BANKING THEORY LAW AND PRACTICE

UNIT I

DEFINITION OF THE TERM BANKERS AND CUSTOMER

Introduction:

The relationship between a banker and a customer depends on the activities; products or services provided by bank to its customers or availed by the customer. Thus the relationship between a banker and customer is the transactional relationship.

Definition of a Banker:

The Banking Regulations Act (B R Act) 1949 does not define the term 'banker' but defines what banking is? As per **Sec.5 (b**) of the B R Act "Banking' means accepting, for the purpose of lending or investment, of deposits of money from the public repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise."

As per **Sec. 3** of the Indian Negotiable Instruments Act 1881, the word "banker includes any person acting as banker and any post office savings bank".

According to Sec. 2 of the Bill of Exchange Act, 1882, 'banker includes a body of persons, whether incorporated or not who carry on the business of banking.'

Sec.5(c) of BR Act defines "banking company" as a company that transacts the business of banking in India. Since a banker or a banking company undertakes banking related activities we can derive the meaning of banker or a banking company from Sec 5(b) as a body corporate that:

(a) Accepts deposits from public.

(b) Lends or

(c) Invests the money so collected by way of deposits.

(d) Allows withdrawals of deposits on demand or by any other means.

Definition of a Customer:

The term Customer has not been defined by any act. The word 'customer' has been derived from the word 'custom', which means a 'habit or tendency' to-do certain things in a regular or a particular manner's .In terms of Sec.131 of Negotiable Instrument Act, when a banker receives payment of a crossed cheque in good faith and without negligence for a customer, the bank does not incur any liability to the true owner of the cheque by reason only of having received such payment. It obviously means that to become a customer account relationship is must. Account relationship is a contractual relationship.

It is generally believed that any individual or an organisation, which conducts banking transactions with a bank, is the customer of bank. However, there are many persons who do utilize services of banks, but do not maintain any account with the bank.

Thus bank customers can be categorized in to four broad categories as under:

- Those who maintain account relationship with banks i.e. Existing customers.
- Those who had account relationship with bank i.e. Former Customers
- Those who do not maintain any account relationship with the bank but frequently visit branch of a bank for availing banking facilities such as for purchasing a draft, encashing a cheque, etc. Technically they are not customers, as they do not maintain any account with the bank branch.
- Prospective/ Potential customers: Those who intend to have account relationship with the bank. A person will be deemed to be a 'customer' even if he had only handed over the account opening form duly filled in and signed by him to the bank and the bank has accepted for opening the account, even though no account has actually been opened by the bank in its books or record.

GENERAL RELATIONSHIP:

1. Debtor-Creditor: When a 'customer' opens an account with a bank, he fills in and signs the account opening form. By signing the form he enters into an agreement/contract with the bank. When customer deposits money in his account the bank becomes a debtor of the customer and customer a creditor. The money so deposited by customer becomes bank's property and bank has a right to use the money as it likes. The bank is not bound to inform the depositor the manner of utilization of funds deposited by him.

2. Creditor–Debtor: Lending money is the most important activities of a bank. The resources mobilized by banks are utilized for lending operations. Customer who borrows money from bank owns money to the bank. In the case of any loan/advances account, the banker is the creditor and the customer is the debtor. The relationship in the first case when a person deposits money with the bank reverses when he borrows money from the bank. Borrower executes documents and offer security to the bank before utilizing the credit facility.

SPECIAL RELATIONSHIP:

1. Bank as a Trustee: As per **Sec. 3** of Indian Trust Act, 1882 ' A "trust" is an obligation annexed to the ownership of property, and arising out of a confidence reposed in and accepted by the owner, or declared and accepted by him, for the benefit of another, or of another and the owner.' Thus trustee is the holder of property on behalf of a beneficiary.

As per **Sec. 15** of the 'Indian Trust Act, 1882 'A trustee is bound to deal with the trust-property as carefully as a man of ordinary prudence would deal with such property if it were his own; and, in the absence of a contract to the contrary, a trustee so dealing is not responsible for the loss, destruction or deterioration of the trust-property.' A trustee has the right to reimbursement of expenses (Sec.32 of Indian Trust Act.).

2. Bailee – Bailor: Sec.148 of Indian Contract Act, 1872, defines "Bailment" "bailor" and "bailee". A "bailment" is the delivery of goods by one person to another for some purpose, upon a contract that they shall, when the purpose is accomplished, be returned or otherwise disposed of according to the directions of the person delivering them. The person delivering the goods is called the "bailor". The person to whom they are delivered is called, the "bailee".

3.Lessor and Lessee: Sec.105 of 'Transfer of property Act 1882' defines lease, Lessor, lessee, premium and rent. As per the section "A lease of immovable property is a transfer of a right to enjoy such property, made for a certain time, express or implied, or in perpetuity, in consideration of a price paid or promised, or of money, a share of crops, service or any other thing of value, to be rendered periodically or on specified occasions to the transferor by the transferee, who accepts the transfer on such terms."

4. Agent and Principal: Sec.182 of 'The Indian Contract Act, 1872' defines "an agent" as a person employed to do any act for another or to represent another in dealings with third persons. The person for whom such act is done or who is so represented is called "the Principal".

Thus an agent is a person, who acts for and on behalf of the principal and under the latter's express or implied authority and the acts done within such authority are binding on his principal and, the principal is liable to the party for the acts of the agent.

5. As a Custodian: A custodian is a person who acts as a caretaker of something. Banks take legal responsibility for a customer's securities. While opening a dmat account bank becomes a custodian.

6. As a Guarantor: Banks give guarantee on behalf of their customers and enter in to their shoes. Guarantee is a contingent contract. As per sec 31,of Indian contract Act guarantee is a " contingent contract ". Contingent contract is a contract to do or not to do something, if some event, collateral to such contract, does or does not happen.

MAIN FUNCTIONS AND SUBSIDIARY SERVICES RENDERED BY BANKERS:

(a) Commercial Banks:

Commercial Banks are meant basically for the financial help of the traders of the country. They are the most important source of short-term capital for a business. They provide a wide variety of loans tailored to meet the specific requirements of a business concern. Accepting deposits and giving loans are the main functions of these banks. The different forms in which these banks provide loans include loans, cash credits, overdrafts and purchasing and discounting of bills. The progress of inland trade of the country depends to a large extent upon these banks.

(b) Industrial Banks:

Business and special industries cannot be run only with the short-term finances. They need long-term loans. Industrial Development Bank of India and the Industrial Finance Corporation of India are the pioneers in this field. Although the number of industrial banks in India is not very large, they play a very vital role in the development of industry in the country. These banks provide not only finances but also guide on technical and managerial problems. They also underwrite shares and debentures issued by industrial undertakings.

(c) Agricultural Banks:

These banks are meant to help the agricultural sector. Agricultural banks provide short-term as well as long-term loans to those who are engaged in agriculture. Short-term agricultural loans are generally provided by co-operative banks while the long-term loans for purchase of land etc., are provided by Land Mortgage Banks.

(d) Exchange Banks.

Exchange banks are a type of commercial banks.

Their main function is financing of foreign trade and they provide the following services:

(i) Discounting of foreign bills of exchange;

(ii) Facilitate foreign remittances;

(iii) Buying and selling of gold and silver;

(iv) Financing internal trade.

Exchange banks work under the direct guidance of Reserve Bank of India. The development of foreign trade is mainly based upon these banks.

(e) Post Office Saving Bank:

Post Office also provides banking facilities. They accept deposits from the public in the form of savings deposits but they do not grant loans. However, a depositor can withdraw money from his saving bank deposit in the Post Office. Usually, they pay a little higher rate of interest as compared to the commercial banks and even at small places where commercial banks do not have branches, post-offices provide their services.

(f) Indigenous Bankers:

Private money lenders and other country bankers used to be only source of finance prior to the establishment of commercial banks. They used to charge very high rates of interest and exploited the customers to the largest extent possible. Now-a-days, with the development of commercial banks they have lost their monopoly. But even today some people depend upon indigenous bankers for their financial requirements.

(g) Regional Rural Banks:

The Regional Rural Banks aim at providing credit and other facilities to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs in rural areas. The authorised capital of RRB is fixed at Rs. 1 crore and its issued capital at Rs. 2 lakhs. Regional rural bank accepts deposits also. They may pay 1/2 per cent more interest on their term deposits than that of commercial banks.

(h) Export-Import Banks (Exim Bank):

The Export Import Bank was established in India on January 1, 1982. Its main objectives are:

a) To ensure an integrated and co-ordinated approach in solving allied problems encountered by the exporters in India;
b) To pay specific attention to the exports of capital goods;
c) Export projection;
d) To facilitate and encourage joint ventures and export of technical services;
e) To extend buyer’s credit; and
f) To tap domestic and foreign markets for resources for undertaking development and financial activities in the export sector.

