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Course Material

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UNIT - I

BANKING THEORY LAW AND PRACTICE

INTRODUCTION

Today bank have become a part and parcel of our life. There was a time when the dwellers of city alone could enjoy their services. Now banks offers access to even a common man and their activities extend to areas hitherto untouched. A part from their traditional business oriented functions, they have now come out to fulfill national responsibilities. Banks cater to the needs of agriculturists, industrialists, traders and to all the other sections of the society. They accelerate the economic growth of a country and steer the wheels of the country towards its goal of self-reliance in all fields. It naturally arouses our internet in knowing more about the bank and the various men and activities connected with it.

ORIGIN AND DEVELOPMENT OF BANK

It is interesting to trace the origin of the word 'bank' in the modern sense, to the German word **'Banck'** which means, Heap or Mound or Joint stock fund. From this, the Italian word **"Banco"** meaning heap of money was meaning heap of money was coined.

Some people have the opinion that the word " Bank" is derived from the French words " Bancus" or "Banque" which means a bench. Thus, the origin of the word bank can be traced as follows:

- Banck-German (Joint Stock Fund)
- Banco-Italian (Heap of Money)
- Bancus- French (Bench/ Chest a place where valuables are kept)
- Bank – English (Common meaning prevalent today, i.e., as an institutions accepting money as deposit for lending)

Banking made its first appearance as a public enterprise in the year 1157 in Italy with the establishment of Bank of Venice.the bank of Barcelona was started in 1401. The bank of Genoa in 1407 and the Bank of Amaterdam in 1609. The lombards who migrated to Europe and England from Italy were responsible for the development for the development of modern banking.

BANK

A bank is a financial institution where an individual can deposit money. Banks provide a system for easily transferring money from one person or business to another. Using banks and the many services they offer saves an incredible amount of time, and ensures that the funds of micro as well as macroeconomic agents "pass hands" in a legal and structured manner.

FEATURES OF BANKING

1. Dealing in Money

The bank accepts deposit from the public and advancing them as loans to the needy people. The deposits may be of different types –current, fixed, savings etc accounts. The deposits are accepted on various terms and conditions.

2. Deposits must be Withdrawals

The deposit (other than fixed deposits) made by the public can be withdraw able by cheques, draft or otherwise, i.e. the bank issue and pay cheques. The deposits are usually withdrawal able on demand.

3. Dealing with Credit

The bank are the institutions that can create credit i.e., creation of money for lending. Thus creation of credit is the unique features of banking.

4. Commercial in Nature

Since all the banking functions are carried on with the aim of making profits, it is regarding as a commercial institution.

5. Nature of Agent

Besides the basic functions of accepting deposits and lending money as loans, banks possess the characters of an agent because of its various agency services.

BANKER

A person who is doing the banking business is called a banker. But, it is not at all easy to define the term banker precisely because a banker performs multifarious functions. First, a banker must be a man of wisdom. He deals with others money but with his own mental faculties. Secondly, a banker is not only acting as a depository, agent, but also as a repository of financial advices. Still some attempts have been made to define the term banker. This can be studied under the following heads:

Earlier view: The early definitions were not positive in the sense, they did not point out any of the functions performed by a banker. For instance, the bill of exchange act of 1882 defines the banker thus: Banker includes a body of persons whether incorporated or not who carry on the business of banking.

So also Sec.3 of the Negotiable Instrument Act states that the banker includes a person or a corporation or a company acting as a banker. These definitions are vague. They amount to saying that a person who acts as a banker is a banker.

Experts view: According to Macleod "the essential business of a banker is to buy money and debts by creating other debts. A banker is essentially a dealer in debts or credit.

Indian view: Banking has been defined as "Accepting for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise and withdraw able by cheques, draft and order or otherwise"

BANKING REGULATION ACT-1949
ORIGIN OF THE ACT

Unfortunately, in India, there was no separate legislation for banking till 1949 and so bank were brought under the control of Indian companies act. Though the central banking enquiry committees recommended the need for a separate legislation it was not given due consideration then. However, subsequent development like Mushroom growth of bank with inadequate capital, dishonest management, speculative investment, appointment of incompetent director for long period with his salaries, poor liquidity of funds etc. necessitated the passing of a separate Act for banking companies.

According, a bill was introduced in March 1948 and was passed in the parliament in February 1949. This Act was originally called the Banking Companies Act 1949 and now it is renamed as the Banking Regulation Act 1949. The important provisions of the Act have been discussed under the following heads

DEFINITION OF BANKING

The business of banking has been defined in section 5 (b) of the Act as follows "Accepting for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise and withdraw able by cheques, draft and order or otherwise"

POWERS OF RESERVE BANK OF INDIA UNDER THE BANKING REGULATION ACT

The Reserve Bank of India exercises control over all commercial bank from their birth to death. All powers have been centralized in the hands of the Reserve Bank of India with a view to regulating the banking system in the national interest and to prevent bank failures. Some of the main powers have been summarized follows:

- **Power to Issue Directors:** Under section 35 of the Act, the Reserve Bank of India has the power to issue directions as it deems fit to the banking companies in general or to any bank in particular and the bank concerned shall be bound to comply with such direction.
- **Power to Control Management:** As per section 38AA of the Act, the Reserve Bank of India may in the public interest of depositors, remove from office any chairman/ director/ employee after giving them a reasonable opportunity of being heard.
- **Power to advice banks:** Under section 36 of the Act, the Reserve Bank of India may caution or prohibit or give general advice to a bank in particular or to all banks in general against entering into a particular transaction or class of transaction.
- **Power to assist in proposals for amalgamation:** The Reserve Bank of India may assist a banking company in proposals for the amalgamation on its request. No court shall sanction a scheme of agreement for amalgamation unless the scheme is certified by the Reserve Bank of India.
- **Power to appoint Liquidator:** In regard to the winding up of a banking company, the Reserve Bank of India has the power to make an application to the High Court for the appointment of Reserve Bank of India, the State Bank of India or any other bank notified by the Central Government as the official liquidator that bank.
- **Power to give advice to the Central Government**: Above all, the Reserve Bank of India has been authorized to give to the central government in respect of any amendments to the present Act or rules framed there under from time to time.

IMPORTANCE OF BANKING IN ECONOMIC DEVELOPMENT

In the process of economic development the significance or contribution of banking system can be summarized as follows.

1 Capital Formation

The capital formation depends upon savings of various categories of people / organization. Bank offer facilities for savings and thus, encourage the habits of thrift and industry among people. They mobilize the idle and dormant capital of a commodity and make it available for productive purposes.

2. Creation of Money

Banks have become significant by their power to creation of money. Bank money forms a large part of the total quantity of money supply and represents a cheap, efficient and economical means of payment. Banks are described as factories of credit. It results in the economic progress of the country.

3. Strengthen the link between the Organized and Un organizes sectors

Indian money market consists of organized and un organized sectors. Bothe of them are to be linked for the economic well being of the country, As the nervous system of the economy, the banks link the organized and unorganized sectors for the overall economic development.

4. Provision of long term loans

Industrial development which is the rock-basis for the economy depends upon the long term loans. Banks provide medium and long –term loans for the industries.

5. Development of Entrepreneurs

Banks have special drives and specific schemes for the development of entrepreneurship. They foster their strength and health. This helps the nation as a whole in various ways including the increase in productivity etc.

6. Regulation of the flow of national savings

Banks regulates the flow of national savings into various productive channels, while lending money, they discriminate between a genuine trader and a speculator and they discourage the speculator. Thus, banks ensure the diversion of national savings into the productive purposes.

7 Comprehensive Infrastructure Facilities

Banks can develop comprehensive infrastructure facilities in the country. It includes the social, educational, fiscal and other aspects whose development is essential for the economic progress of a nation.

8. Maintain Balance of Trade

Through properly devised banking system the country can promote exports through easy and timely credit facilities to exporters, quickly obtaining money from foreign buyers of goods, etc. This may help maintain the balance of trade at favorable position.

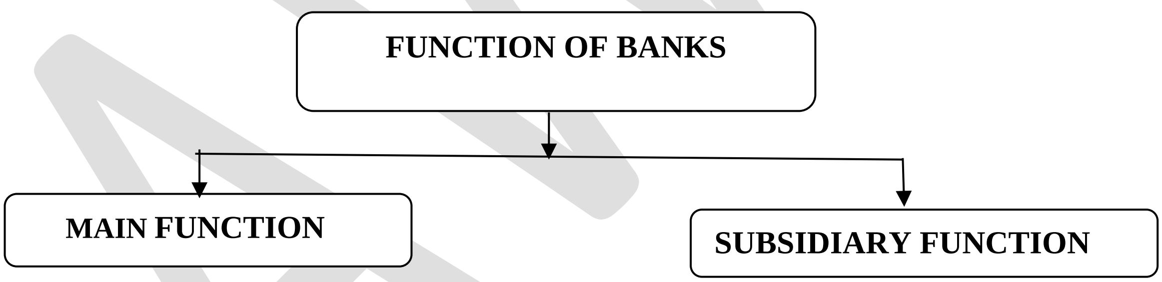
9. Sectoral Priorities

The mobilized resources can be used for the development of backward areas or a particular sector. This can be effectively done with the efficient banking system. For example, encouraging the flow of credit to small scale industries, artisans and farmers under priority sector.

10. Effective Implementation of Monetary Policy

The effective implementation of monetary policy can be done only through properly organized banking system of the country.

VARIOUS FUNCTIONS OF BANKS



1. MAIN FUNCTION

The banking companies are permitted to do the following main activities.

1. Borrowing , raising or taking up of money
2. Lending of money with or without security.
3. Granting and issuing of letters of credit of various kinds, travelers cheques etc.
4. Buying and selling of foreign exchange including foreign currencies.
5. Buying, selling and dealing in bullion/ species.
6. Acquiring, holding, issuing on commission, under writing and dealing in stock, funds, shares, debentures, bonds, securities and investment of all kinds.
7. Purchasing and selling of bonds, scripts etc. on behalf of customer or receiving such securities for safe custody.
8. Providing of safe deposits vaults.
9. Collection and transmission of money and securities.

2. SUBSIDIARY FUNCTION

In addition to the above main functions the banking companies are permitted to render the following subsidiary services.

1. Acting as agents for individual, government etc.
2. Carrying on agency business of any description.
3. Contracting, negotiating and issuing public and private loans.
4. Effecting, insuring, guaranteeing, underwriting, and participating in managing and carrying out of any issue, public or private.
5. Carrying on and transacting every kind of guarantee and indemnity business.
6. Managing, selling and realizing any property which may come into its possession in satisfaction of any of its claims.
7. Acquiring, holding and dealing with any property of right or title in such property which may form the security for any loans.
8. The acquisition, construction and alteration of any building if necessary and convenient for the purposes of the company.
9. Acting as trustees for customers.
10. Undertaking of the administration of estates as executor or otherwise.
11. Dealing with all or any part of the property and right of the company.
12. Doing any other business notified by the central government as lawful for a banking company.

