



## Role of Cash Management System in Banking Sector

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### Abstract

*In the wake of the financial crisis, banks around the world have to adapt to a different and rapidly changing business. Cash is the life blood of any business. It is very important factor to any organisation. It helps to achieve the objectives of the business and helps to carry the smooth working of an organisation. The very prominent process in an economy is the cash flow and currency flow within the economy. It has unique assets and most important to quality system to be able to maintain the flow of cash and currency between outlets, Banks and customers. With the changing environment of today's era bank has faced a huge challenge that is change, banks needs to be very careful and updated with the changing standards. To overcome the shrinking deposits, to increase the number of accounts etc. bank has to be updated and come up with the new technique Cash Management Services. Hence the objective of this paper is to study the Role of cash management system in Banking Sector.*

**Keywords:** Cash Management System, Banking Industry, cash, bank customers.

### Introduction

Now a day, technology has become the key in every successful bank. Cash Management is a term that refers to the concentration, collection and Disbursement of cash<sup>1</sup>. The important task for managers is to maintain the flow of cash. Originally it is a paper based system involves security risk, the huge processing cost, cash management Services in India has faced a huge change<sup>2</sup>. Banks is now thinking about the customer's point of view and try to bring the maximum services door to door of the consumer. Efficient cash management services assures for the effective collection and payment technique, proper disbursements of free funds, helpful for urgent cash requirement, and manage the banks who manage these activities of the company. Cash Management Services help to reduce the time required for one transaction, it increases the high net profit of an organization, reduce the losses, save idle time of the customer of the bank. It is also beneficial for the bank to increase the level of technical proficiency of the employees of the bank. For the security purpose bank has to follow the RBI guidelines.

### Benefits of Cash Management System

The speedier you are, it's easier for you to address the challenges of globalisation. In this technology era the Cash Management System provides following Benefits to its customers: i. Funds available as per need on day zero, day one, day two, day three etc. ii. Corporate can plan their cash flows, iii. Bank interest saved as instruments are collected faster, iv. Affordable and competitive rates. v. MIS reports customized to meet individual corporate requirement. vi. Single point enquiry for all queries. vii. Pooling of funds at desired locations. viii. Operational in 148 Cities/Centers.

### Detailed Guidelines for Cash Management Services:

1. following is the cash Management services offered by the bank to the Customers.

**Advanced Web Services:** now a day's most of the banks giving the web services and internet facility to their customers. This enables managers to create and authorize special internal logon credentials, allowing employees to send wires and access other cash management features normally not found on the consumer web site.

**Account Reconciliation Services:** to maintain a cheque book most difficult task for big organizations as they have lots of transactions on daily basis to overcome this, banks have developed a system which allows companies to upload a list of all the checks that they issue on a daily basis, so that at the end of the month the bank statement will show not only which checks have cleared, but also which have not. More recently, banks have used this system to prevent checks from being fraudulently cashed if they are not on the list, a process known as positive pay<sup>3</sup>.

**Armored Car Services (Cash Collection Services):** big organization have an large cash transaction on daily basis or hourly basis so bank provides the facility to collection of cash from their doorstep.

**Automated Clearing House:** This system is criticized by some consumer advocacy groups; because under this system banks assume that the company initiating the debit is correct until proven otherwise<sup>4</sup> an electronic system used to transfer funds between banks. Companies use this to pay others, especially employees (this is how direct deposit works). Certain companies

also use it to collect funds from customers (this is generally how automatic payment plans work).

**Balance Reporting Services:** Corporate clients who are having a large cash transactions on daily basis and they need reporting so these sophisticated compilations of banking activity may include balances in foreign currencies, as well as those at other banks. They include information on cash positions as well as 'float' (e.g., checks in the process of collection). Finally, they offer transaction-specific details on all forms of payment activity, including deposits, checks, and wire transfers in and out, ACH (automated clearinghouse debits and credits), investments, etc.

**Lockbox – Retail services:** the companies where cash balance is very high for their convenience purpose bank provides a post box where corporate can maintain a cash balance called "Lockbox-Retail".

**Cash Concentration Services:** Most of the time large corporate do not find a branch of their bank to near by their location. Therefore, they open bank accounts at various local banks in the area. To prevent funds in these accounts from being idle and not earning sufficient interest, many of these companies have an agreement set with their primary bank, whereby their primary bank uses the Automated Clearing House to electronically "pull" the money from these banks into a single interest-bearing bank account.