(i) National Bank for Agriculture and Rural Development (NABARD):

National Bank for Agriculture and Rural Development was established in India on July 12, 1982, to act as an agency for promoting integrated rural development and to provide all sorts of production and investment credit for agriculture and rural development. NABARD is empowered to give short-term as well as long-term loans in composite form.

(j) State Bank of India:

Imperial Bank of India was nationalised in 1957 and named as State Bank of India.

The primary functions of the SBI include:

(i) It acts as the Bank of the Govt. of India, where Reserve Bank does not have its office.

(ii) It is the banker of the banks for and on behalf of the Reserve Bank.

(iii) It conducts treasury business.

(iv) It grants loans and deals in hundis, bills of exchange etc.

The subsidiary functions of State Bank of India include:

(i) Acts as clearing house.

(ii) Issues bank drafts for transfer of funds.

(iii) Invests in securities.

(iv) Purchases bills up to 15 months,

(u) Issues foreign bills of exchange.

(vi) Keeps in safe custody precious articles.

(vii) Performs other banking business.

(k) Reserve Bank of India:

The Reserve Bank was incorporated in 1935 to act as the Central Bank of the British Govt. ruling in India. It was nationalised in 1949. Now it occupies the most important position in the banking field in our country. It controls all the monetary policies of the country. It acts as the banker of banks and as the Bank of the Government.

Its important functions are:

Primary Functions:

(i) It acts as a Government bank.

(ii) It acts as a banker of banks.

(iii) It issues paper currency.

(iv) It controls the foreign exchange rates.

(v) It controls the Bank Rate of interest.

(vi) It acts as an apex authority for monetary management.

Subsidiary Functions:

(i) It gives short-term loans to commercial banks.

(ii) It provides loans for agricultural purposes.

(iii) It deals in foreign currency.

(iv) It deals in Government securities.

(v) It manages the Clearing House.

(vi) It provides financial assistance to co-operative societies.

(vii) It participates in industrial financing through Industrial Finance Corporation.

(viii) It collects and disseminates monetary and financial information through research and publications.

AGENCY SERVICES

1. **Collection of Cheques, Dividends, Interests etc.**: Collecting cheques, drafts, bill of exchange, dividends, interests etc. on behalf of its customers and credit the amount in their account is one of the most important agency services rendered by the banks. Banker accepts standing instructions from the customers and arranges to collect dividend, interest, pension, salaries, bills etc. on behalf of his customers.

2. **Payment of Subscription, Rent, Insurance Premium etc.**: Banks undertake the payment of subscriptions, rent, insurance premium etc. on behalf of the customers and debit the account with the amount. It accepts the standing instructions of the customer and arranges for the payment of such expenses on their behalf. It charges a small amount by way of commission for these services.

3. **Conduct of Stock Exchange Transactions**: Banks purchase and sell various securities such as shares, debentures, bonds etc. of joint stock companies both private and Government on behalf of their customers.

4. **Acting as Executor, Trustees, Attorneys etc.**: Banks act as executors of will, trustees, attorneys and administrators. As an executor it preserves the "Wills" of the customers and executes them after their death. As a trustee, it takes care of the funds of the customers. As an attorney, it signs transfer forms and documents on behalf of the customer.

5. **Preparation of Income Tax Returns**: Banks prepare income tax returns for their customers through their tax service departments.

6. **Conducting Foreign Exchange Transactions**: Commercial banks purchase and sell foreign exchange for their customers.

7. Banker acts as an agent to the customer. When a customer deposits cheques, drafts, bills or any other promissory notes, the banker collects them and on realization credits the account of the customer. For this activity, the banker is given commission. Banks also act as a correspondent, representative of their customers. Some banks may even get the travelers' tickets, passport etc. for their customers.

8. As the customer has to pay certain periodical payments such as monthly, quarterly, half yearly, the banker is informed by a standing instruction. Thus, club subscription, insurance premium, road tax, electricity charges and telephone bills of the customers are paid by the bank after debiting the customers' account.

GENERAL UTILITY SERVICES

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 has been in existence for many years. It is in fact the most important single document in the international trade.

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. In order to **promote capital market** and to **encourage issue of shares** both in the primary market and secondary market, the banker acts as an underwriter for certain companies. This will enable the companies to sell their shares. Banks underwrite the issue of shares and debentures of joint stock companies.

5. The bank **provides safe custody of valuables** by providing safe deposit vaults. The customers can keep their valuables such as jewels, silver ornaments, important documents and

share and debenture certificates safely. However, the bank will not give any guarantee for the safety of valuables. The relationship here is only that of a tenant and owner.

6. The income tax assessees can pay their **income tax through banks** notified by RBI.

7. 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.

8. In view of the **development of technology**, the bank is in a better position to provide various data which are in general interest.

9. The banks **help companies to mobilize funds in foreign market** through the sale of global deposit receipt.

10. Banks **undertake factoring and leasing finance** by which trade bills of customers are given finance.

11. **Issuing Travelers' Cheques**: Banks issue travellers' 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 Informatio**n: 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.

15. **Issuing Credit Cards**: Banks issue credit cards to their customers to enable them to purchase goods and obtain services on credit basis from certain specified retail and service establishments up to a limit and also to withdraw cash up to a specified limit through ATM, 24 hours a day including Sunday.

16. **Issuing Gift Cheques**: Some banks issue cheques of various denominations to be used on auspicious occasions. These cheques are known as gift cheques.

17. **Advising on Financial Matters**: Commercial banks also advice their customers on financial matters as to expansion, modernization, diversification etc.

UNIT II

OPERATIONS OF BANK ACCOUNTS

Introduction

The primary relationship between the bank and its customer is that of a debtor-creditor, various other relationships also arise out of the other functions performed by bank. Banks deals with different types of customers such as Individuals, companies, partnership firm, club, trusts, co-operative society etc. Banks are required to ascertain the capacity to contract of the persons opening bank accounts and also adhere to various legal provisions that apply to various categories of customers in the matter of opening and operation of the bank account.

Different Types of Account their Mode of Operation

- Single
- Jointly
- Jointly or Survivor
- Either or Survivor
- Former or Survivor
- Anyone or Survivor
- Joint accounts with Special Instructions
- Via Letter of Authority / Power of Attorney holder
- Minor account

Single Account: When an account is opened in the name of one individual it is known as single account. All the powers to operate the account are vested in the individual account holder concerned only and no one else. The mode of operation for a single account is SINGLE. Only the account holder can instruct the bank in matters such as issue of cheque books, withdrawal and transfer of funds from his/ her account etc. Even the closest relatives are treated as third parties and these include blood relatives such as father, mother, brother and sister, children and spouse.

Joint Account: Joint accounts are opened for two or more persons. The account opening form is required to be completed and signed by all the joint account holders. In joint accounts, banks takes customers instruction regarding Mode of Operations, Payment of balance n the event of death of any account holder.

- **Jointly:** The bank account will be operated by both or all account holders jointly. In such accounts, operations are permitted only with the mandate or authority of both or all the account holders jointly. For Example: A and B opened a joint bank account in Bank X with mode of operation Jointly, to do some transaction or instruct bank for any service booth A and B need to sign the form.
- **Jointly or Survivor:** This is an account with survivor-ship clause, but during the lifetime of the account holders, operation on the account are made jointly. In the event of death of a joint account holder, the balance become payable to the survivor. For Example A and B opened a joint bank account in Bank X with mode of operation **Jointly or Survivor**, to do some transaction or instruct bank for any service booth A and B need to sign the form and if A dies, then B can individually operate the account or transfer the proceeds to his own other bank account.
- **Either of Survivor:** This is the most popular modes of operating joint account as it provides convenience of operation as well as payment of balance to survivor. The account can be operated by any of the account holder independently.
- **Former or Survivor:** In such accounts, while the settlement of balance to the survivor is ensured, the operations are done solely by the former account holder. In other word, the customer whose name appearing first or earlier in the account opening form is authorized to solely operate the account during his lifetime. In the event of death of such account holder, balance is payable to survivor.
- **Anyone or Survivor:** Such accounts are opened when there are more than two account holders. The operations in the account and settlement of balance in the event of death of one of the account holders are done in the same manner as in case of E or S.

Joint Account Holders with Special Instructions: These types of bank accounts are more prevalent for corporate bank accounts where by the management wants to enforce internal controls based upon the materiality of the amount. In these accounts, the management specifies the limits upto which a single named account holder can sign a cheque and beyond which dual or even more than two account holders would be required to sign. For very high value transactions, it can also be mentioned that signature would be required from a specific named individual in addition to other named account holders.

Via Letter of Authority / Power of Attorney Holder: In some accounts you can authorise a third party to operate your bank account in your name. In such cases, though the third party can sign the cheques, but cannot deposit any cheques of their own into your account. Simply speaking only an authority to sign cheques or perform other functions such as creates demand drafts, and other banking functions can be performed by the authority holder. Such accounts are more common in case of Non Resident Bank accounts (NRE / NRO) or current accounts. All the joint account holders need to agree before creating an authority holder to the respective bank account.