RELATIONSHIP BETWEEN A BANKER AND CUSTOMERS

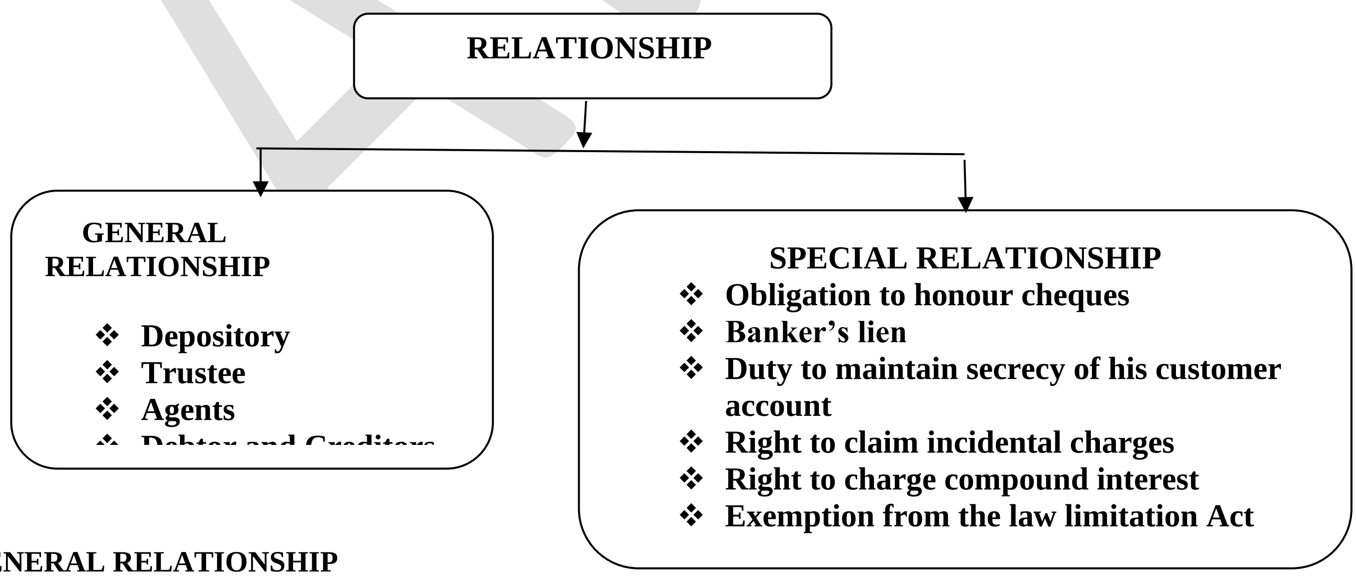
Banker

The term banking may define as accepting of deposit of money from the public for the purpose of lending or investing investment of that money which are repayable on demand or otherwise and with a draw by cheque, draft or order.

Customer

A person who has a bank account in his name and for whom the banker undertakes to provide the facilities as a banker is considered to be a customer.

The relationship between banker and Customer are categorized into three,



I.GENERAL RELATIONSHIP

1) **Depositor Relationship:** When a person opens an account with a banker, there arises a contractual relationship by implication. Once, the banker was thought of depository. A depository is one who receive some valuable and returns the same on demand.

2) **Trustee Relationship:** A relationship which arises wherever a person called trustee is compelled in equity to hold property, whether real or personal by legal or equitable title for the benefits of some persons.

3) **Agent Relationship:** Section 182 of the Indian Contract Act defines an agent as one employed to do any act for another or to represent another in dealing with third person.

4) **Debtor-Creditor Relationship:** The relation of a banker and a customer is primarily that of a debtor and a creditor, the responsive position being determined by the existing state of the amount.

II.SPECIAL RELATIONSHIP

1. Statutory Obligation to honour cheques: The drawee of a cheques having sufficient funds of the drawer in his hands, property applicable to the payment of such cheques, must pay the cheques when duly required so to do and in default of such payment must compensate the drawer for any loss or damage caused by such default.

2.Banker's lien: The relationship existing between a banker and his customer is that a banker can exercise the right of lien on all goods and securities entrusted to him as a banker.

- **Right to Retain the Goods:** A lien is the right of a person to retain the goods in his possession until the debt due to him has been settled.
- **Kinds of Lien:** Lien is of two kinds-particular lien and general lien. A particular lien is so called because it confers a right to retain the good in connection with which a particular debt arose. In other words, a particular lien applies to one transaction or certain transaction lien.

  General lien, on the other hand, gives a right to a person to retain the goods not only in respect of a particular debt but also in respect of the general balance due from the owner of the goods to the person exercising the right of lien.

Banker's Lien

A banker lien is always general lien. A banker has a right to exercise both kinds of lien. His general lien confers upon his the right to retain the securities in respect of the general balance due form the customers.

3. Duty to maintain secrecy of his customer account:

A banker is expected to maintain secrecy of his customers account. The word secrecy is like a Damocles Sword hanging on the head of the banker and every employee of a bank has to take an oath of secrecy regarding the customers' accounts. The banker should not disclose his customer's financial position and the nature and the details of his accounts.

4. Right to claim incidental charges:

Another special feature of the relationship that exists between a banker and a customer is that the banker may claim incidental charges on unremurerative accounts. This practice is much more is vogue in England. In India in order to encourage people to open more account such charges are not levied. However, of late banks in India resort to this practice of claiming incidental charges on an increasing scale.

5. Right to charge compound interest:

As per general law, levying of compound interest is strictly prohibited. But, a banker is given a special privilege of charging compound interest. Usually banker charge interest on the money lent at the end of every quarter. The same practice of crediting the customer's account with interest at the end of every half year is followed.

6. Exemption from the law limitation Act:

As per the provisions of this law, a debt will become a bad one after the expiry of three years from the date of the debt. But, according to Articles 22 of the Law of limitation Act 1963 for banking debt, the period of three years will be calculated from the date on which on express demand is made for the repayment of the debt.

GENERAL UTILITY SERVICES OF COMMERCIAL BANKS

1. RBI allows certain branches to **undertake foreign exchange transactions**. They are called authorized dealers. The bank purchases and sells foreign currency at the rate prescribed by RBI.

2. The bank **enables foreign trade by issuing letter of credit** on behalf of the importer. It is a letter of guarantee and that enables the importer to purchase goods.

LETTER OF CREDIT

Letter of credit has been in existence for many years. It is in fact the most important single document in the international trade. Simply stated, a letter of credit is an undertaking by a banker in the importer's country to pay or to arrange to pay specified merchandise, provided that the exporter satisfies certain stipulated conditions.

Through the instrument of letter of credit, the promise to pay usually made by the overseas buyer is substituted by the promise to pay by the banker. It is only this feature of the letter of credit, which gives the exporter greater security.

A letter of credit is a written undertaking given by a bank to the seller of the goods at the request of the importer of the goods, to meet the bill of exchange drawn by the seller in accordance with the terms of the undertaking providing the documents of title to goods prescribed by the buyer are tendered on presentment of the bill of exchange for payment.

3. In the case of foreign trade or domestic trade, **bankers accept bills on behalf of customers** and make payment on the due date on these bills. Later on, they collect from the customers.
4. The income tax assessees can pay their **income tax through banks** notified by RBI.
5. In order to know the credit worthiness of certain customers, the **banks may act as referee**. Any third party can approach the bank to know about the genuineness of customers.
6. In view of the **development of technology**, the bank is in a better position to provide various data which are in general interest.
7. The banks **help companies to mobilize funds in foreign market** through the sale of global deposit receipt.
8. **Issuing Gift Cheques**: Some banks issue cheques of various denominations to be used on auspicious occasions. These cheques are known as gift cheques.
9. **Advising on Financial Matters**: Commercial banks also advice their customers on financial matters as to expansion, modernization, diversification etc.
10. Banks **undertake factoring and leasing finance** by which trade bills of customers are given finance.
11. **Issuing Travelers' Cheques:** Banks issue travelers' cheques to help their customers by avoiding carrying money while traveling within India and abroad. With this facility, people need not carry cash with them during their travel and travel, in and out of India without the fear of theft or loss of money.
12. **Acting as Referees:** Banks are also acting as referees and provide information as to the financial standing, business reputation and respectability of their customers on enquiries made by third parties. Banks provide this service only on the acceptance of the customers. This function helps

businessmen to obtain prompt and accurate information as to financial standing of the people with whom they are dealing.

13. **Giving Trade Information:** Commercial banks collect trade information from different places within the country and also from foreign countries and inform customers about the feasibility of entering into such trade.
14. **Providing ATM Facility:** "ATM" means "Automating Teller Machine". It is also known as "Any Time Money". Now-a-days, almost all the banks have ATM facility. Even small banks, which do not have their own ATM entering into tie up with big bankers and provide ATM facility to their customers. Under this facility, customer can withdraw money 24 hours a day. Deposits to accounts can also be made with this facility. Banks issue magnetic card for carrying any banking operation with this machine.

UNIT – II

CLASSIFICATION AND NATURE DEPOSIT ACCOUNT

The banker solicits deposits from different persons i.e., different economic activities and the persons of different status that is why banking facilities with regard to the accounts varies from person to person according to the nature of account opened by the customer. Thus the bankers have introduced with different types of account with different facilities and privileges. The bank accounts can be divided into four types namely.

1. SAVING BANK ACCOUNT

The 'saving account' is generally opened in bank by salaried persons or by the persons who have a fixed regular income. This facility is also given to students, senior citizens, pensioners, and so on. Saving accounts are opened to encourage the people to save money and collect their savings. In India, saving account can be opened by depositing ₹100 (approx. US $2) to ₹5000 (approx. US $100). The saving account holder is allowed to withdraw money from the account as and when required. The interest which is given on saving accounts is sometime attractive, but often nominal.

At present, the rate of interest ranges between 4% to 6% per annum in India. The interest rates vary as per the amount of money deposited (lying) in the saving bank account, scheme opted, and its maturity range. It is also subject to current trend of banking policies in a country.

NATURE AND FEATURES OF SAVING ACCOUNT

- The main objective of saving account is to promote savings.
- There is no restriction on the number and amount of deposits.
- Withdrawals are allowed subject to certain restrictions.
- The money can be withdrawn either by cheque or withdrawal slip of the respective bank.
- The rate of interest payable is very nominal on saving accounts. At present it is between 4% to 6% p.a in India.

- ❖ Saving account is of continuing nature. There is no maximum period of holding.
- ❖ A minimum amount has to be kept on saving account to keep it functioning.
- ❖ No loan facility is provided against saving account.
- ❖ Electronic clearing System (ECS) or E-Banking are available to pay electricity bill, telephone bill and other routine household expenses.
- ❖ Generally, equated monthly installments (EMI) for housing loan, personal loan, car loan, etc., are paid (routed) through saving bank account.

ADVANTAGES OF SAVING ACCOUNT

- ❖ Saving account encourages savings habit among salary earners and others who have fixed income.
- ❖ It enables the depositor to earn income by way of saving bank interest.
- ❖ Saving account helps the depositor to make payment by way of issuing cheques.
- ❖ It shows income of a salaried and other person earned during the year.
- ❖ Saving account passbook acts as an identity and residential proof of the account holder.
- ❖ It provides a facility such as Electronic fund transfer (EFT) to other people's accounts.
- ❖ It helps to do online shopping via facility like internet banking.
- ❖ It aids to keep records of all online transactions carried on by the account holder.
- ❖ It provides immediate funds as and when required through ATM.
- ❖ The bank offers number of services to the saving account holders.

2. CURRENT BANK ACCOUNT

Current bank account is opened by businessmen who have a higher number of regular transactions with the bank. It includes deposits, withdrawals, and contra transactions. It is also known as Demand Deposit Account. Current account can be opened in co-operative bank and commercial bank. In current account, amount can be deposited and withdrawn at any time without giving any notice. It is also suitable for making payments to creditors by using cheques. Cheques received from customers can be deposited in this account for collection.