**Lockbox - Wholesale services:** The corporate with small numbers of payment sometimes they want detailed processing. This might be a small manufacture company.

**Reverse Positive Pay:** Reverse positive pay is similar to positive pay, but the process is reversed, with the company, not the bank, maintaining the list of checks issued. When checks are presented for payment and clear through the Federal Reserve System, the Federal Reserve prepares a file of the checks' account numbers, serial numbers, and dollar amounts and sends the file to the bank. In reverse positive pay, the bank sends that file to the company, where the company compares the information to its internal records. The company lets the bank know which checks match its internal information, and the bank pays those items. The bank then researches the checks that do not match, corrects any misreads or encoding errors, and determines if any items are fraudulent. The bank pays only "true" exceptions, that is, those that can be reconciled with the company's files.

**Positive Pay:** This is the service where the corporate electronically shares its check register of all written checks with the bank. The bank therefore will only pay checks listed in that register, with exactly the same specifications as listed in the register (amount, payee, serial number, etc.). This system dramatically reduces check fraud.

**Sweep accounts:** These systems, excess funds from a company's bank accounts are automatically moved into a money market mutual fund overnight, and then moved back the next morning<sup>5</sup>. This allows them to earn interest overnight. This is the primary use of money market mutual funds.

Wire Transfer: It is an electronic transfer of funds.

**Zero Balance Accounting:** Corporate having a huge amount of stores or locations can very often be confused if all those stores are depositing into a single bank account. Traditionally, it would be impossible to know which deposits were from which stores without seeking to view images of those deposits. To help correct this problem, banks developed a system where each store is given their own bank account, but all the money deposited into the individual store accounts are automatically moved or swept into the company's main bank account. This allows the company to look at individual statements for each store. U.S. banks are almost all converting their systems so that companies can tell which store made a particular deposit, even if these deposits are all deposited into a single account. Therefore, zero balance accounting is being used less frequently.

Controlled Disbursement: The bank gives a daily report in the First hour of the day, which provides the disbursement amount that will be payable to the customer. This early knowledge of daily funds requirement allows the customer to invest any surplus in intraday investment opportunities, typically money market investments.

**Banks can offer the following cash Banking Services to the Bank customer:**

- (a) Business/ Government offices/ etc. i. Collect the cash, ii. collect the instruments, iii. Performing cash delivery for the cheque received, iv. Performing delivery of demand drafts.
- (b) Individual Customers/Natural persons: i. collect the cash, ii. collect the instrument, iii. performing delivery demand draft

**Modes of Delivery:** i. By own employees , ii. By Agents.

Bank can offer Cash Management Services to the Customers and offer door step banking to deliver these services they are having two modes.

By own employees mean banks can recruit more employees specially for providing these services as per the rules and Regulations of RBI.

By Agents means bank can outsource these services to some cash management service provider.

**Delivery process:** i. Cash received from customers must be signed by giving a receipt on behalf of the bank, ii. Cash received from the customer must be credited to the account of customers on that day only or next working day, based on the

time of collection, iii. The customers must be known about the date of credit by giving a proper advice, iv. Delivery of demand drafts must be done by debit to the customer's account on the basis of instruments received at the customers doorstep, v. delivery of cash may be provided to the corporate clients/PSUs/Central and State Government departments for the receipt of cheque at the branch and not by telephonic call.

### Risk Management

It is confirmed that the agreement done with the customers does not have any legal or financial liability on the bank for fail to offer doorstep banking services under situation beyond the control<sup>6</sup>. The agreement is not abide to give any right to the customers to claim the service at his doorstep.

### Transparency

The charges for the customers to provide the Cash Management Services are nominal and it is available on the agreement and decided by the board of directors and according to the rules and regulations of RBI.<sup>7</sup> The charges available on the brochures of the respective bank who offer these services.

### Limitations of Cash Management Service

Cash Management Services are reliable for the big corporate whose volume of transactions are huge on daily basis. It is not reliable for the small scale business whose volume of transactions is less on daily basis.

### Conclusion

With the changing era bank had taken a very reliable step to offer Cash Management Services to the Customers which helps to reduce the risk, the time taken in this technology era. This will definitely help to improve the economy condition of our country.

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