Minor Bank account: According to Indian Majority Act, anyone who is less than 18 years of age is classified as a minor. A minor above 14 years of age can open and operate saving bank account. However, a minor who is a student (literate) can generally open and operate bank accounts above 12 years of age. However any account operated by Minor themselves would not be issued a cheque book – probably the reason behind that is – any contract with a Minor is not valid (as per Contract Act) and hence collection of cheques are not generally allowed in Minor operated bank accounts

FIXED DEPOSITS

Introduction

In deposit terminology, the term Fixed Deposit refers to a savings account or certificate of deposit that pays a fixed rate of interest until a given maturity date. Funds placed in a Fixed Deposit usually cannot be withdrawn prior to maturity or they can perhaps only be withdrawn with advanced notice and/or by having a penalty assessed.

Definition

A deposit held by a bank or other financial institution or a fixed amount of time agreed upon between the bank and the depositor. In exchange for not withdrawing the money during the agreed-upon period of time, the bank pays the depositor a larger amount of interest than would be earned from standard unfixed deposit.

Fixed Deposit Receipt and Its implications

Introduction

As one of the most common savings and investment options used by individuals, fixed deposits are risk free and offer guaranteed returns. Fixed deposits provide investors with an interest rate that is higher than what is offered on normal savings accounts. The maturity value of a fixed deposit is based on the date of maturity chosen by the individual. Individuals opt for fixed deposits as they are not risky and also provide assured returns, even if these returns are not very high such as those provided by mutual investments and equities.

Fixed Deposit Receipt

A Fixed Deposit Receipt (FDR) is nothing but a document provided by the bank after the applicant procures a fixed deposit scheme from their bank. This document contains details such as the individual's name, age, address, details of the scheme chosen by them such as deposit amount, tenure and interest rate applicable on the deposit and so on.

Components and Importance of a Fixed Deposit Receipt:

A Fixed Deposit Receipt contains all the details related to the deposit option procured by the individual. These details include:

- Name of the applicant
- Age of the applicant
- Account Number of the applicant
- Amount of principal that has been placed
- Rate of Interest that is applicable
- Date of Maturity
- Amount of interest that the individual will receive on maturity
- Instructions regarding maturity date such as account transfer or rollover amount

The Fixed deposit receipt acts as an acknowledgment and proof of the ownership of the fixed deposit account by a particular individual.. Apart from this, this receipt contains every single detail pertaining to the fixed deposit such as interest applicable, term and so on. Hence this receipt is a very important document and must be in the possession of the applicant.

Term and interest rate offered - Although this is a basic component of the receipt and may already be known to the customer, it is important to check these details again. This has to be given priority especially when individuals are renewing their fixed deposit scheme as certain rates may be discontinued by the bank.

Auto renewal and date of maturity - It is convenient for individuals to opt for auto renewal if they have a guaranteed salary every month as it saves on hassle and time during the next renewal. Also, date of maturity is another detail that should not be missed by individuals as this will help them plan out their financials better and also with regard to the day they can withdraw their fixed deposit investment.

Penalty for Prepayment - Banks sometimes charge a penalty on their fixed deposit if prepayment has been done. For example, if a bank charges 1% as the penalty for prepayment and individuals withdraw their fixed deposit (valued at 9%) after a period of 6 months, then they will receive an interest rate of only 6%, assuming the bank provides 7% as the interest for a 6 month FD.

Nomination - The receipt must provide details of the nomination in case the individual has made one. In the event of the unfortunate death of the individual, his/her nominee will receive the proceeds of the fixed deposit.

Declaration to save TDS - Tax at source is deducted by the bank in case the income from interest is over Rs.10,000. In case an individual's income falls into the bracket of 'no income tax' then declaration through Form 15G or Form 15H can be submitted and this must be mentioned in the receipt.

SAVINNGS BANK ACCOUNTS

Introduction

A savings account is an interest-bearing deposit account held at a bank or another financial institution that provides a modest interest rate. The financial institutions may limit the number of withdrawals you can make from your savings account each month. They also may charge fees unless you maintain a certain average monthly balance in the account. In most cases, banks do not provide checks with savings accounts.

Advantages of Savings Accounts

- Because savings accounts pay interest, it is more beneficial to keep your unneeded funds in a savings account than a checking account so that your money can grow.
- In addition, savings accounts are one of the most liquid investments outside of demand accounts and cash.

- While savings accounts facilitate saving, they also make it very easy to access your funds. In contrast, it is typically more difficult to cash a bond, make a withdrawal from a retirement account, or sell stocks or other assets.

Disadvantages of Savings Accounts

- While the liquidity of a savings account is one of its key benefits, it makes the funds available too readily, which could tempt you to spend them.
- Savings accounts usually pay lower interest rates than Treasury bills and certificates of deposit (CDs). As a result, they should not be used for long-term holding periods.

CURRENT ACCOUNTS

Introduction

The current account records a nation's transactions with the rest of the world – specifically its net trade in goods and services, its net earnings on cross-border investments, and its net transfer payments – over a defined period of time, such as a year or a quarter.

In economics, a country's **current account** is one of the two components of its balance of payments, the other being the capital account (also known as the financial account). The current account consists of the balance of trade, net *primary income* or *factor income* (earnings on foreign investments minus payments made to foreign investors) and net cash transfers, that have taken place over a given period of time.

The current account balance is one of two major measures of a country's foreign trade (the other being the net capital outflow). A current account surplus indicates that the value of a country's net foreign assets (i.e. assets less liabilities) grew over the period in question, and a current account deficit indicates that it shrank. Both government and private payments are included in the calculation. It is called the current account because goods and services are generally consumed in the current period.

RECURRING DEPOSIT ACCOUNTS

Introduction

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.

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.

The main features of **recurring deposit account** are as follows:-

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

The advantages of recurring deposit account are as follows:-

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

NEW DEPOSIT SAVING SCHEMES INTRODUCED BY BANKS

Introduction

High Return Small Saving Schemes Offered by Banks

Until now, most of the small savings schemes were sold through post offices only. But, the central government has recently issued a notification that allows all public banks and top three private banks (HDFC bank, ICICI bank, and Axis bank) to accept deposits for various small savings schemes like National Savings Certificate (NSC), recurring deposits etc. This step was taken in an effort to encourage savings. Now, the investors are available with more outlets to plan their savings.

Small Saving Schemes

Household savings are a very important part of investment for any economy. Household savings are converted into investments through small saving schemes. Thus, it can be said that small saving schemes are designed to provide a safe and attractive investment options to the public in general and to mobilize resources as well. It helps to support the social security objectives at the same time. Many schemes like Sukanya Samriddhi Scheme, Senior Citizen Saving Fund, PPF are supporting social security of different sections. These schemes were operated through post offices all over the country until now but now the government has authorized all the public sector banks and top three private sector banks to accept deposits under small saving scheme.

High Return Small Saving Schemes Offered by Banks

Every investment scheme bears different rates of interest and maturity time to offer different financial goals of the investors. The following are the main features of the schemes offered by the banks.

1) 7.8% Public Provident Fund (PPF)

- PPF is one fo the best retirement tool or for saving for long term.
- PPF will provide annual rate of interest at 7.8% and maturity in 15 years.
- The minimum deposit is Rs. 500 per annum and maximum is Rs 150,000.
- It is the best option when you want to plan for your child education or daughter marriage or for retirement purpose. It offers highest tax-free returns along with the income tax benefit under section 80C upto Rs 1.5 Lakhs.

2) 7.5% Kisan Vikas Patra (KVP)

- Kisan Vikas patra offers interest rates of 7.5%.
- The tenure of KVP is 115 months.
- Your money would get doubled in 115 months under KVP.
- You can invest as low as Rs 1,000 and no maximum limit.
- There is no income tax exemption u/s 80C.

3) 8.3% Sukanya Samriddhi Account (SSA)

- This scheme is originated for girl child only and it offers 8.3% interest annually.
- The maturity amount is tax-free.
- You can invest as low as Rs 1,000 and maximum of Rs 1.5 Lakhs.
- The tenure of SSA is 21 years. However it can be withdrawn before that with some terms and conditions.

4) 8.3% Senior Citizen Saving Scheme

- This is one fo the good Sr. Citizens saving scheme.
- It also 8.3% interest rate per annum and interest is paid quarterly.

- The maturity period is 5 years.
- The minimum deposit is Rs. 1,000 and maximum is Rs. 15 Lakh.

5) 7.6% National Savings Time Deposit Scheme

- This is like simple FD scheme.
- Investment can be made for different time periods like 1 year, 2 year, 3 year and 5 year.
- The interest varies accordingly ranging from 6.8% to 7.6%. The interest is calculated quarterly but payable annually.
- The minimum amount for investment is Rs 200. There is no maximum limit.

6) 7.5% National Savings MIP (Monthly Income Plan)

- This scheme is best for retired person as the interest is payable every month at the rate of 7.5% per annum.
- One can invest minimum of Rs 1,500 and maximum of Rs 4.5 Lakhs. If it is join account, the max amount is Rs 9 Lakhs.
- It becomes a source of regular income especially for investors like Senior Citizens who look for regular monthly income.