In India, current account can be opened by depositing Rs.5000 (approx. US $ 100) to Rs. 25,000 (approx. US $ 500). The customers are allowed to withdraw the amount with cheques, and they usually do not get any interest. Generally, current account holders do not get any interest on their balance lying in current account with the bank. Current account holder get one important advantage of overdraft facility.

NATUURE OR FEATURES OF CURRENT BANK ACCOUNT

- ❖ Current bank accounts are operated to run a business.
- ❖ It is a non-interest bearing bank account.
- ❖ It needs a higher minimum balance to be maintained as compared to the savings account.
- ❖ Penalty is charged if minimum balance is not maintained in the current account.
- ❖ It charges interest on the short-term funds borrowed from the bank.
- ❖ It is of a continuing nature as there is no fixed period to hold a current account.
- ❖ It does not promote saving habits with its account holders.
- ❖ Banker requires KYC (Know your Customers) norms to be completed before opening a current account.
- ❖ The main objective of current bank account is to enable the businessmen to conduct their business transactions smoothly.
- ❖ There is no restriction on the number and amount of deposits.

- There is also no restriction on the number and amount of withdrawals made, as long as the current account holder has funds in his bank account.
- Generally, bank does not pay any interest on current account. Nowadays, some banks do pay interest on current accounts.

ADVANTAGE OF CURRENT BANK ACCOUNT

- Current account is mainly opened for businessmen such as proprietors, partnership firms, public and private companies, trust, association of persons, etc.
- It enables businessmen to carry out their business transactions properly and promptly.
- The businessmen can withdraw from their current accounts without any limit, subject to banking cash transaction tax, if any levied by the government.
- Home branch is that location where one opens his bank account. There are no restrictions on deposits made in the current account opened in a home branch of a bank. However, the current account holder can deposit the cash from any other branch of a bank other than the home branch by paying a nominal charge as applicable.
- It helps businessmen to make a direct payment to their creditors by issuing cheques, demand-drafts or pay-orders, etc.
- It enables a bank to collect money on behalf of its customers and credits the same in their customers' current accounts.
- It enables the current account holder to obtain overdraft (short-term borrowing) facility.
- The creditors of the account holder can get credit-worthiness information of the account holder through inter-bank connection.
- It facilitates the industrial progress of the country. Without its help, businessmen would face difficulties in running their businesses.
- It has the facilities of Internet-banking and mobile-banking to carry out important business transactions with ease and quickly.

3. FIXED DEPOSIT ACCOUNT

The account which is opened for a particular fixed period (time) by depositing particular amount (money) is known as Fixed (Term) Deposit Account. The term 'fixed deposit' means that the deposit is fixed and is repayable only after a specific period is over.

Under fixed deposit account, money is deposited for a fixed period say six months, one year, five years or even ten years. The money deposited in this account cannot be withdrawn before the expiry of period. The rate of interest paid for fixed deposit vary (changes) according to amount, period and from bank to bank.

NATURE OR FEATURES OF FIXED DEPOSIT ACCOUNT

- The main purpose of fixed deposit account is to enable the individuals to earn a higher rate of interest on their surplus funds (extra money).
- The amount can be deposited only once. For further such deposits, separate accounts need to be opened.
- The period of fixed deposits range between 15 days to 10 years.
- A high interest rate is paid on fixed deposits. The rate of interest may vary as per amount, period and from bank to bank.
- Withdrawals are not allowed. However, in case of emergency, banks allow to close the fixed account prior to maturity date. In such cases, the bank deducts 1% (deduction percentage many vary) from the interest payable as on that date.
- The depositor is given a fixed deposit receipt, which depositor has to produce at the time of maturity. The deposit can be renewed for a further period.

ADVANTAGES OF FIXED DEPOSIT ACCOUNT

- Fixed deposit encourages savings habit for a longer period of time..
- Fixed deposit account enables the depositor to earn a high interest rate.
- The depositor can get loan facility from the bank.
- On maturity the amount can be used to make purchases of assets.
- The bank can get the funds for a longer period of time.
- The bank can lend such funds for short term loans to businessmen.
- Fixed deposits indirectly boost economic development of the country.
- The bank can also invest such funds in profitable areas.

4. RECURRING DEPOSIT ACCOUNT

Recurring deposit account is generally opened for a purpose to be served at a future date. Generally opened to finance pre-planned future purposes like, wedding expenses of daughter, purchase of costly items like land, luxury car, refrigerator or air conditioner, etc.

Recurring deposit account is opened by those who want to save regularly for a certain period of time and earn a higher interest rate. In recurring deposit account certain fixed amount is accepted every month for a specified period and the total amount is repaid with interest at the end of the particular fixed period.

NATURE OR FEATURES OF RECURRING DEPOSIT ACCOUNT

- The main objective of recurring deposit account is to develop regular savings habit among the public.
- In India, minimum amount that can be deposited is Rs.10 at regular intervals.
- The period of deposit is minimum six months and maximum ten years.
- The rate of interest is higher.
- No withdrawals are allowed. However, the bank may allow to close the account before the maturity period.
- The bank provides the loan facility. The loan can be given upto 75% of the amount standing to the credit of the account holder.

ADVANTAGE OF RECURRING DEPOSIT ACCOUNT

- Recurring deposit encourages regular savings habit among the people.
- Recurring deposit account holder can get a loan facility.
- The bank can utilise such funds for lending to businessmen.
- The bank may also invest such funds in profitable areas.

PROCEDURE FOR OPENING A CURRENT OR SAVINGS BANK ACCOUNT

As such before opening a deposit account the banker should observe certain general precautions as follows

1. Application Form

The person desiring to open a current or a saving account with the bank has to make application in the prescribed form. The applicant is required to give his name , address and occupation in the form. He has also to declare that he shall comply with the bank rules in force from time to time for the conduct of the account.

2. Photographs

As per the recent directives of the Reserve Bank the applicant is required to submit two photographs – One to be pasted on the application form and the other on specimen signature sheet.

3. Introduction or reference

The applicant is also required to furnish in the applicant form the names of the referees form whom the banker may make enquires regarding the character, integrity and respectability of the applicant. In most cases the introduction is done by the customer of the bank or some person known to the bank by signing on the applicant form. The person so signing gives his account number with the bank or his address.

4. Specimen signature

Even customer is required to supply to his banker with one or more specimens of his signature. These signatures are taken on cards which are indexed and field in an alphabetical order.

5. Mandate in writing

In case a customer desires to get his account operated upon by another person, the bank will obtain a mandate in writing to that effect as well as the specimen signature of the person in whose favour the mandate is
given.

6. Opening the account

After observations of these formalities the bank opens an account in the name of the applicant. The applicant is required to deposit alternative minimum amount ranging from Rs.500 to Rs.1,000 in a savings bank account and Rs. 5,000 to Rs. 20,000 in case of current account. The bank then provides the customer with:

- **Pay-in-slip book**

Then, the customer is supplied with a pay-in-slip book. The pay-in-slip is a document which is used for depositing cash or cheque or bill into the account.

- **Cheque book and**

The customer is also supplied with a cheque book which normally contains 10 to 20 blank forms. A cheque leaf is used for the purpose of with drawing money.

- **Pass book:**

Pass book is an authenticated copy of the customer's account with the bank. It is written by the bank and records all dealings between the bank and the customer.

ANNUITY DEPOSIT SCHEME

To enable the depositor to pay one time lump sum amount and to receive the same in Equated Monthly Instalments (EMIs), comprising a part of the principal amount as well as interest on the reducing principal amount, compounded at quarterly rests and discounted to the monthly value. Payment of interest will start on the anniversary date of the month following the month of deposit. If that date is non-existent (29th, 30th & 31st), it will be paid on the 1st day of the next month.

Deposit amount

- Minimum- Based on minimum monthly annuity Rs 1000/- for the relevant period. In no case Minimum Amount of deposit should be below Rs. 25,000/-
- Maximum: No Limit

Tenure

- 36/60/84 or 120 months

Rate of interest

- As applicable to the Term Deposits of tenure as opted by the depositor.

Premature Payment

- Permitted only in case of death of depositor.

Loan facility

- Overdraft/loan up to 75% of the balance amount of annuity may be granted on special cases. After disbursal of OD/loan, further annuity payment will be deposited in loan account only.

Most Important Terms & Conditions

- Depositor pays one time lump sum amount and receives Equated Monthly Installments (EMIs), comprising a part of the principal amount as well as interest on the reducing principal amount, compounded at quarterly rests and discounted to the monthly value.
- Deposit Amount Maximum: No Limit Minimum- Based on minimum monthly annuity Rs 1000/- for the relevant period. In no case Minimum Amount of deposit should be below Rs. 25,000/-.
- Tenure 36, 60, 84 and 120 months.
- Premature payment - Permitted only in case of death of depositor.
- Loan facility - Overdraft/loan upto 75% of the balance amount of annuity may be granted on special cases. It will be the same as applicable to TRD/STDRs. After disbursal of OD/loan, further annuity payment will be deposited in loan account only.
- Nomination facility available.

REINVESTMENT PLAN

This product is a variant of Term Deposits but instead of Interest being paid out at a regular frequency during the period of deposit; here it is paid out only at the time of maturity. Regular interest is added to the principal and compound interest calculated and paid thereon.

Minimum Instalment

Rs.1000/-

Minimum Instalment

No Limit

Rate of interest

As applicable to Term Deposits with Quarterly compounding. Paid out on maturity only.

Tenure

Minimum 6 months and Maximum 10 years.

Loan facility

Loan / Overdraft up to 90% available account.

Most Important Terms & Conditions

- Period of deposit 6 months to 10 years.
- Loan / overdraft up to 90% of the deposit amount plus accrued interest, at 1.00% above the STDR rate.
- Quarterly Interest payment and credited to the Principal account for compounding.
- TDS deducted at prevalent Income tax rate is deducted if Form 15G/15H not submitted.
- Auto renewal is exercised if maturity instructions are not given.

UNIT - III

TYPES OF CUSTOMERS

When a banker opens an account in the name of a customer, there arises a contract between two. This contract will be a valid one only when both the partities are competent to enter into contract. Different kinds of customers need different treatment at the hands of the banker. A few special types of customers and their treatments have been discussed below:

1. Minor

A minor is a person who has not attained the age of 18. According to Sec 3 of the Indian Majority Act, 1875, a minor is a person who has not attained the age of 18 and in case a guardian is appointed, it is 21. But, in England till a person completes his age 21, he is regarded as a minor or an infant.

2. A Married Women

A banker may open an account in the name of married women. Like any other customer she has the power to operate her account herself and the bonafide dealing with the account connect be questioned. But, there was a time when married women were allowed to open account only after getting the consent of their husband. Moreover, all her properties become the properties of her husband on her marriage. She was not allowed to hold property in her own name. So, the position of married women was far from satisfactory in those days.

3. Lunatics

A lunatic is a person of unsound mind. He cannot form a rational judgment on matters. Hence, he has no capacity to enter into a contract. According to Sec.12 of the Indian Contract Act, 1872, persons of unsound mind are disqualified from entering into a valid contract. In England the contract with a lunatic is voidable, whereas it is void in India. Obviously, such contracts have inherent defects in India.

4. Drunkard

A drunkard is disqualified from entering into a contract, when he is incapable of understanding the implications the implicating of the contract due to the effect of the liquour. In India, the contact by a drunkard is void, whereas it is voidable under the English law. So, in India, it cannot be ratified by him later when he is sober.

