fundamental aspects of banking i.e. trust and the confidence of the people on the institution remain the same. The majority of the banks are still successful in keeping with the confidence of the shareholders as well as other stakeholders. However, with the changing dynamics of banking business brings new kind of risk exposure.

In this paper an attempt has been made to identify the general sentiments, challenges and opportunities for the Indian Banking Industry. This article is divided in three parts. First part includes the introduction and general scenario of Indian banking industry. The second part discusses the various challenges and opportunities faced by Indian banking industry. Third part concludes that urgent emphasis is required on the Indian banking product and marketing strategies in order to get sustainable competitive edge over the intense competition from national and global banks. This article is a small seed to existing branch of knowledge in banking industry and is useful for bankers, strategist, policy makers and researchers.

"Measuring payment system development" by Massimo Cirasino and Jose Antonio Garcia (2008). The payments system is the infrastructure (comprised of institutions, instruments, rules, procedures, standards, and technical means) established to enable the transfer of monetary value between parties discharging mutual obligations. Its technical efficiency determines the efficiency with which transaction money is used in the economy, and the risks associated with its use. An efficient payments system reduces the cost of exchanging goods and services, and is indispensable to the functioning of the interbank, money, and capital markets. A weak payments system may severely drag on the stability and developmental capacity of an economy; its failures can result in inefficient use of financial resources, inequitable risk sharing among agents, actual losses for participants, and loss of confidence in the financial system and in the very use of money. For all these reasons, for more than 12 years the World Bank has been paying increasing attention to payment system development as a key component of the financial infrastructure of a country, and has provided various forms of assistance to over 100 countries. Following international trends which encourage the measurement of a country's performance or level of development in various economic and social areas, the World Bank's Payment Systems Development Group (PSDG) has made a first attempt to measure payment system development levels across countries. This exercise is based on the data obtained from 142 country responses to the Global Payment Systems Survey carried out by the PSDG in 2007 and 2008. Country by-country answers to each of the questions included in the Survey have been published as an appendix to the World Bank publication "Payment Systems Worldwide: a Snapshot. Outcomes of the Global Payment Systems.

RESEARCH DESIGN

Analytical Desk Research was used to fulfill the objectives. The data collected were analyzed with the help of statistical tools viz. Trend Line, Proportion Control Chart, Pareto analysis and chi- square test.

RESULTS

The following are some of the findings,

- Cheques are currently more popular among corporates than both RTGS and NEFT. From an interview with the client it is gathered that this is due to the lack of flexibility in payment timings and lack of payment stoppage facilities.
- It can be seen from the trend lines that usage of RTGS and NEFT services are increasing by the year.
- BNP Paribas India's NEFT and RTGS volume are second among its peers.
- ECS is not as popular with the corporates when compared to other electronic modes because of its lack of flexibility in payment time.
- The type of transaction (such as RTGS and NEFT) does not influence the delay in processing or the vice versa.
- From personal observation it has been noticed that almost all transactions are being executed on the very same day with minimum delays.
- No monthly variations in RTGS and NEFT delays, so an overall view is given to the delays.
- According to the Pareto analysis, the following are the factors that largely influence the return of cheques namely, Funds Insufficient, wrongly delivered/ Not drawn on us, Drawers signature not as per mandate, Drawers signature differs, Payment stopped by drawer, Instrument out dated/stale.

CONCLUSION

The present study reveals that the effectiveness of the clearance and remittance systems at BNP Paribas Chennai is good however it is suggested that the bank take steps to promote electronic fund transfers (ECS, RTGS and NEFT) among its clients, in order to improve efficiency and make transactions 100% effective.

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