7) 7.1% National Savings RD (Recurring deposit)

- It is like simple bank RD.
- The minimum term period is 5 years with minimum deposit of Rs. 10 every month. There is no maximum limit.
- The rate of interest is 7.1% per annum and is compounded quarterly.
- A Rs.10 deposited for 5 years every month fetches Rs. 721.
- It can be continued for another 5 years on year-to-year basis.

8) 7.8% National Saving Cerificate (NSC)

- Rate of interest in NSC is 7.8%.
- The minimum investment is Rs 100 and there is no maximum limit.
- This option is ideal for those investors who want to take very minimum risk and planning to invest money for the purpose of saving tax. Otherwise, one can invest in other high return tax saving options.

SUPER SAVINGS PACKAGE

Introduction

A savings account marks a milestone for many of us in life. It means that we now have our own income which needs to be managed responsibly. But would you call earning a 4% rate of return on your income, responsible money management? If the inflation rate is higher than your savings rate, which it currently is (approximately 6%), then your money is eroding.

The RBI deregulated interest rates on savings accounts a while back. This meant that banks could now offer higher interest rates on savings accounts and that there would be more competition in the market. But are banks really offering the best to customers? There are sweep accounts that offer a 6% rate of return by moving idle funds into a short term FD. Still not enough to beat inflation.

Sounds almost like you don't have an option, but we're going to tell you about the smartest savings instrument yet, and why you should be switching to it soon if you don't want your money to lie idle.

1) The Super Savings Account

The Super Savings Account launched by FundsIndia is an innovative product designed to bring you the best of both worlds. The highest possible returns on your savings, without compromising on the liquidity of a bank savings account. This account invests your idle money in a liquid mutual fund which has the potential to offer you a higher return.

2) It's safe, smart and convenient

A liquid or money market fund is the safest mutual fund. The primary objective of a liquid fund is to keep money safe, while providing liquidity until you find better uses for it, say spending it or investing it further. For this reason, a liquid fund invests in safe instruments, such as treasury bills, short term government bonds and the call money market, which have very low risk and are highly liquid (maturity period of less than 91 days). The Super Savings Account solves this. It gives you the benefit of a liquid fund with the convenience of a savings account. **Now, you can access your money at any time you want and still get high returns**.

You can also transfer money in and out of your Super Savings Account. Unlike a liquid fund, you don't have to wait at all. Just set up a transfer and your bank account will be credited in 2-3 minutes usually, latest in 30 minutes.

3) You get all the benefits of a savings account

The funds in a Super Savings Account are easily accessible. You can use it just like a savings account. You'll get your own Visa Debit Card, free of cost, to use at shopping outlets or to withdraw money from ATMs.

4) No confusing charges and a low minimum balance

While many bank accounts come with a slew of charges and levies, the Super Savings Account makes life easy. There are no account opening charges and the minimum balance is just Rs.500. This is a breath of fresh air when you see that many sweep accounts not only offer lower interest rates but also require a high minimum account balance to be maintained.

5) And it's easy to get a Super Savings Account

Anyone is eligible for a Super Savings Account. All you need is a bank account from which to transfer funds into this account. Just click here and follow the simple three step process for registration. It's completely paperless and hassle-free. With the e-kyc system in place, you're ready to start in just a few minutes, with your Aadhaar number.

CASH CERTIFICATES

Cash certificates are a type of deposit that is purchased for a certain amount. The account holder purchases the cash certificate for a certain amount, but needs to make payments toward this amount only as long as the term of the certificate lasts. Typically, the account holder builds up to the full amount of the certificate, earning interest as the money is transferred to the account, like a reverse loan. Account holders make payments once every quarter. Cash certificates can last years, and holders can even borrow money against them if necessary.

ANNUITY DEPOSIT

Under this scheme, a lump sum amount is deposited by a customer who is repaid to the customer over a period in equated monthly installment which comprises part of principle amount and interest on the reducing principle amount as well. Using the scheme customer can have fixed monthly amount against his onetime deposit. Payment will start on anniversary date of the month. If date is non-existent (29th, 30th and 31st), it will be paid on 1st day of next month.

REINVESTMENT PLANS

The State Bank of India (SBI) is the largest public sector lender of India. The bank offers a variety of saving instruments such as fixed deposit accounts to mutual funds and gold monetisation schemes. Among these saving schemes, the bank also offers SBI Reinvestment Plan, which functions just like a fixed deposit.

SBI Reinvestment Plan (a variant of SBI FD):

Installments: Under the SBI Reinvestment scheme, the minimum investment required is Rs 1000. However, there is no maximum limit to invest in the plan.

Interest rates: The rates of deposits in SBI Reinvestment Plan are the same as offered on FD plans. SBI recently revised its interest rates on fixed deposits. Here are the latest SBI FD interest rates on deposited below Rs 1 crore:

Tenure: According to sbi.co.in, the tenure ranges from six months to 10 years.

Premature Withdrawal: SBI offers premature withdrawal under the reinvestment scheme. However, premature withdrawal is taxable. For retail term deposit up to Rs 5 lakh, the penalty for premature withdrawal is 0.50%. For retail term deposit above Rs 5 lakh but below Rs 1 crore, the penalty is 1%.

Moreover, the interest shall be 0.50% or 1% below the rate applicable at the time of deposits for the period deposit remained with the bank or 0.50% or 1% below the contracted rate, whichever is lower. However, no interest will be paid on deposits which remain for a period of fewer than 7 days.

Loan facility: Subscribers can avail a loan or overdraft up to 90% of the money available plus accrued interest, at 1 per cent above the STDR rate.

TDS: SBI Reinvestment scheme is subject to a tax deducted at source. TDS is deducted at the prevalent income tax rate if Form 15G/15H not submitted.

Auto-renewal: SBI exercises an auto-renewal on the reinvestment plan if maturity instructions are not given.

Tax Benefits: Customers cannot claim tax on the invested amount as it is not a tax-saving fixed deposit.

PERENNIAL PREMIUM PLAN

Introduction

Perennial Financial Services distinguishes itself by offering a specialized approach to total wealth management by adhering to the belief that no single advisor can specialize in all facets of financial planning. At the heart of our philosophy is the fundamental belief that specialized knowledge and expertise will ultimately produce a superior and higher quality total wealth management strategy.

The amount held in an account at the end of a reporting period. For example, a credit card account balance would show the amount owed to a lender as a result of purchases made during a specific period.

Adjustable-Rate Mortgage (Arm)

A mortgage with an interest rate that is adjusted periodically based on an index. Adjustable-rate mortgages generally have lower initial interest rates than fixed-rate mortgages because the lender is able to transfer some of the risk to the borrower; if prevailing rates go higher, the interest rate on a variable mortgage may adjust upward as well.

Adjusted Gross Income (Agi)

One figure used in the calculation of income tax liability. AGI is determined by subtracting allowable adjustments from gross income.

- Administrator
- A probate-court-appointed person who is tasked with settling an estate for which there is no will.
- After-Tax Return
- The return on an investment after subtracting any taxes due.

Aggressive Growth Fund

A mutual fund offered by an investment company that specifically pursues substantial capital gains. Mutual fund balances are subject to fluctuation in value and market risk. Shares, when redeemed, may be worth more or less than their original cost. Mutual funds are sold only by prospectus. Individuals are encouraged to consider the charges, risks, expenses, and investment objectives carefully before investing. A prospectus containing this and other information about the investment company can be obtained from your financial professional. Read it carefully before you invest or send money.

Alternative Minimum Tax (Amt)

A method of calculating income tax with a unique set of rules for deductions and exemptions that are more restrictive than those in the traditional tax system. The AMT attempts to ensure that certain high-income taxpayers don’t pay a lower effective tax rate than everyone else. To determine whether or not the AMT applies, taxpayers must fill out IRS Form 6251.

Annual Percentage Rate (Apr)

The yearly cost of a loan expressed as a percentage of the loan amount. The APR includes interest owed and any fees or additional costs associated with the agreement.

Annual Report

A report required by the Securities and Exchange Commission (SEC) of any company issuing registered stock, that describes a company's management, operations, and financial reports. Annual reports are sent to shareholders, and must also be available for public review.

Annuity

A contract with an insurance company that guarantees current or future payments in exchange for a premium or series of premiums. The interest earned on an annuity contract is not taxable until the funds are paid out or withdrawn. Withdrawals and income payments are taxed as ordinary income. If a withdrawal is made prior to age 59½, penalties may apply. The guarantees of an annuity contract depend on the issuing company's claims-paying ability. Annuities have fees and charges associated with the contract, and a surrender charge also may apply if the contract owner elects to give up the annuity before certain time-period conditions are satisfied.

Appraisal

A formal assessment of a property's value at a specific point in time, performed by a qualified professional.

Asset

Anything owned that has a current value that may provide a future benefit.