5. A partnership firm

A partnership firm is an association of two or more persons called partners who undertake a venture for mutual benefits. According to Sec 4 of the Indian Partnership Act 1932, a partnership between the people who have agreed to share the profit of a business carried on by all or any one of them acting for all of them. A banker can very well deal with these types of customers only when he has a thorough knowledge of the firm and the relevant Act governing the functioning of the firm.

6. A joint stock company

A joint stock company is an artificial person created by law. It has a separate existence different from that of the member who constitute it. It has a common seal. It can sue other and be sued. From birth to death, it is governed by law. As it is an artificial creation, it cannot act by itself. It has to act only through human agents. Because of the above features, it requires a special treatments in the hands of the banks.

7. Private company

Private limited companies are those companies, whereas the number of shareholder is limited to 50 and the transferability of the shares is restricted. In addition to the above precautions, the banker should pay a special attention to the formation of private companies. It is possible that a sole trader might have converted his business into a private limited companies just to deceive the creditors.

8. **Illiterate Person**

An illiterate person cannot read and write. So Illiterate persons cannot sign their names and hence the bankers take their thumb impression as a substitute for signature and a copy of their recent photograph. The application form and photograph should be attested by an approved witness. For withdrawing money he must attend personally and affix his thumb impression in the presence of an official of the bank for identification.

9. Trustees

Trusts are created by the settler through executing a Trust Deed. A trust account can be opened after obtaining and scrutinising the trust deed. The Trust account has to be operated by all the trustees jointly unless provided in the trust deed. A cheque favouring the Trust shall not be credited to the personal account of the Trustee. According to the Indian Trusts Act, a ‘trust’ is an obligation annexed to the ownership of property, and arising out of a confidence responded and accepted by the owner or declared and accepted by him for the benefit of another and the owner. The person who responses the confidence is called the author of the trust. The trustee is the person in whom the confidence is responded. The person for whose benefit the trust is formed is called beneficiary.

10. Societies, Clubs and Associations

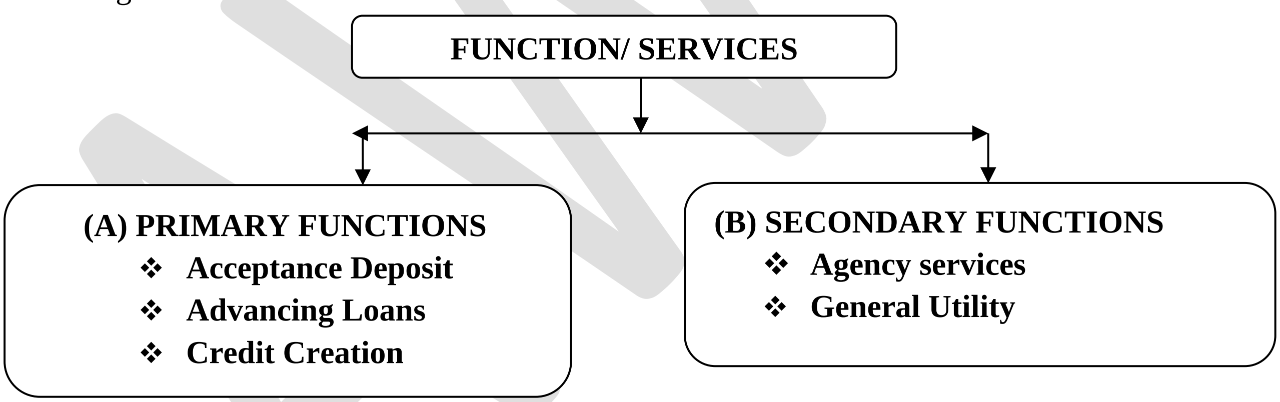
A society gets legal entity only when it is incorporated under Company's Act. Bylaws of the society, clubs and association contain rules, regulations or conduct and activities of the association. While opening account the banks obtain following from the clubs:

- Copy of the bylaws
- Copy of resolution passed by the managing committee regarding opening and conduct of account
- Certificate of registration in original
- A list of the Managing Committee members
- Copies of resolutions for electing them as Committee members duly certified by the Chairman.

Bank keeps a copy of all the above-mentioned documents for its record.

FUNCTIONS / SERVICES

The commercial banks serve as the king pin of the financial system of the country. They render many valuable services. The important functions of the commercial banks can be explained with the help of the following chart.



(A).PRIMARY FUNCTIONS:

The primary functions of the commercial banks include the following:

(1) Acceptance of Deposit

1. Time Deposits:

These are deposits repayable after a certain fixed period. These deposits are not withdrawal by cheques, draft or by other means. It includes the following

- **Fixed Deposits:** The deposits can be withdrawn only after expiry of certain period say 3 years, 5 years or 10 years. The banker allows a higher rate of interest depending upon the amount and period of time
- **Recurring Deposits**: In recurring deposits, the customer opens an account and deposit a certain sum of money every month. After a certain period, say 1 year or 3 year or 5 years, the accumulated amount along with interest is paid to the customer.

- **Cash Certificates:** Cash certificates are issued to the public for a longer period of time. It attracts the people because its maturity value is a multiple of the sum interested. It is an attractive and high yielding investment for those who can keep the funds for a long time.

2. Demand Deposits:

These are the deposits which may be withdrawn by the depositor at any time without previous notice. It is withdraw able by cheques / draft. It includes the following

- **Saving Deposits**: The saving deposits promote thrift among people. The saving deposits can only be held by individuals and non profits institutions. The rate of interest paid on saving deposits is lower than that of time deposits. The savings account holder gets the advantage of liquidity (as in currency A/C) and small income in the form of interest.
- **Current Account Deposits**: These accounts are main trained by the people who need to have a liquid balance. Current account offers high liquidity. No interest is paid on current deposits and there is no restriction on withdrawals from the current account.

(2) Advancing of Loans

The commercial banks provide loans and advances in various forms. They are given below

- **Overdraft:** This facility is given to holders of current account accounts only. This is an arrangement with the bankers thereby the customer is allowed to draw money over and above the balance in his/ her account. The facility of overdrawing his account is generally pre-arranged with the bank up to a certain limit.
- **Cash Credit:** Cash credit is a form of working capital credit given to the business firms. Under this arrangement, the customer opens an account and the sanctioned amount is credited with that account. The customer can operate that account with the sanctioned limit as and when required.
- **Discounting of Bills:** Discounting of bills may be another form of bank credit. The bank may purchase inland and foreign bills before these are due for payments by the drawee debtors, at discounted value, i.e., values a little lower than the face values.
- **Loans and Advances:** It includes both demand and term loans, direct loans and advances given to all type of customer mainly to businessman and investors against personal security or goods of movable or immovable in nature, The loan amount is paid in cash or by credit to customer account which the customer can draw at any time
- **Housing Finance:** Nowadays the commercial banks are competing among themselves in providing housing finance facilities to their customers. It is mainly to increase the housing facilities in the country. SBI, IB, CB, PNB, Have formed housing subsidiaries' to provide housing finance.

(3). Credit Creation

Credit creation is one of the primary functions of commercial banks when a bank sanctions a loan to the customer; it does not give cash to him. But, a deposit account is opened in his name and the amount is credited to his account. He can withdraw the money whenever he needs. Thus whenever a bank sanctions a loan it creates a deposit. In this way the bank increases the money supply of the economy. Such functions are known as credit creation.

(B). SECONDARY FUNCTIONS

The secondary functions of the banks consist of agency functions and general utility functions**.**

(1). Agency Functions

1. Collection of cheques, dividends, interests: As an agent the bank collects cheques, draft, promissory notes, interest dividends etc., on behalf of its customers and credits the amounts to their accounts

2. Payment of rent, insurance premiums: The banks makes the payments such as rent insurance premiums, subscriptions on standing instruction until further notice, Till the order is revoked, the bank will continue to make such payments regularly by debiting the customer account.

3. Dealing in Foreign Exchange: As an agent the commercial banks purchase and sell foreign exchange as well for customer as per RBI exchange control regulations**.**

4. Purchase and Sales of Securities: Commercial banks undertake the purchase and sales of different securities such as shares, debentures, bonds etc, on behalf of their customers. They run a separate portfolio management scheme for their bug customer**.**

5. Preparation of income –tax returns: They prepare income tax returns and provide advice on tax matters for their customer. For this purpose, they employ tax experts and make their services available to their customers.

(2).General Utility Services

The general utility services includes the following

1. Safety Locker Facility: Safekeeping of important documents, valuables like a jewel is one of the oldest services provided by commercial banks. Lockers are small receptacles which are fitted in steel racks and kept inside strong rooms known as vaults. These lockers are available on half yearly or annual rental basis.

2. Payment mechanism or Money Transfer: Banks these days employ computers to speed up money transfer and to reduce cost of transferring fund. Electronic transfer of funds is also known as chequeless banking where funds are transferred through computers and sophisticated electronic system by using code words. They offer mail transfer telegraphic transfer (IT) facility also.

3. Traveller's Cheques: Travellers cheques are used by domestic travelers as well as by international travelers. However the use of traveler's cheques is more common by international travelers because of their safety and convenience. These can be also termed as a modified form of traveler's letter of credit.

4. ATM facilities: Under this system the customer can withdraw their money easily and quickly and 24 hours a day. This is also known as "Any Time Money". Customers under this system can withdraw funds i.e., currency notes with the help of certain magnetic card issued by the bank and similarly deposit cash / cheques for credit to account.

5. Credit Cards: Banks have introduced credit card system. A credit card enables a customer to purchase goods and services from certain specified retail and services establishments up to a limit without making immediate payment.

ROLE OF COMMERCIAL BANK IN ECONOMIC DEVELOPMENT

1. Mobilizing Savings for Capital Formation

People in developing countries have low incomes but the banks induce them to save by introducing variety of deposits schemes to suit the needs of individual depositors. They also mobilize idle savings of the few rich. By mobilizing savings, the bank channelizes them into productive investments. Thus they help in the capital formation of a developing country**.**

2. Financial Industry

The commercial banks undertake short-term and medium-term financing of small scale industries and also provide hire purchase finance. Besides, they underwrite the shares and debentures of large scale industries. Thus they not only provide finance for industry but also help in developing the capital market which is underdeveloped in such countries.

3. Financing Trade

The commercial bank helps in financing both internal and external trade. The banks provide loans to retailers and wholesalers to stock goods in which they deal. They finance both exports and imports of developing countries by providing foreign exchange facilities to importers and exporters of goods

4. Financing Agriculture

The commercial banks help the large agricultural sector in developing countries in a number of ways. They provide loans to traders in agricultural commodities. They open networks of branches in rural areas to provide agriculture credit. They provide finance directly to agriculturalists for the modernization of their produce, for the modernization and mechanizations of their farms for providing irrigation facilities, for developing lands etc.

5. Financing Consumer Activities

The commercial banks advances loans to consumers for the purchase of such items houses, scooters, fans, refrigerators etc. In this way, they also help in raising the standard of living of the people in developing countries by providing loans for consumptive activities.

GARNISHEE ORDER

Garnishee Order is an order issued by court under Civil Procedure Code 1908 as per order XXI, rule 46, for recovery of amount due to judgement creditor. In other words, it is an order by court to attach money or goods belonging to the judgement debtor held with bank.

There are three parties involved in Garnishee Order:

Judgement Creditor

A person (creditor) who initiates the garnishment action or at whose request garnishee order is issued.

Judgement Debtor

A person who owes money to judgement creditor and whose funds are blocked.

Garnishee

Garnishee means a judgement debtor's debtor.

Garnishee Order – What is Order NISI and Order Absolute

A Garnishee order is passed in two stages viz., **Order NISI** and **Order Absolute**.

ORDER NISI

As per rule 46A, a notice is issued to a garnishee (a person sought to be warned) before a garnishee order is passed. It is known as Order NISI. Court order the bankers to stop operation, payment out of the funds of judgement debtor and for appearance in court on a given date.

Banks also inform the concerned customer about the receipt of the order so that dishonor of any Cheque issued by him may be avoided.

If such Order is not passed and an opportunity of hearing is not given by the court, the order shall be null and void.

ORDER ABSOLUTE:

If banker has any objection to pay the funds held in account of the judgement debtor, he must appear in court and explain the reason why funds held in account cannot be paid. Court issue the final order called order absolulte after hearing the explanation from the bank if any and direct the bank to pay the amount to the judgement creditor or court.

Features of Garnishee Order

- Garnishee Order can attach either the entire amount or partial amount.
- Balance in excess of the amount mentioned in the order can be paid by the banker.
- Order is also applicable in case of amount drawn by a cheque but payment not yet affected.
- Garnishee Order is not applicable where a Cheque already has been marked Good for Payment.

- In case of Trust Account – A Trustee hold the fund for someone else. So trust account cannot be attached and court should be informed about it.
- Garnishee Order not applicable in case of OD/CC account, if account is overdrawn as bankers owes no money to the customer.
- In case of partnership accounts, if the firm is judgement debtor both the firm as well as their personal accounts can be attached as they are jointly and severally liable.
- If a partner is judgement debtor, only his personal account can be attached and not that of firm or personal account of other partners.
- In case of joint accounts – if only one is judgement debtor, account cannot be attached.
- Bank can set off any debt due to the bank at the time of receipt of order but bank cannot exercise the right of set off for the installments which falling due for repayment at a future date.
- Order is not applicable to Cheque/DD/Bills sent under collection at time of order however they can be attached only after once they are collected and credited to the account.

UNIT IV

COLLECTING BANKER

COLLECTING BANKER

A collecting banker is one who collects the cheques and other negotiable instruments deposited by his customers and places the amount to the credit of the customers' accounts.

DEFINITION OF COLLECTING BANKER

Sir John Paget defined collecting banker as "The collection of cheques whether crossed or uncrossed is one of the functions of the banker. Here the role of the banker is referred as the collecting banker".

DUTIES AND RESPONSIBILITIES OF A COLLECTING BANKER

1. Due care and Diligence to be taken in collection of cheques

The collecting banker has to show diligence in the collection of cheques given to him. Suppose the banker fails to do so, the customer suffers a loss. The collecting banker shall be required to compensate that loss.

2. Reasonable Time

When the banker and the drawee bank are in the same place, the collecting banker should present the cheque the very next day after he receives it. If the cheques are from out station, the collecting banker should despatch the same to the paying banker on the day after it is received by him. If the cheque is not presented for payment within a reasonable time of issue and in the meanwhile the drawer of the cheque suffers damage, the drawer is discharged to the event of "such damage".

3. Advising the customer about collection status

When the proceeds are collected the collecting banker could debit his customers account in respect of his commission or service charges and credit the proceeds to the customer's account. The banker informs this through a credit slip. With the help of this slip the customer knows that the cheque was collected.

4. To serve notice of dishonour

When the cheque deposited was dishonoured the collecting banker gets the information in writing from the paying banker. Hence, it becomes the duty of the collecting banker should immediately intimate the customer in writing.

PROTECTION OF A COLLECTING BANKER

Negotiable Instrument Act, section 131, says "A banker who has in good faith and without negligence received payment for a customer of a cheque crossed generally or specially to himself shall not, in case the title to the cheque proves defective, incur any liability to the true owner of the cheque by reason only of having received such payment".

It is clear that the collecting banker can claim protection and does not incur liability when certain conditions are fulfilled like,

1. The bank behaves like an agent and not as a holder of value.
2. On behalf of customers collection of cheques are made.
3. Before cheques are deposited for collection it must be crossed.
4. The banker should receive payment in good faith and without negligence.

PAYING BANKER

PAYING BANKER

The term 'Paying banker' refers to the position and duties of the drawee bank with regard to the payment of cheques drawn on it by its customer. The funds of the customer in the bank account is payable on demand by honouring the cheques which are drawn by the customer and presented by the legitimate holder. This obligation of the bank is reckoned as a leading constituent of the implied contract existing between the banker and the customer.

DEFINITION OF PAYING BANKER

According to Section 31 of the Negotiable Instrument Act paying banker is defined as "The drawee of a cheque having sufficient funds of the drawer in his hands, properly applicable to the payment of such cheque must pay the cheque when duly required to do so, and in default of such payment, must compensate the drawer for any loss or damage caused by such default.

DUTIES AND RESPONSIBILITIES OF PAYING BANKER

1. According to sect.31, if the drawee of a cheque has sufficient funds of the drawer in his hand which could be used properly to pay the cheque, he must pay the cheque whenever required to do so. Failure to do so would render him liable to compensate the drawer for any less or damage caused to him by such non-payment of the cheque, so drawn.
2. As per the direction issued by the customer the paying banker is expected to pay the cheque to the genuine payee as per the direction issued by the customer.
3. The payment is made only during banking hours.
4. The banker should honour the cheque which is drawn against the account maintained at the branch of the bank where the cheque is presented.
5. The banker should not make payment of crossed cheque at the counter i.e. crossed cheques must be paid only through a banker if cheques are crossed generally or through the specified banker in case of special crossing.

STATUTORY PROTECTION OF THE PAYING BANKER

A paying banker pays a cheque which bears a forged signature of the payee/endorsee; he is liable to the true owner of the cheque. But, it is quite unjustifiable to make the banker responsible for such errors. It is so because, he is not expected to know the signature of the payee/endorsee the law relives the paying banker from his liability to the true owner in such cases. This relief is known as 'statutory protection'.

Statutory Protection under Indian Law

Sec. 85 of the NI Act, 1881 offers protection to the paying banker in India. It reads as follows:"Where a cheque payable to order purports to be endorsed by or on behalf of the payee, the drawee is discharged by payment in due course." To claim protection under Sec.85, the banker should have fulfilled the following conditions

- He should have paid an order cheque.
- Such a cheque has been endorsed by the payee or his order.
- It should have been paid in due course.

Order Cheque

The statutory protection has been extended to an order cheque. Example of an order cheque is 'pay to X or order'. When such a cheque is paid by the banker, he is entitled to get protection. Endorsee is a must for an order cheque and so protection is mainly extended to a cheque.

Endorsed by Payee or His Order

Such a cheque requires an endorsement by its payee. So, it must be properly endorsed by him or any person authorised by him to obtain payment. Protection cannot be claimed if such a cheque is not endorsed by a payee or any third party.

UNIT – V

Meaning of Bank Pass Book:

Passbook is a book issued by the bank to the account holder which records the amount deposited in/withdrawn from the respective account dring a particular period is tracked. It is a snapshot of customer's account in the bank's book. With the help of pass book, banks inform their customer about the status of their account.

Correspondingly, the bank records them in the customer's account maintained in its books. Then they are copied in a passbook and given to the customer. With the computerization of banking operations, bank statements (in lieu of passbook) are issued to the customers periodically.

Thus passbook is a record of the banking transactions of a customer with a bank. All entries made by a customer in his cashbook (bank column) must be entered by the bank in the passbook.

Definition of Passbook

Bank passbook is a book that records the bank transactions in a savings account. It is the exact copy of the customer's account in the bank's book. It records the deposits, withdrawals, interest credited, bank charges, etc. during a financial year.

The passbook is issued by the bank to its customers. The customer has to retain it and periodically update it to enter recent transactions. With the help of Passbook, a customer can keep an eye on the entries made in his account by the bank. As and when the entries are updated in the passbook the customer can check them and inform the bank, if he finds any error regarding the entries made.

CHEQUE

A cheque is an order on the bank to pay a certain sum of money to the payee mentioned in the cheque. Every person opening a current account with a bank will get a cheque book, free of cost from the Bank. It contains a number of cheque leaves which can be used by the customer to draw money. A cheque is a negotiable instrument instructing a financial institution to pay a specific amount of a specific currency from a specified demand account held in the maker/ depositor's name with that institution.

DEFINITION OF CHEQUE

Section 6 of the Negotiable Instrument Act defines "a cheque is a bill of exchange drawn on as specified banker and not expressed to be payable otherwise than on demand and it includes the electronic image of a truncated cheque and a cheque in the electronic form."

FEATURES OF A CHEQUE

1. Cheque is always drawn on a specific banker
2. A cheque is an unconditional order
3. A cheque is payable on demand
4. The cheque is must bear the signature of drawer (depositor)
5. The payment order must be for a specific sum of money
6. The payment order may either be in favor of self or the person mentioned therein or the person in whose favor the endorsement is made or the bearer.

EXPLAIN THE KINDS/TYPES OF CHEQUE

Cheques can be grouped under three heads. They are.

1. Bearer Cheque: The bearer Cheque is payable to a certain person or to the bearer.

2. An order Cheque: This Cheque is payable to the person on whose favour it is drawn or subsequent endorsee. Hence, the banker seeks identification of the person receiving payment.

1. **Crossed Cheque**: It is a Cheque which is payable only through a collecting banker and not directly at the counter of the bank.

2. **Stale cheque:** After an expiry of six months the cheque becomes out dated cheque or stale cheque. A stale- cheque may also be accepted by banker, if customer gives consent for that cheque. This acceptance should be for a length of three years period because law of limitation operates for it.
3. **Anti-dated cheque:** While drawing cheque, a drawer gives the date in that cheque prior to the date on which it is drawn. It is called ante-dated cheque. Banker can accept such cheque if it does not exceed 6 months period.
4. **Mutilated Cheque:** A cheque which is cut into many pieces is called mutilated cheque. The drawee bank should see in honouring a cheque, whether it is mutilated, canceled or torn. If the cheque is torn into two or many pieces it should be return with the remark mutilated cheque'. If he is satisfied that the mutilated cheque gets the original shape of the instrument, he may accept the cheque".

3. Post dated cheque: Drawer of a cheque gives the date in the cheque later or after the date on which it is drawn. It is known as post-dated cheque. The banker must accept the post-dated cheque only after the ostensible date given the cheque.

USES OF CHEQUE

- It is the safest means of making a payment and eliminates the risk of carrying cash.
- It is also highly suitable method for receiving payment.
- With the help of cheques, the necessity of demanding acknowledgements from the payees for having received the amount is avoided.
- Since transactions are recorded with the help of cheques in paying banker's book, they are the legal proof.
- If any wrong payments are made, that could be countermanded by the drawer through intimation to the banker.
- Crossing of cheques prevents possibilities of wrong payments being made under forgery.
- Cheques are used to substitute money in settlement of mutual debts through endorsements and delivery.
- It saves the usage of other forms of money viz, coins and currency notes.
- The habit of using cheque encourages banking habit and this way it plays an important role in economic development of the country.
- Usage of cheques enables the effective implementation of the monetary and fiscal policies.

CROSSING OF CHEQUES

CROSSING OF CHEQUES

Crossing of cheque means two parallel transverse lines with or without any words are drawn on the left hand top corner of the cheque. Crossing carries a direction by a customer to the paying banker instructing to pay the money generally to a banker or a particular banker as the case may be. Crossed negotiable instrument is not payable to the holder at the counter. Crossing may be written, stamped, printed or perforated.

CROSSED CHEQUE

A crossed cheque is payable only through a Collecting banker and not directly at the counter of the bank. Crossing ensures security to the holder of the cheque as only the Collecting banker credits the proceeds to the account of the payee of the cheque.