Asset Allocation

A method of allocating funds to pursue the highest potential return at a specific level of risk. Asset allocation normally uses sophisticated mathematical analysis of the historical performance of asset classes to attempt to project future risk and return. Asset allocation is an approach to help manage investment risk. It does not guarantee against investment loss.

Asset Class

A specific category of investments that share similar characteristics and tend to behave similarly in the marketplace.

Audit

In accounting, the formal examination of a company's financial records by a qualified professional to determine the records' accuracy, consistency, and conformity to legal standards and established accounting principles. In taxes, the formal examination of a tax return by the Internal Revenue Service or other authority to determine its accuracy.

Automatic Reinvestment

An arrangement under which an institution automatically deposits dividends or capital gains generated by an individual's investment back into the investment to purchase additional shares.

NON RESIDENT (EXTERNAL) ACCOUNTS SCHEME

Introduction

In India banking terminology, the term Non-Resident External or NRE Account refers to funds deposited with a financial institution that allows for the efficient conversion and transfer of Indian and foreign currency both within and outside of India.

- Regulation No.5 provides for deposit accounts opened with authorised dealers by an NRI under various schemes. These schemes have been detailed in various Schedules to these Regulations. Thus, Schedule 1 contains the details regarding the Non-resident (External) Account Scheme.
- The terms and conditions subject to which NRE accounts of NRIs can be maintained by authorised dealers or authorised banks have been specified in this Schedule. Generally, there is no change in the earlier NRE Account Scheme contained in Part B of Chapter 13 of ECM of RBI except that the limit for permitting overdraft in the account has been raised from `.20,000 to `.50,O00.
- For the purpose of reporting to Reserve Bank authorised dealers/banks may follow the instructions contained in paragraph 13B.25 of ECM (Exchange Control Manual).
- As per the Finance Act, 2005 interest on monies standing to the credit of an individual in a Non-Resident (External Account) would continue to be Exempt even after 31.03.2005.
- Likewise, the interest payable by a scheduled bank to a Non-resident or to a person who is not ordinarily resident on deposits in foreign currency as approved by the Reserve Bank of India would continue to be exempt on or after.

UNIT III

TYPES OF CUSTOMERS

Introduction

Banks open accounts for various types of customers like individuals, partnership firm, Trusts, companies, etc. While opening the accounts, the banker has to keep in mind the various legal aspects involved in opening and conducting those accounts, as also the practices followed in conducting those accounts. Normally, the banks have to deal with following types of deposit customers.

1. Individuals
2. Joint Hindu Families
3. Partnership Firms
4. Limited Liability Companies
5. Clubs and Associations
6. Trusts

1. Individuals

The depositor should be properly introduced to the bank and KYC norms are to be observed. Introduction is necessary in terms of banking practice and also for the purpose of protection under section 131 of the Negotiable Instruments Act. Usually, banks accept introductions from the existing customers, employee of the bank, a locally well-known person or another bank.A joint account may be opened by two or more persons and the account opening form etc., should be signed by all the joint account holders. When a joint account is opened in the name of two persons, the account operations may done by

a. Either or survivor
b. Both jointly
c. Both jointly or by the survivor
d. Former or survivor

When the Joint account is in the names of more than two person, then the following operations are made:

a. all of them jointly or by survivors
b. any one of them or by more than one of them jointly

Non-resident individuals (NRIs)

Non-Resident Indian means, a person, being a citizen of India or a person of Indian origin residing outside India. A person is considered Indian Origin when he or his parents or any of his grand parents were Indian National. If at any time held an Indian passport, (nationals of Bangladesh and Pakistan are not deemed to be of Indian origin), a spouse (who is not a Bangladeshi or Pakistan national), of a person of Indian origin shall also be deemed to be of Indian origin. Non-resident falls generally into the following two categories:

a. A person who stay abroad for the purpose of employment or to carry on business activities or vocation or for any other purpose for an indefinite period of stay outside India and
b. Indian National working abroad for a specific period.

Facilities for maintaining bank accounts are available in India to Indian National or origin, living abroad. The exchange control procedures relating to these facilities have been simplified. The details of various deposit schemes available to NRI's are as follows:

Various Types of NRI Accounts

- Ordinary Non-resident Rupee Accounts (NRO Accounts);
- Non-Resident (External) Rupee Accounts (NRE Accounts);
- Non-resident (Non-Repatriable) Rupee Deposits (NRNR Accounts); and
- Foreign Currency (Non-Resident) Accounts (Banks) Scheme (FCNR (B) Accounts).

While NRO and NRE accounts can be kept in the form of current, savings bank, recurring deposit or term deposit accounts, deposits under NRNR and FCNR (B) schemes can be kept only in the form of term deposits for periods ranging from six months to three years.

2. Joint Hindu Family (JHF):

Joint Hindu Family (JHF) (also known as Hindu Undivided family) is a legal entity and is unique for Hindus. It has perpetual succession like companies; but it does not require any registration. The head of JHF is the Karta and members of the family are called co-parceners. The JHF business is managed by Karta.

3. Partnership firms

A partnership is not a legal entity independent of partners. It is an association of persons. Registration of a partnership is not compulsory under Partnership Act. However, many banks insist on registration of a partnership. In any case, ie stamped partnership deed or Partnership letter should be taken when an account is opened for a partnership. The partnership deed will contain names of the partners, objective of the partnership, and other operational details, which should be taken note of by the bank in its dealings.

4. Joint stock companies (Limited Liability Companies)

A company is registered under companies Act has a legal status independent of that of the share-holders. A company is an artificial person which has perpetual existence with limited liability and common seal. Memorandum and Articles of Association, Certificate of Incorporation, Resolution passed by the Board to open account, name and designations of persons who will operate the account with details of restriction placed on them are the essentials documents requiredto open an account.

5. Clubs, Societies and Associations

The clubs, societies, association etc., may be unregistered or registered. Account may be opened only if persons of high standing and reliability are in the managing committee or governing body. Copy of certificate of registration and Copy of bye-law, certified to be the latest, by the Secretary/President are required to be obtained and also a certified copy of the resolution of the Managing Committee/Governing body to open the bank account and giving details of office bearers etc., to operate the account.

6. Trust Account:

Trusts are created by the settler by executing a Trust Deed. A trust account can be opened only after obtaining and scrutinizing the trust deed. The Trust account has to be operated by all the trustees jointly unless provided otherwise in the trust deed. A trustee cannot delegate the powers to other Trustees except as provided for in the Trust Deed. A cheque favoring the Trust shall not be credited to the personal account of the Trustee.

ACCOUNT HOLDERS

Meaning

A person operating an account with a bank is an account holder. The term includes all persons designated and authorized to transact business on behalf of an account. For operating account, each account holder's signature needs to be on file with the bank. Signature with the bank is the authorization entitling a person to conduct business on behalf of the account.

An account holder is a term used for someone designated for performing transactions on an account. This term is generally used in banking, but also applies to utility bills, credit cards and other types of accounts.

PROCEDURE FOR OPENING AND CLOSING OF ACCOUNTS OF CUSTOMERS

Procedure for opening accounts

1. Decide the Type of Bank Account you want to Open

There are several types of bank accounts such as Saving Account, Recurring Account, Fixed Deposit Account and Current Account. So a decision regarding the type of account to be opened must be taken.

2. Approach any Bank of choice & meet its Bank Officer

Once the type of account is decided, the person should approach a convenient bank. He has to meet the bank officer regarding the opening of the account. The bank officer will provide a proposal form (Account Opening Form) to open bank account.

3. Fill up Bank Account Opening Form - Proposal Form

The proposal form must be duly filled in all respects. Necessary details regarding name, address, occupation and other details must be filled in wherever required. Two or three specimen signatures are required on the specimen signature card. If the account is opened in joint names, then the form must be signed jointly. Now a day the banks ask the applicant to submit copies of his latest photograph for the purpose of his identification.

4. Give References for Opening your Bank Account

The bank normally required references or introduction of the prospective account holder by any of the existing account holders for that type of account. The introducer introduces by signing his specimen signature in the column meant for the purpose The reference or introduction is required to safeguard the interest of the bank.

5. Submit Bank Account Opening Form and Documents

The duly filled in proposal form must be submitted to the bank along with necessary documents. For e.g. in case of a joint stock company, the application form must accompany with the Board's resolution to open the account. Also certified copies of articles and memorandum of association must be produced.

6. Officer will verify your Bank Account Opening Form

The bank officer verifies the proposal form. He checks whether the form is complete in all respects or not. The accompanying documents are verified. If the officer is satisfied, then he clears the proposal form.

7. Deposit initial amount in newly opened Bank Account

After getting the proposal form cleared, the necessary amount is deposited in the bank. After depositing the initial money, the bank provides a pass book, a cheque book and pay in slip book in the case of savings account. In the case of fixed deposits, a fixed deposit receipt is issued. In the case of current account, a cheque book and a pay in slip book is issued. For recurring account, the pass book and a pay in slip book is issued.