TYPES OF CROSSING

Crossing of a cheque can be classified in to three viz,

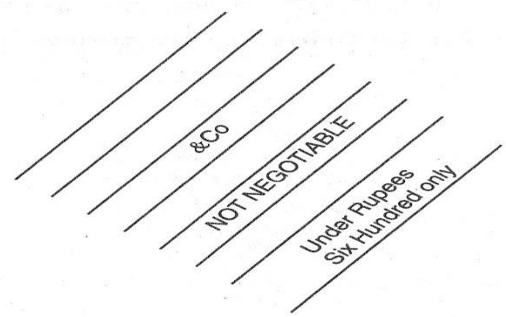
1. General Crossing

Section 123 of the Negotiable Instrument Act 1881, defines general crossing as where a cheque bears across its face an addition of the words "and Company" or any abbreviation thereof, between two parallel transverse lines, or of two parallel transverse lines simply, either with or without the words "not negotiable" that addition shall be deemed a crossing and the cheque shall be deemed to be crossed generally.

Importance of General Crossing

Even though the payee of the cheque is a well acquainted person to the paying banker, the paying banker should make payment through another banker only. If the payee is not having a bank account, then he could encash the cheque only through someone who is having a bank account. If in case a crossed cheque is stolen and has been collected for a person who is not entitled to the money. This is easily traced. Thus by crossing the cheque we ensure their safety and prevent payment to the wrong person.

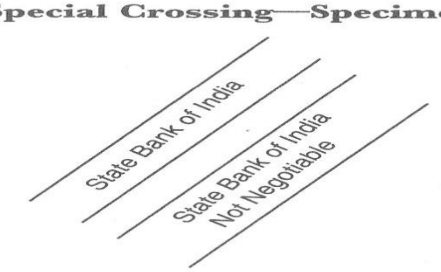
General Crossing—Specimen



2. Special Crossing

Section 124 of the Negotiable Instruments Act 1981 defines special crossing as "Where a Cheque bears across its face an addition of the name of a banker, either with or without the words "Not Negotiable", that addition shall be deemed a crossing, and the cheque shall be deemed to be cossed specially and to be crossed to that banker".

Special Crossing—Specimen



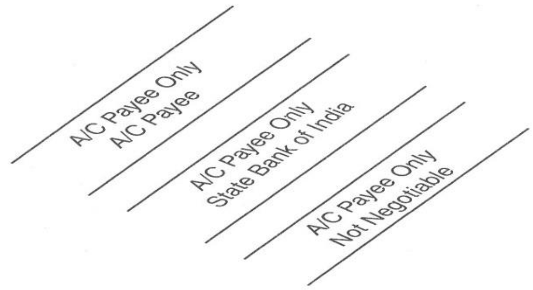
Importance of Special Crossing

Specially crossed cheques give additional protection to the drawer of the cheque as it is a direction given to the paying bankers asking him to pay the amount to that banker whose name is mentioned in the crossing. It is done when the drawer knows completely that the payee has an account in a particular bank and by Special Crossing, he is assured double Safety.

3. Restrictive Crossing

Restrictive Crossing is a direction to the collecting banker that the proceeds collected are to be credited only to the account payee mentioned in the cheque. If the Collecting banker allows the proceeds to be credited to some other account, the banker is held liable for this wrong conversion of the funds. This does not affect the paying banker in anyway, because he has to just see that the cheque is presented for payment by any bank in the case of general Crossing and by the Specific bank in case of Special Crossing. The paying banker is under no responsibility or duty to verity that the cheque is in fact being collected for the person named as the payee.

Restrictive Crossing—Specimen

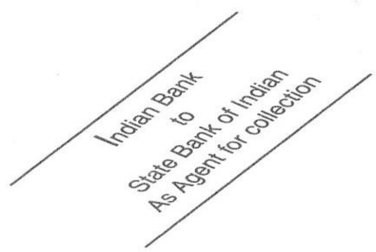


Double Crossing

If a Cheque is bearing two separate special crossings, it is said to be doubly crossed. Section 127 of the Negotiable Instruments Act 1881- payment of cheque Crossed Specially more than once, "Where a cheque is crossed Specially to more than one banker, except when crossed to an agent for the purpose of collection, the banker on whom it is drawn shall refuse payment thereof"

So a paying banker could pay a doubly crossed cheque only in the situation where the second banker is acting only as the agent of the first collecting banker and this is clearly expressed in the instrument. These types of crossing are done in the case where the banker in whose favour the cheque is specially crossed is not having a branch at the place where the cheque is to be paid. In all other cases the Paying banker must refuse to pay a cheque which bears a double crossing.

Double Crossing—Specimen



PRE-REQUISITES/ ESSENTIALS/ OF CROSSING A CHEQUE

1. The instrument is in writing.
2. It is drawn on the branch where the customer is maintaining his account.
3. The amount in the cheque should be specific.
4. A cheque is payable either to order or bearer.
5. Signature is an important aspect in a cheque.
6. Date on cheque, represents when the cheque is issued.
7. The number appearing on the cheque at the bottom indicates the cheque number and code number of the bank.

ENDORSEMENT

MEANING

Endorsement means the signature, instructions etc, placed on the reverse of a Negotiable instrument for the purpose of assigning the interest therein to another. If the available space on the back side has been completely covered, then a piece of paper is pasted to the instrument and subsequent endorsements are made on that paper. The paper that is pasted is called as "Allonge".

Allonge:

If the space is available on the back has been completely covered, piece of paper monetary be attached to the instrument and subsequent endorsements may be made on that paper. The paper so attached is known as "Allonge".

DEFINITION OF AN ENDORSEMENT

Section 15 of the Negotiable Instruments Act, 1881, defines it as, "when the maker or holder of a negotiable instrument signs the same, then as such maker, for the purpose of negotiation, on the back or face thereof or on a slip of paper annexed thereto or so signed for the same purpose a stamped paper intended to be completed as a negotiable instrument, he is said to endorse the same, and is called the endorser."

PRE-REQUISITES/ESSENTIALS/ OBJECTS OF ENDORSEMENT

- At the time of endorsement the endorser has a good title to the instrument.
- The instrument is a genuine one.
- All prior endorsements are genuine and regular.
- The instrument will be duty paid at maturity.

FEATURES OF ENDORSEMENT

1. There is no proper procedure to be followed.
2. Endorsement may be either on the face of the instrument or on backside of it or in a separate sheet.
3. It needs the signature of holder or his agent.
4. The payee or the holder must signs in their exact names.
5. Endorsement should be by pen only.
6. An illiterate also can endorse by thumb impression.
7. Endorsement should be for full value.
8. The endorsement will be completed by delivery.
9. In case of signing on behalf of the holder or as an agent, it should make clear by adding the words for or on behalf of.
10. It can be endorsed any number of times.

TYPES/KINDS/OF ENDORSEMENT

It is following types, namely

1. **General or Blank Endorsement:**

According to Section 16 of the N.I Act defines it as," If the endorser signs his name only, the endorsement is said to be in "Blank."

An instrument endorsed in blank is payable to the bearer even though it was originally payable to order.

Ex: A cheque is payable to D.David or order. If it is simply signed by David on the back, it constitutes a blank endorsement.

2. **Special or Full Endorsement:**

According to Section 16 of the N.I Act lays down that " If the endorser adds his signature a direction to pay the amount mentioned in the instrument to, or to the order of a specified person, the endorsement is said to be "in full". The endorser may not add the words "or order" and may use some other words to convey his intention. In fact endorsement, it is only the endorsee who can negotiate the instrument by endorsement.

3. **Partial Endorsement:**

Sec.56 of the Negotiable Instrument Act prohibits endorsement for a part of the value of the instrument. For example, if the payee of a bill for Rs.1000/-dorses it in favour of X for Rs.500/- and Y for the remaining Rs.500/- since the endorsement is partial, it is invalid, and no right of action will arise. But where amount of the instrument has been partly paid, a note to that effect may be endorsed on the instruments, which say to be negotiated for the balance.

4. **Restrictive Endorsement:**

In this case, the endorser prohibits further negotiations of the instrument by means of specific words. Example: Pay to S. Ramaswami only K. Ramesh Now S. Ramaswami cannot endorse further.

5. **Conditional Endorsement:**

Section 52 of the N.I. Act permits the use of any stipulation in an endorsement, which limits or negatives the liabilities of the endorser.

Example:- Pay to A. John after attaining majority S. David.

This is theoretical and meaningless in the case of cheques, as a cheque is an unconditional order to pay on demand.

DISHONOURING OF CHEQUES.

The following circumstance also makes the banker in dishonouring the cheques.

1) When the Drawer countermands payment

The Drawer of a cheque can cancel or withdraw at any time before its payment is made. The banker should obey the countermand order issued by the drawer without enquiring any reason thereof. Some points are considered in this regard.

1. It should be in writing i.e. oral instruction not to be accepted.
2. The written instruction should have all information like date of cheque, number of the cheque, the amount, payee's name, whether crossed or not etc.
3. The drawer of the cheque should sign the order stopping payment without fail.
4. The banker is liable to the drawer if the pays the cheque by oversight after the receipt of the countermand order.
5. The stop payment order remains effective until it is reworked by the drawer subsequently.

2) Drawer's Death: When the banker comes to know officially about a customer's death, the account becomes in operative. Hence, no cheque on that account could be honoured.

3) Customer's Insolvency: When the customer becomes insolvent, the whole property of the insolvent person vests in the court. Hence the banker should stop payment from customer's account.

5) When the customer becomes insane: The banker should not honour cheques of his customer on receipt of information about the customer becoming absolutely insane.

6) Notice of Assignment of credit balance: The credit balance can be transferred by the customer to another person. In this case, on the receipt of notice the banker must stop payment of the cheque drawn by the assignor, as he ceases to be the owner of such funds.

7) Defective title of the party: If the banker knows any defective title in the cheque, he could refuse payment to such a cheque.

8) Insanity of the customer: If the banker receives notice of the insanity of a customer, he should note the fact and should stop honouring cheque drawn on his account.

8) Usual Answers her dishonouring cheques: Normally, the drawee banker attaches a slip to dishonoured cheques and marks the number of the appropriate answer. When refusing payment, he must not enter into any discussion with the payee; instead the appropriate reason must be stamped on the cheque as the answer.

E-BANKING

MEANING

E-banking (Electronic banking) provides 24-hour access to cash through an automated teller machine (ATM) or direct deposit of pay-cheques into chequing or savings accounts of a bank. However, in modern times, electronic banking involves different types of transactions.

Electronic banking takes place through 'electronic fund transfer' (EFT). The EFT uses computer and electronic technology as a substitute for cheques and other paper transactions. EFTs are initiated through devices like cards or codes that lets account access happen.

DIFFERENT BETWEEN TRADITIONAL BANKING AND E-BANKING.

S. No	Traditional banking	E-banking
1	A customer has to visit the branch of his bank in person to perform the basic banking operation.	A customer can perform the basic banking operations by sitting at office or at home through personal computer.
2	Traditional banking is an art.	E-banking is a science as it is knowledge based.
3	For doing the banking transactions a bank building is essential.	For doing the banking transactions a bank building is not essential. Because it is not confined to any branch.
4	Banking operations can be conducted only during specific time .	Banking operations can be conducted round the clock.
5	It is expensive.	It is inexpensive.
6	Technical knowledge is not essential.	Technical knowledge is essential.