Procedure for closing accounts

1. **Find your new bank**

Before closing your old bank account, you should have a new bank ready to receive your money except you already have another one for that purpose. If you close your bank account and then start looking for a new bank, you may find yourself inconvenienced when you need to write a cheque, transfer money, or pay a bill.

2. **Review and transfer automatic payments and recurring transactions**

Since banks allow customers to automate much of their finances, consumers who want to leave banks found themselves hindered by the chore of having to re-establish that automatic flow of money. In most cases, however, the transition simply requires you to change the bank account number and routing number.

Review your bank statements for the past six to 12 months so you can identify, which automated transactions need to be rerouted to your new bank. These transactions can include rent payments, bill payments, direct deposits and automatic fund transfers. You may also find infrequent transactions that also draw from your old accounts

3. **Transfer the money from your old bank to the new**

When you have confirmed that automatic transactions have been re-routed properly, you can begin to move your money to the new bank. You can do so without telling your old bank that you plan to close your accounts. Be cognisant of any withdrawal or transfer limits if there is a large amount of cash in your old accounts.

4. **Change your bank details for any direct deposit**

If your pay is deposited directly into your account, give your employer your new account information. Inform the government of your account change if you get government benefits or payments (including income tax refunds) deposited automatically into your account.

Also, if you pay bills by pre-authorised debits, make sure everyone you pay has your new account information. Ask your bank if it can do this for you. You may be charged a not sufficient funds fee each time a PAD is taken out of your old account and there's not enough money to cover it.

5. **Stop writing cheques on your old current account**

Make a list of any cheques that haven't been cashed. Then wait until they clear before closing your account.

6. **Monitor your accounts carefully**

Make sure that everything has been switched over and is running smoothly in your new account. Also, confirm that the cheques you wrote on your old account have all been cashed. You can do this by looking at statements or accessing your account online.

7. **Close your old account**

Call the financial institution and tell them you are planning to close your account. Find out how long it will take to close, and if there will be a fee. If there's any money in the account, you can either withdraw it or move it to your new account.

With some planning, switching banks isn't such a terrifying experience. In the future, the Consumer Financial Protection Bureau may even make it easier for consumers to switch banks.

PARTICULARS OF INDIVIDUALS INCLUDING MINOR, ILLITERATE PERSON

Introduction

Every person who is competent to contract can open an account with a bank provided the bank is satisfied regarding his bonafides and is willing to enter into necessary business relations with him. But there are certain types of persons e.g. Minor or Infant, Lunatics, Drunkard or Intoxicated Person, etc. whose capacity to enter into valid contracts is subject to certain legal restrictions.

Accounts of Minor

A minor is a person who has not completed eighteen years of age. Any contract entered by minor is void and is not enforceable by law. This prevents minor to acquire property, dispose property or enter into any type of agreement. Guardian means a person having the care of the person of a minor or of his property or both person and property. Guardians may be categorised into following three types:

- Natural guardian
- Testamentary Guardian
- Legal Guardian appointed by a court

ILLITERATE PERSON

An illiterate person may open an account with a bank. The banker should take the following steps:

1)Thumb impression: The left hand for man and right hand for woman thumb impression of the depositor should be obtained on he account opening form and the specimen signature sheet in the presence of an authorized supervising official.

2) Identification mark: Where possible, brief details of one or two identification marks of the depositor should be noted on the account opening form and the specimen signature sheet under authentication of an authorized officials.

3)Photograph: Two copies of passport size of the depositor should be obtained and got renewed every three years.

General Implication and condition s for operation of the account should explained to the depositor by an authorized official. .Withdrawals the account should generally be allowed only when the person comes personally and produces his or her passbook I balance confirmation certificate and put thumb impression on the cheque in the presence of bank officials.

MARRIED WOMAN

A married woman is competent to enter a valid contract. Therefore banker opens an account in the name of a married woman. In the case of a debt taken by a married woman her husband shall not be liable except in the following circumstances:

- If she borrows money for the necessities of her life
- If she borrows for the necessaries of her household
- If she acts as an agent of her husband.

LUNATICS, DRUNKARD

All contracts made by lunatics are void except those made during lucid intervals. A customer may become a lunatic after opening his account with the bank. In such a case the bank will not be responsible if it honours a cheque or bill duly drawn accepted or endorsed by the lunatic unless it is proved that it knew of his lunacy at the time of honoring or discounting. The bank should, therefore, suspend all operations on the account of a person who to its knowledge has become lunatic till it receives a proof of his sanity or gets an order of the court to that effect. A banker should treat a customer as sane till there is fairly conclusive evidence in support of his insanity.

The banker should take the following steps on receiving notice of customer's insanity.

- It should return all cheques on customer's account with the words refer to drawer and not 'customer insane'.
- It should make a careful note of the lunacy order as and when received from the court.
- It should allow the operation of the account only as per the lunacy order.
- It should not allow the customer to operate the account till he is certified by the court to be same.

JOINT STOCK COMPANIES

If a company is registered under companies Act has a legal status independent of the shareholders. A company is an artificial person who has a perpetual existence with limited liability and the common seal.

- Memorandum
- Articles of Association
- Certificate of Incorporation
- Resolution passed by the Board to open account
- Name and Designation of person who will operate the account with details of restriction placed on them

These are the essentials documents required to open an account.

NON TRADING ASSOCIATION, REGISTERED AND UNREGISTERED CLUBS, SOCIETIES

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.

UNIT IV

PAYING BANKER

Meaning

The banker on whom a cheque is drawn or the banker who is required to pay the cheque drawn on him by a customer is called the paying banker.

PRECAUTION OF A PAYING BANKER OR MANDATORY FUNCTIONS OF BANKER

Cheque should be in proper form: the cheque presented for payment should be in proper form. The banker should see that the cheque satisfies all the requirements of a valid cheque. The cheque must be in printed form supplied by the banker.

Physical conditions of the cheque: the cheque should be in good physical condition. The instrument should not be torn, cancelled.

Crossing of cheque: if the cheque is a crossed one, the payment cannot be made across the counter. It as to pass through the account holder.

Office of drawing: the cheque should be presented for payment same bank where he as account. if the customer presents a cheque in a bank where he doesn't hold an account, the manager cannot make payment.

Date of the cheque: the cheque should possess a date for payment and only on that date or within three months from that date, the payment should be made.

Time of presentation: the cheque should be presented for payment during the banking hours. Amount: the amount of the cheque presented for payment has to be recorded in both words and figures and they should tally with each other.

Material alteration: if material alteration is apparent the banker should get confirmation from the drawer by obtaining full signature at the place of material alteration.

Signature of the drawer: the banker has to examine the signature of the drawer on the cheque before he makes payment with the specimen he has.

Endorsement

Legal Restrictions: in case of death, insolvency lunacy

STATUTORY PROTECTION TO PAYING BANKER

1. Bearer Cheques: the drawee is discharged by payment in due course to the bearer thereof, not withstanding any endorsement whether in full or blank appearing there on.

The banker shall be free from any liability if the payment in respect of a bearer cheque is payment is due course.

2. Order Draft with Forged Endorsement: this Provision gives protection to the paying banker regarding the draft having a forged endorsement.

Again the conditions to be satisfied are:

The endorsement should be regular

The payment should be made in due course.

3. Protection in respect of a crossed cheque: The paying banker has to make payment of the crossed cheque as per the instruction of the drawer refuted through the crossing

4. Materially Altered Cheques: if material alteration is apparent the banker should get confirmation from the drawer by obtaining full signature at the place of material alteration.

COLLECTING BANKER

The collecting banker is a banker who collects cheques drawn upon other bankers for and on behalf his customer. He is called the collecting banker as he undertakes the work of collection of cheques.

Holder for value

A collecting banker becomes a holder for value if he has paid the value of the cheque to the customer before the cheque is already collected.

As an agent

A collecting banker acts as an agent of the customer on crediting the account of the customer only after realising the payment from the paying banker. (drawee bank)

THE RIGHTS AND DUTIES OF A COLLECTING AND PAYING BANKER

The rights and duties of a paying banker are specified in Section 31 and that of collecting banker in Section 131 of the Negotiable Instruments Act. The paying banker should verify the date, signature, amount in words and figures before effecting any payment of cheque. As a collecting banker it should see that account through which the cheque is sought to be collected is properly introduced. It is collected in good faith and without any negligence.

DUTIES AND RESPONSIBILITIES OF A COLLECTING BANKER

- Banker must take at most care while presenting the cheque for collection.

- Collecting banker must present the cheque within reasonable time.
- Notice to customer in case of dishonour of cheque.
- The banker has to credit the proceeds of the cheque to the account of the customer
- Should undertake the collection of cheque only for customer and not for stranger.
- Must receive the payment as an agent of the customer.
- Cheque must be crossed

THE PRECAUTIONS TO BE TAKEN BY A PAYING BANKER

Paying banker

The bank on which a cheque is drawn (the bank whose name is printed on the cheque) and which pays the amount for which the cheque is written and deducts that sum from the customer's account.