BENEFITS /ADVANTAGE OF E-BANKING

- **Round the clock Banking:**E-Banking enables performing of basic banking transactions by customers round the clock globally worldwide banking services are made possible for 24hrs and 7days a week.
- **Low cost Banking:**The cost of transactions through internet banking is much lesser than any other traditional way of banking.
- **Quality Banking:**It provides chances for improved quality and enlarged ranges of services being made available to their customer.
- **Speed Banking:**E-Banking increases the customer convenience to a greater extent and better customer retention maintained.
- **Service Banking:**It creates strong infrastructure for the banks to offer many field like E-commerce etc, under E-Banking instant credit, one day credit, immediate payment of utility bills, instant transfer of funds etc, would be made possible.
- **Banking with higher profitability:** The quick response to customer requirements under E-Banking increased customer satisfaction and lead to higher profits.
- **Any where/any time Banking:** Customers can executive banking transactions from their office or from home through laptop. They can get drafts.

CONSTRAINTS IN E-BANKING SECURITY

- **Accuracy control:** To make sure the reliability of the data flowing across the network.
- **Privacy control:** The safeguard the data from inadvertent or unauthorized access.

- ❖ **Firewall control:** To check the unauthorized users accession of private network which are linked with internet.
- ❖ **Efficient control:** To make sure that the system uses very less resources to get the desired goal.
- ❖ **Audit trail control:** To assure in maintaining chronological role of events that are occurred in the system.
- ❖ **Existence control:** To ensure that the on going availability of all the system resources with the same throughout.
- ❖ **Autliencity control:** To check that the data is traveled and processed only once and there is no repetition of sending data.
- ❖ **Encryption control:** To enable only those who possess secret key to decrypt the cyber text.
- ❖ **Completeness control:** To ensure that data are not missing.
- ❖ **Redundancy control**: To check that the data is traveled and processed only once and there is no repetition of sending data.

FUNCTIONS/FACTS OF E-BANKING.

E-baking involves the conduct of banking electronically. It operated through internet, extranet and intranet. Some parameters involved in E-banking are customer acceptance and satisfaction, service rendered value added for the organization and consumer privacy issues, profitability, operational risk and competition from non-banking institutions. E-banking possesses the following aspects.

❖ Customer to bank E-banking

Since E-banking is internet based, the banking products and services like deposits, remittances, credit cards etc, along with all important banking information are available with easy access to customers on the internet. Customers unlike these services without the restrictions of office hours and avoid queues and waiting several innovation of E-banking such as smart cards, electronic data interchanges etc.

❖ Bank to bank E-banking

These types of E-banking are carried out with the help of extranet which is confined to banks only. It is secured and unauthorized access is averted.

❖ Electronic central banking

The banks within the horizon of the central bank are inter connected on extranet for facilitating the creating of Cheques, management of cash reserves, open market operations, discounting of bills etc. For this the central bank has to be connected with the government treasury on extranet for carrying out its functions as an agent of the government. The central banks of all countries are inter-connected with the World Bank, I.M.F and other international financial institutions through extranet.

❖ Internet deployment

To do transactions that are internal to bank, between the bank and its branches and subsidies, intranet deployment in banking is required, extranet permits a bank to have control over the users of intranet and information to be transmitted. The integration of the internal and external communications of banking related information through banking internet and intranet for the development of the financial sector required extensive working on the part of the bankers.

E-BANKING TRANSACTIONS

Following banking transactions are handled through E-banking:

- ❖ Account enquiry
- ❖ Fund transfer
- ❖ Payment for Electricity, Water, Telephone bills, Insurance premium, etc.
- ❖ Online payment

- ❖ Request for insurance of cheque book, draft etc.
- ❖ Access to information about latest deposit schemes and advances
- ❖ Access to rates of interest and other services changes
- ❖ Railway pass
- ❖ Credit card customers
- ❖ Investing through internet banking
- ❖ Shopping at your fingertips
- ❖ Recharging your prepaid phone.

MODELS FOR E-BANKING

To implement the e-banking effectively, following models have been suggested.

- ⇒ Complete centralized solution
- ⇒ Cluster approach
- ⇒ High tech bank with in bank

Complete centralized solution (CCS)

Under this model, e-banking activities can be implemented uniformly and effectively. It is an ideal branch network model. The bank has to provide web server and the requisite software is connected to the main server. Once the required hardware and software are set in, the customers can access the web server for their basic banking operations.

Cluster approach

Under this model, computerized branches of banks of each city are connected with Regional Processor located at each such city which is then connected through reliable media to a centralized high end server. In a cluster approach, computerization of branches is essential. Various branches may be connected through Regional Cluster.

High Tech Bank within Bank

Under this method, all the branches of a bank need not be computerized. Under this method, each bank is divided into two groups.

- ❖ High tech bank
- ❖ Traditional bank

High Tech Bank provides e-banking facilities. Traditional Bank offers traditional services through other branches. This approach helps the bank to act as a balanced role to the mass customers.

INTERNET BANKING

MEANING

Internet banking refers online banking from anywhere. It offers 'anywhere, anytime' banking access to one's account and also the public information updated by the bank on its website.

Online Banking (OLB) is an electronic payment system that enables customers of a financial institution to conduct financial transactions on a website operated by the institution, such as a retail bank, virtual bank, credit union or building society. Online banking is also referred as Internet banking, e-banking, virtual banking and by other terms.

FEATURES OF INTERNET BANKING

Online banking facilities offered by various financial institutions have many features and capabilities in common, but also have some that are application specific.

The common features fall broadly into several categories:

- ❖ A bank customer can perform non-transactional tasks through online banking, including:
  - ⇒ Viewing account balances
  - ⇒ Viewing recent transactions

- ⇒ Downloading bank statements, for example in PDF format
- ⇒ Viewing images of paid Cheques
- ⇒ Ordering cheque books
- ⇒ Download periodic account statements
- ⇒ Downloading applications for M-banking, E-banking etc.

❖ Bank customers can transact banking tasks through online banking, including:

- ⇒ Funds transfers between the customer's linked accounts
- ⇒ Paying third parties, including bill payments (see, e.g., BPAY) and third party fund transfers (see, e.g., FAST)
- ⇒ Investment purchase or sale
- ⇒ Loan applications and transactions, such as repayments of enrollments
- ⇒ Credit card applications
- ⇒ Register utility billers and make bill payments

❖ Financial institution administration

❖ Management of multiple users having varying levels of authority

❖ Transaction approval process

SERVICES / FUNCTIONS OF INTERNET BANKING

1. Pay a bill: Electronic bill payment service allows a depositor to send money from his or her online account to a creditor or merchant, for example to a public utility or a department store.

2. Schedule payments in advance: Most banks offer customers the ability to schedule a payment on a specified date. Once the amount is entered and the payee is checked off, the funds are automatically deducted from your online bank account. It is especially useful if you always forget due dates.

3. Transfer funds: With online banking, you can make money transfers between your own accounts, or send money to a third party account. All you need is recipient/payee information and enough funds in your account. Quite often, the operations are performed in real time.

4. Manage all your accounts in one place: Online banking is a great time saver because it provides an opportunity to handle several bank accounts (checking, savings, CDs, IRAs, etc.) from one site. Most new accounts you open will be automatically added to online banking.

5. Apply for a loan or credit card: Having an account online, you can apply for a credit card or a loan (a car loan, a student loan, a mortgage, a home equity loan, etc.) from the same bank. If you have a good credit score and long relationship history with your bank, your application is likely to be approved.

6. Order traveler's checks: You can order Express Traveler's Cheques online. The bank will typically charge your online account for the amount of the cheque you bought and an express delivery fee.

7. Order a cheque book: Save yourself at least one trip to the bank by ordering cheque book online. You will need to visit your bank once when you get a confirmation message that your cheque book is ready for collection.

8. View up-to-the-minute account statements and balance: There is no need to wait for the bank statement to arrive in the snail post to check account balances. You can view all transactions and withdrawals every day just by logging in to your online account.

9. View automatically updated spending report: All your purchases are sorted into familiar categories automatically - no receipts to save, no expenses to enter. It is easy to see where your money goes.

10.Track your payment history: Online banking gives you an opportunity to search your payments by transaction type, date, description or amount.

MOBILE BANKING

MEANING OF MOBILE BANKING

Mobile banking refers to control of banking operations on mobile phones. It means banking operations that are done through mobile phone while a person is on the move. The main reason why mobile banking scores over internet banking is that it enables “anywhere banking”.

FEATURES OF MOBILE BANKING

1. Mobile customers: Only those customers who use mobile phones can avail mobile banking services.
2. Mobile Commerce: Mobile banking is a part of mobile commerce under which business and trade are carried on through mobile online.
3. Technology based: Mobile banking is based on technology developments. Mobile baking makes use of the internet for transmission, transaction and delivery of banking services.
4. Types of services: Mobile banking offers the entire internet based banking services such as online account opening, account verification, funds transfer etc.
5. Eligibility: Only those branches which offers internet banking facility are eligible to provide mobile banking services.
6. Application: To avail mobile banking facilities a customer has to make an application from to register internet banking. Customers who register internet banking have to register their names for mobile banking.

SERVICES GIVEN BY THE MOBILE BANKING

Under the gamut of mobile banking the following services are available:

1. SMS BANKING SERVICES

SMS stands for Short Messaging Services. The services enable the mobile banking customers to access SMS server through their mobile phone. SMS server provides message inputs (query or request) form mobile phone to personal server of the internet banking company. These are then processed and the output is sent back to the customer’s mobile phone through SMS server. For SMS banking, one need not connect to internet.
The customer can avail the following services under the SMS banking: Making balance inquiry, Making query of the last five transactions, sending mail to the banks relationship officer, Changing SMS password, Opting out of SMS

AUTOMATED TELLER MACHINE (ATM)

MEANING OF ATM

An automated teller machine or automatic teller machine is a computerized telecommunication device that allows financial institutions customers a secure method of performing financial transaction in a public- space without the need for a human bank teller or a clerk.

FEATURES OF ATM

1. Cash withdrawal:The customer can withdraw up to Rs.25.000 per day from his account
2. Balance enquiry: The customer can know his ledger balance and the available balance.
3. Mini-statement: The customer can get a printout of his last transactions and the current balance.
4. Deposit cash/cheques: He can deposit either cash or cheques.
5. Fund transfer: Transferring funds from one account to another account is possible
6. PIN change: Personal identification number of ATM or debit card can be changed
7**. Payment:** This is the latest feature of ATMs. This functionality can be used for payment of bills, making donation to temples, trusts; buying internet packs anytime recharges for prepaid Mobile phones etc.
8. Charges: Charge is not levied on customers for transacting any ATM
9. Any where money: Customers can withdraw or deposit money without any service charges in any place.
10. Anytime money: It works 24 hours a day, 7 days a week

ADVANTAGE/ BENEFITS OF ATM

1. ATM Provides 24 hours Service: ATM provides services round the clock. The customer cash withdraw cash up to a certain a limit during any time of the day or night.

2. ATM gives convenience to banks customer: Now a day's ATM are located convenient places such as at the airports, railways station etc and not necessarily at the bank premises.

3. ATM reduces the workload of banks staff: ATM reduces the work pressure on banks' staff and avoids queues in bank premises.

4. ATM provides services without any error: ATM provides services without error. The customer can obtain exact amount. There is no human error as far as ATM's are concerned.

5. ATM is very beneficial for travelers: ATM is of great help to travelers. They need not carry large amount of cash with them. They can withdraw cash from any city or state, across the country and even from outside the country with the help of ATM.

6. ATM may gives customer new currency notes: The customer also gets brand new currency notes from ATM. In other words, customers do not get soiled notes from ATM.

ELECTRONIC FUNDS TRANSFER

A method of fund transfer mechanism, which facilitates transfer of funds between banks and users, is called 'Electronic Funds Transfer' (EFT). The scheme of EFT was introduced by the RBI with a view to helping banks offer their customers money transfer service from account-to-account of any bank branch to any other bank branch, both inter-city and intra-city. The method allows for both interbank and interbank funds transfer (money transfer between the branches of the same bank).

STEPS INVOLVED IN ELECTRONIC FUND TRANSFER SYSTEM

The electronic funds transfer system involves the following steps:

1. Making application

The first step in sending money through an electronic mode is that the remitter has to fill in the EFT application form. Details of the beneficiary are to be furnished in the application. By this, the remitter authorizes the branch remit a specified amount to be specified beneficiary by raising a debit to the remitters account.

2. Data preparation

The next step in the process of EFT mechanism is that the remitting branch makes a schedule and sends the duplicate of the EFT application form to the service branch. This is the done for EFT data preparation. The branch that is equipped with a computer system carried out the task of data preparation as per the specified format.

3. Data transmission

The service branch prepares the EFT data file. This is done by using a software package supplied by RBI remitting center. The files is then transmitted simultaneously to the local office of RBI and the local RBI National Clearing Cell (NCC) by 3.30pm.

4. Debiting remitting banks

The files of information transmitted by the service branches are consolidated at the RBI remitting center. The files of transactions are sorted by city-wise. The center then prepares vouchers for debiting the remitting banks on Day-1 itself. City-wise files are transmitted to the RBI offices at the respective destination centers.

5. Crediting receiving banks

The destination centers of the RBI receive the files from the originating centers. These are then consolidated and sorted bank-wise. Bank-wise remittance data files are transmitted to banks on Day-1 itself. Subsequently, bank-wise vouchers are prepared for crediting the receiving banks accounts, the next morning.

6. Crediting beneficiary

The destination centers of the RBI process the remittance files transmitted by RBI on the second day. Credit reports are then forwarded to the destination branches for crediting the beneficiaries accounts.

7. Task at service branch

Following tasks take place at the service branch where EFT transaction passes through for inward remittances.

- ❖ Receipt of transaction, messages from RBI-EFT center through RBI-net by way of downloading at the computer system installed in service branch of the respective bank.
- ❖ Provision of information to the concerned branch by the service branch regarding the receipt of credit transaction in the beneficiary account specified in the message
- ❖ Sending of credit advice to both the service branch and the beneficiary branch.

8. Task at beneficiary branch

Following tasks take place at the beneficiary branch where the EFT transaction passes through for inward remittances.

- ❖ Beneficiary branch acting as per the instructions given by the service branch and affording credit to beneficiary's account as per the advice.
- ❖ Sending acknowledgement copy of the credit advice, same day to the service branch.

REAL-TIME GROSS SETTLEMENT SYSTEMS (RTGS)

RTGS

Real-time gross settlement systems (RTGS) is a funds transfer system where money transfer takes place from one bank to another on a "real time" basis and "gross" basis. Settlement in the "real time" means that the transaction happens almost immediately. "Gross settlement" means the transaction is settled on one to one basis unlike NEFT where the transaction happens in bulk at a given point in time during the day. Once the transaction is processed, they are irrevocable. The minimum amount that needs to be remitted through NEFT is 2 lakhs.

RTGS is used for transactions which are very high in value and need to be cleared immediately. The bank that receives the money has to credit the amount in the account within 30 minutes of receiving it.

ADVANTAGES

1) **Certainty of Payment:** All payment under RTGS are irrevocable and final. So, beneficiary's account can be credited immediately. Under paper based system, credit may not be given due to technical reasons such as incorrect account details, foreign accounts etc.
2) **Faster Collection of Funds:** The RTGS would provide an opportunity to collect funds at a faster rate due to improved technology. It has the effect of reducing the receiver's working capital cycle.
3) **No settlement risk:** It reduces settlement risk since credit to an account is final with no possibility of subsequent returns.
4) **Improved Liquidity management:** From bank's point of view, the liquidity management can be improved since funds can be seamlessly transferred across banks.
5) **Less fraud and less processing cost:** The processing cost and the risk of frauds are greater in the case of paper based clearing system. They are considerably reduced under RTGS.

NATIONAL ELECTRONIC FUNDS TRANSFER (NEFT)

National Electronic Funds Transfer (NEFT) is an electronic funds transfer system maintained by the Reserve Bank of India (RBI). Started in November 2005, NEFT is a facility enabling bank customers in India to transfer funds between any two NEFT-enabled bank accounts on a one-to-one basis.

It is done via electronic messages. Unlike Real-time gross settlement (RTGS), fund transfers through the NEFT system do not occur in real-time basis.

PROCESS

- **Step-1:** Customer fills an application form providing details of the beneficiary (like name, bank, branch name, IFSC, account type and account number) and the amount to be remitted. The remitter authorizes his/her bank branch to debit his account and remit the specified amount to the beneficiary. This facility is also available through online banking and some banks offer the NEFT facility even through the ATMs.
- **Step-2:** The originating bank branch prepares a message and sends the message to its pooling centre (also called the NEFT Service Centre).
- **Step-3 :** The pooling centre forwards the message to the NEFT Clearing Centre (operated by National Clearing Cell, Reserve Bank of India, Mumbai) to be included for the next available batch.
- **Step-4:** The Clearing Centre sorts the funds transfer transactions destination bank-wise and prepares accounting entries to receive funds from the originating banks (debit) and give the funds to the destination banks(credit). Thereafter, bank-wise remittance messages are forwarded to the destination banks through their pooling centre (NEFT Service Centre).
- **Step-5:** The destination banks receive the inward remittance messages from the Clearing Centre and pass on the credit to the beneficiary customers' accounts.

SERVICE CHARGES FOR NEFT TRANSACTIONS

The structure of charges that can be

- Inward transactions at destination bank branches (for credit to beneficiary accounts):
  - Free, no charges to be collected from beneficiaries
- Outward transactions at originating bank branches (charges for the remitter):
  - For transactions up to `10,000 (not exceeding) : `2.50 (+ GST)
  - For transactions above `10,000 up to `1 lakh (not exceeding) : `5 (+ GST)
  - For transactions above `1 lakh and up to `2 lakhs (not exceeding) : `15 (+ GST)
  - For transactions above `2 lakhs : `25 (+ GST)

SETTLEMENT TIMINGS

- NEFT originally settled fund transfers in hourly batches with twelve settlements between 8:00 AM and 7:00 PM on week days. Settlements are closed on the second and fourth Saturday of the month. In April 2016, the RBI announced that clearance times would be reduced to half-hourly batches raising the number of settlements per day to 23.
- Any transaction initiated after a designated settlement time would have to wait till the next designated settlement time. As of 2013, all transactions initiated before 5 PM will be settled on same day. No transactions are settled on weekly holidays and public holidays.
- Transaction Timings for NEFT, Monday to Saturday (Except 2nd and 4th Saturday) is 8:00 AM to 6:30 PM. RTGS / NEFT is not allowed on Sundays, second and fourth Saturday of the month and the declared bank holidays for the calendar year.

MICR (MAGNETIC INK CHARACTER RECOGNITION)

MICR (Magnetic Ink Character Recognition) is a process by which documents are printed using magnetic ink and special fonts to create machine readable information for quick document processing. Although traditionally MICR has been used to print accounting and routing information on bank checks and other negotiable documents, the magnetic encoding lends itself to any form of document processing.

A unique code used to identify the particular branch of a particular bank. It is used mainly by the banking industry to ease the processing and clearance of cheques and other documents. The technology allows MICR readers to scan and read the information directly into a data-collection device. Unlike barcodes and similar technologies, MICR characters can be read easily by humans. It is a 9-digit code.

MICR code is a character-recognition technology used mainly by the banking industry to ease the processing and clearance of cheques and other documents. The MICR encoding, called the *MICR line*, is at the bottom of cheques and other vouchers and typically includes the document-type indicator, bank code, bank account number, cheque number, cheque amount, and a control indicator. The technology allows MICR readers to scan and read the information directly into a data-collection device. Unlike barcodes and similar technologies, MICR characters can be read easily by humans.

The components of MICR code are:

- The first three digits represent the city code of the bank branch – generally the pin code initials,
- The next three digits represent the bank code, and
- The last three digits represent the bank branch.

DEBIT CARD

Debit card is a plastic card which provides an alternative payment method to cash when making purchases. Physically, the card is an ISO 7810 card like a credit card; however, its functionality is more similar to writing a cheque as the funds are withdrawn directly from either the cardholders bank account or form the remaining balance on a gift card.

Depending on the store or merchant, the customer may swipe or insert his card into the terminal, or he may hand it over to the merchant who will to do so. The transaction is authorized and processed and the customer verifies the transaction either by entering a PIN or, occasionally, by signing a sales receipt.

In some countries, the debit card is multipurpose, acting as the ATM card for withdrawing cash and as a cheque guarantee card. Merchants can also offer cashback/cashout facilities to customers, where a customer can withdraw cash along with the purchase.

The use of debit cards has widespread in many countries and has overtaken the cheque, and in some instances cash transactions by volume. Like credit cards, debit cards are use widely for telephone and internet purchases. This may cause inconvenient delays at peak shopping times, caused when the volume of transactions overloads the bank networks.

Currently there are are two ways that debit card transactions are processed:

- ❖ Online debit (PIN debit)
- ❖ Offline debit (signature debit)

On line debit cards require electronic authorization of every transaction and the debits are reflected in the users account immediately. The transaction may be additionally secured with the PIN authentication system and some online cards require such authentication for every transaction, essentially becoming enhanced ATM cards.

Offline debit cards have the logos of major credit cards (e.g VISA or MasterCard) or major debit cards and are used like a credit card. This type of debit card may be subject to a daily limit, as well as maximum limit equal to the amount currently deposited in the current checking amount from which it draws funds.

CREDIT CARDS

A credit card is a system of payment named after the small plastic card issued to users of the system. It is different from a debit card in that it does not remove money from the users account after every transaction. In the case of credit cards, the issuer lends money to the consumer to be paid to the merchant. It is also different from a charge card, which requires the balance to be paid in full each month. In contrast, a credit card allows the consumer to 'revolve' their balance at the cost of having interest charged.

A user is issued credit after an account has been approved by the credit provider, and is given a credit card up to a pre-established credit limit. Often, a general bank issues the credit, but sometimes a captive bank created to issue a particular brand of credit card such as Chase, Wells Fargo or Bank of America issues the credit.

When a purchase is made, the credit card user agrees to pay the card issuer. The cardholder indicates their consent to pay by signing a receipt with a record of the card details and indicating the amount to be pain or by entering a PIN. Also, many merchants now accept verbal authorizations via telephone and electronic authorization using the internet, known as a card not present (CNP) transaction.

The credit card may simply serve as a form of revolving credit, or it may become a complicated financial instrument with multiple balance segments each at a different interest rate, possibly with a single umbrella credit limit, or with separate credit limits applicable to the various balance segments.

For each purchase, the bank charges the merchant a commission for this service, and there may be a certain delay before the agreed payment is received by the merchant. The commission is often a percentage of the transaction amount, plus a fixed fee. In addition, a merchant may be penalized or have their ability to receive payment using the credit card restricted if there are too many cancellations or reversals of charges as a result of disputes.