Meaning of paying banker

The banker on whom a cheque is drawn or the banker who is required to pay the cheque drawn on him by a customer is called the paying banker or drawee bank

Precautions should be taken after the storm

Remain indoors until an official 'all clear' is given. Do not touch fallen or low hanging wires. Only use cell phones for emergency. Call police or utility companies to report hazards. After power is restored, check refrigerators for spoiled food.

Precautions are to be taken if an earthquake occurs

If you are inside during an earthquake, you should take cover under something sturdy to protect yourself from falling objects. After it is over, check for broken gas or electric lines.

The Measures taken by paying banker regulated mutilated cheque

If a Cheque is mutilated the chances are that it may be rejected/dishonoured. A bank may choose to pay for the cheque if the below information is clearly visible:

Issuer Name (Account holder’s name)

1. Payee Name
2. Date
3. Amount (Both in numbers & words)
4. Signature of acc holder (should match bank records) If the above are clearly visible then in certain cases the bank may honour the cheque but in most cases, mutilated cheques are rejected.

Protection to a collecting banker and to a paying banker

A collecting banker's protection consists of the check he collected is a crossed check, he collected the check only as an agent, and he collected it in good faith. For a paying banker, his protection is that the signature is verified and the check is genuine.

Paying in bankers draft

It will not bound when you make purchases - is cheaper and slower method of sending money - it has the backing by issuing bank - it is better than personal cheque - it can be made out to pay a named account to give it absolute security.

STATUTORY PROTECTION TO COLLECTING BANKER

Section 131 of the Negotiable Instruments Act provides protection to a collecting banker who receives payment of a crossed cheque or draft on behalf of his customers. According to Section 131 of the Act "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."

The protection provided by Section 131 is not absolute but qualified. A collecting banker can claim protection against conversion if the following conditions are fulfilled.

1. Good Faith and Without Negligence:

Statutory protection is available to a collecting banker when he receives payment in good faith and without negligence.

The phrase in "good faith" means honestly and without notice or interest of deceit or fraud and does necessarily require carefulness. Negligence means failure to exercise reasonable care. It is not for the customer or the true owner to prove negligence on the part of the banker. The burden of proving that he collected in good faith and without negligence is on the banker. The banker should have exercised reasonable care and diligence. What constitutes negligence depends upon facts of each case.

Following are a few examples which constitute negligence:

a) Failure to obtain reference for a new customer at the time of opening the account.

b) Collection of cheques payable to ‘trust accounts’ for crediting to personal accounts of a trustee.
c) Collecting for the private accounts of partners, cheques payable to the partnership firms.
d) Omission to verify the correctness of endorsements on cheques payable to order.
e) Failure to pay attention to the crossing particularly the “not negotiable crossing.”

2. Collection for a Customer:

Statutory protection is available to a collecting banker if he collects on behalf of his customer only. If he collects for a stranger or noncustomer, he does not get such protection. As Jones aptly puts if “duly crossed cheques are only protected in their collection, if handled for the customer”. A bank cannot get protection when he collects a cheque as holder for value. In Great Western Railway Vs London and Country Bank it was held that “the bank is entitled for protection as it received collection for an employee of the customer and not for the customer.”

3. Acts as an Agent: A collecting banker must act as an agent of the customer in order to get protection. He must receive the payment as an agent of the customer and not as a holder under independent title. The banker as a holder for value is not competent to claim protection from liability in conversion. In case of forgery, the holder for value is liable to the true owner of the cheque.

4. Crossed Cheques:

Statutory protection is available only in case of crossed cheques. It is not available in case uncrossed or open cheques because there is no need to collect them through a banker. Cheques, therefore, must be crossed prior to their presentment to the collecting banker for clearance. In other words, the crossing must have been made before it reached the hands of the banker for collection. If the cheque is crossed after it is received by the banker, protection is not available. Even drafts are covered by this protection.

Statutory Protection to Paying Banker

01. Protection in case of order cheque:

In case of an order cheque, Section -85(1) provides statutory protection to the paying banker 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". However, two conditions must be fulfilled to avail of such protection.

(a) Endorsement must be regular:

To avail of the statutory protection, the banker must confirm that the endorsement is regular.

(b) Payment must be made in Due Course:

The paying banker must make payment in due course. If not, the paying banker will be deprived of statutory protection.

02. Protection in case of Bearer Cheque:

Section -85(2) provides protection to the paying banker in respect of bearer cheques as follows: "Where a cheque is originally expressed to be payable to bearer, the drawee is discharged by payment in due course to the bearer thereof, notwithstanding any endorsement whether in full or blank appearing thereon and notwithstanding that any such endorsement purports to restrict or exclude further negotiation". This section implies that a cheque originally issued as a bearer cheque remains always bearer.

03. Protection in case of Crossed cheque:

The paying banker has to make payment of the crossed cheques as per the instruction of the drawer reflected through the crossing. If it is done, he is protected by Section -128. This section states "Where the banker on whom a crossed cheque is drawn has paid the same in due course, the banker paying the cheque and (in case such cheque has come to the hands of the payee) the drawer thereof shall respectively be entitled to the same rights, and be placed in if the amount of the cheque had been paid to and received by the true owner thereof".

It is clear that the banker who makes payment of a crossed cheque is by the Section -128 given protection if he fulfils two requirements

1. That he has made payment in deuce course under Section -10 i.e. in good faith and without negligence and according to the apparent tenor of the cheque, and
2. That the payment has been made in accordance with the requirement of crossing (Section -126), i.e. through any banker in case of general crossing and through the specified banker in case of special crossing.

Thus, the paying banker is free from any liability on a crossed cheque even if the payment was received by the collecting banker on behalf of a person who was not a true owner. For example, a cheque in favour of X is stolen by Y. He endorses it in his own favour by forging the signature of X and deposits it in his bank for collection . In this case, the paying banker shall be discharged if he makes payment as mentioned above and shall not be liable to pay the same to X, the true owner of the cheque.

The drawer of the cheque is also discharged since protection is also granted to him under this Section. There is, however, one limitation to the protection granted under this Section. If the banker cannot avail of the protection granted by other Section of the Act, the protection under Section -128 shall not be available to him.

For example, if the paying banker makes payment of a cheque crossed with

1. Irregular endorsement or
2. A material alteration or
3. Forged signature of the drawer, he loses statutory protection granted to him under the Act for these lapses on his part. Hence he cannot avail of the statutory protection under Section -1289, even if he pays the cheque in accordance with the crossing.

PAYMENT IN DUE COURSE

Payment in due Course is defined in Section 10 of Negotiable Instruments Act 1991. Any person legally responsible to make payment under negotiable instrument must make the payment of the amount due under in due course with the purpose of obtaining a valid discharge against the holder. Payment in due course refers to a payment in keeping with the evident tenor of the instrument, in good faith & without negligence to any person in possession thereof.

A payment will be regarded as a payment in due course if:

a) It is in agreement with the apparent tenor of instrument, that is, according to what comes into view on the face of instrument to be the intention of the parties;
b) It is made in good faith & without negligence, & under conditions which do not meet the expense of a ground for believing that the person to whom it is made is not allowed to receive the amount;
c) It is made to the person who possesses the instrument who is entitled as holder to obtain payment;
d) Payment is made under conditions which do not pay for a rational ground believing that he is not entitled to obtain payment of the amount stated in the instrument; and
e) Payment is made in money & money only.

As per Sections 10 & 128, a paying banker making payment in due course is protected.

UNIT V

PASSBOOK

A passbook or bankbook is a paper book used to record bank, or building society transactions on a deposit account. A page with a pre-printed table. It has handwritten entries showing amounts of deposits and withdrawals, and the balance. Each entry has a post office date stamp. The Post Office Savings Bank introduced passbooks to rural 19th century Britain

Traditionally, a passbook is used for accounts with a low transaction volume, such as a savings account. A bank teller or postmaster would write, by hand, the date and amount of the transaction, the updated balance, and enter his or her initials. In the late 20th century, small dot matrix or inkjet printers were introduced capable of updating the passbook at the account holder's convenience, either at an automated teller machine or a passbook printer, either in a self-serve mode, by post, or in a branch.

History

Passbooks appeared in the 18th century, allowing customers to hold transaction information in their own hands for the first time. Up until then transactions were recorded in ledgers at the bank only, so that customers had no history of their own deposits and withdrawals.

The passbook, which was around the size of a passport, ensured that customers had control over their own information, and was called a "passbook" because it was used as a way to identify the account holder without needing further identification. It also regularly passed between the bank and the account holder for updating

Credits and deposits

To add credit to an account by bringing cash to a bank in person, the account holder can fill a small credit slip or deposit slip. The total amount of each note and coin is counted and entered on the slip, along with who it is paid in by and the date. The cash and details are counted and checked by the teller at the bank, if everything is in order the deposit is credited to the account, the credit slip is then kept by the bank and the credit slip booklet is stamped with the date and then returned to the account holder. An account holder uses their passbook to record their history of transactions with their bank.

Debits and withdrawals

Withdrawals normally required the account holder to visit the branch where the account was held, where a debit slip or withdrawal slip would be prepared and signed. If the account holder was not known to the teller, the signature on the slip and the authorities would be checked against the signature card at the branch, before money was paid out.

In the 1980s, banks adopted the black light signature system for passbooks, which enabled withdrawals to be made from passbooks at a branch other than the one where an account was opened, unless prior arrangements were made to transfer the signature card to the other branch. Under this system, the passbook's owner would sign in the back of the passbook in an invisible ink and the signing authorities would also be noted. At the paying branch, the signature on the withdrawal slip would be checked against the signature in the book, which required a special ultraviolet reader to read. Nowadays, customer verification is more likely to be by PIN and commonly from an automated teller machine.

Direct banking

For people who feel uneasy with telephone or online banking, the use of a passbook is an alternative to obtain, in real-time, the account activity without waiting for a bank statement. However, contrary to some bank statements, some passbooks offer fewer details, replacing easy-to-understand descriptions with short codes

Duplicate Pass Book from My Bank

You already know the account number

In case you had not noted the account number anywhere in your diary or records, you can find out the same from your cheque book

You write a letter to the branch where you had opened your account furnishing the following details:

- Name as mentioned in the account
- Account number
- Name of the branch where the account had been opened

CHEQUE

Meaning

Cheque is an important negotiable instrument which can be transferred by mere hand delivery. Cheque is used to make safe and convenient payment. It is less risky and the danger of loss is minimised.

Definition of a Cheque

"Cheque is an instrument in writing containing an unconditional order, addressed to a banker, sign by the person who has deposited money with the banker, requiring him to pay on demand a certain sum of money only to or to the order of certain person or to the bearer of instrument."

ESSENTIAL ELEMENTS CHARACTERISTICS OF CHEQUE

Essential characteristics of a cheque

If one takes a close look at the definition of a cheque, it becomes clear that a cheque has the following 10 essential elements or characteristics.

1. It must be in writing: A cheque must be in writing. An oral order to pay does not constitute a cheque.

2. It should be drawn on banker: It is always drawn on a specified banker. A cheque can be drawn on a bank where the drawer has an account, saving bank, or current.

3. It contains an unconditional order to pay: A cheque cannot be drawn so as to be payable conditionally. The drawer's order to the drawee bank must be unconditional and should not make the cheque payable dependent on a contingency. A conditional cheque shall be invalid.

4. The check must have an order to pay a certain sum: The cheque should contain an order to pay a certain sum of money only. If a cheque is drawn to do something in addition to, or other than to pay money, it cannot be a cheque. For example, if a cheque contains 'Pay USD 500 and a TV worth USD 500 to A'it is not a cheque.

5. It should be signed by the drawer and should be dated: A cheque does not carry any validity unless signed by the original drawer. It should be dated as well.

6. It is payable on demand: A cheque is always payable on demand.

7. Validity: A cheque is normally valid for six months from the date it bears. Thereafter it is termed as stale cheque. A post-dated or antedated cheque will not be invalid. In both cases, the validity of the cheque is presumed to commence from the date mentioned on it.

8. It may be payable to the drawer himself: Cheques may be payable to the drawer himself/herself. It may be drawn payable to bearer on demand unlike a bill or a pro-note.

9. Banker is liable only to the drawer: The banker on whom the cheque is drawn shall be liable only to the drawer. A holder or bearer has no remedy against the banker if a cheque is dishonored.

10. It does not require acceptance and stamp: Unlike a bill of exchange, a cheque does not require acceptance on part of the drawee. There is, however, a custom among banks to mark cheques as 'good' for the purpose of clearance. But this marking is not an acceptance. Similarly, no revenue stamp is required to be affixed on cheques.

Cheque - A Brief Introduction and Requisites

Sec.6 of the Negotiable Instruments Act defines a cheque as "A bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand". A cheque is defined as a bill of exchange. But it is different from a bill in many aspects. Chalmer rightly points out that, "All cheques are bills of exchanges but all bills of exchanges are not cheques".

Dr. Hard, in his Law of Banking defines a cheque as "an unconditional order in writing drawn on a banker signed by the drawer, requiring the banker to pay on demand a sum of certain in money to or to the order of a specified person or bearer and which does not order any act to be done in addition to the payment of money".

Simple Definition: In simple words we can say that "A Cheque is an order to a bank to pay a stated sum from the drawer's account, written on a specially printed form"

A cheque is also a bill of exchange with two additional features:

- It is always drawn on a specified banker.
- It is always payable on demand.

Requisites of Cheque:

Form of the Cheque: A cheque can take the form of an order written on an ordinary piece of paper. But generally the banks will supply printed cheque forms to the customer while opening the account and the customers as a rule must use only the printed cheque forms supplied only as that rule, if the order is made on piece of paper the bank will refuse payment.

Issue of Cheque: A cheque is said to be issued when the drawer parts it to another person. The issue of cheque is very important because the drawer is not liable on a cheque until he has issued it. Even if drawer is induced by fraud, it is deemed to be duly issued.

Dating of Cheque: A cheque is not invalid simply because it is not dated. But dating of a cheque is essential to find whether it is stale cheque or not. A stale cheque is one which is not presented for payment before three months from the date of issue of cheque.

Payee: Where the cheque is payable to or order, it is essential to mention the name of the payee. If the drawer has not mentioned the payee's name, any holder of the cheque can insert the payee's name. Bank will dishonor a cheque presented without the name of the payee.

Amount of the cheque: Amount of the cheque is to be stated clearly both in words and figures without leaving any space before and after teh amount stated to avoid any alteration of the amount.

Signature: The cheque must be properly signed by the drawer and it should tally with the specimen signature signed at the time of the opening account. If the drawer is illiterate, cheques can be drawn by; means of the thumb impression duly witnessed by a person known by the banker.

Delivery: Unless the cheque is properly delivered, the drawer does not become liable there on. Hence to make drawer liable, he must have delivered the cheque complete in all respects to the payee, with the intention that the amount is payable to payee or to his order.

RULES FOR DRAWING A CHEQUE

If the drawer makes the cheque properly and if the balance of the drawer at the bank permits, the bank must pay the amount of cheque as soon as it is presented. If the drawer does not make the cheque properly, the bank rejects payment. Hence, to make the cheque properly, the following points or rules must be considered.

1. Date: Date should be mentioned on the cheque properly. If the cheque is more than three months old or contains future date then the bank will not pay the amount.

2. Name of the Payee: The name of the payee should be mentioned on the cheque.

3. Amount of the Cheque: The amount of the cheque should be mentioned both in words and figures clearly. The amount written in the word should tally with the amount written in figures.

4. Signature: The drawer should sign the cheque properly. The signature given on the cheque should tally with the signature given on the signature specification card. The signature specification card is kept by the bank.

5. Account Number: The drawer should mention his account number clearly and correctly.

6. Minimum Balance: The amount mentioned on the cheque should not be more than the amount deposited in the bank. Beside it, a certain amount of minimum balance should always be there in the account as per the rule of the bank.

7. Crossing and Overwriting: There should not be any crossing and overwriting in the cheque.

8. Condition of the Cheque: Cheque should be in proper condition. If the cheque is torn, wet and spotted, it will not be acceptable to the bank.

9. Endorsement: The ordered and crossed cheques should be transferred by proper endorsement and delivery; otherwise, the amount of cheque will not be paid by the bank

VARIOUS TYPES OF CHEQUES

A cheque is an unconditional order addressed to a banker, signed by the person who has deposited money with a banker, requesting him to pay on demand a certain sum of money only to the order of the certain person or to the bearer of the instrument.

Types of Cheques-

1) Bearer Cheque

Bearer cheques are the cheques which withdrawn to the cheque's owner. These types of cheques normally used for a cash transaction.

2) Order Cheque

Order cheques are the cheques which are withdrawn for the payee (the cheque withdrawn for whose person). Before withdrawn to that payee, banks cross check the identity of the payee.

3) Crossed Cheque

On that type of cheques two parallel line made on the upper part of the cheques, then that cheques formed to crossed cheques. This type of cheques payment does not formed in cash while the payment of that type pf cheques transferred to the payee account and the normal person's account who recommend by the holder on the cheque.

4) Account Payee Cheque

When two parallel lines along with a crossed made on the cheque and the word 'ACCOUNT PAYEE' written between these lines, then that types of cheques are called account payee cheque.The payment of the account payee cheque taken place on the person, firm or company on which name the cheque issue.

5) Company Crossed Cheque

When two parallel lines along with a cross made on the cheque and the word 'COMPANY' written between these lines, then that types of cheques are called company crossed cheques. Then the type of withdrawn does not take in cash while the person on which the cheque issue, transferred on its account. Normally crossed cheque and company crossed cheque are same.

6) Stale Cheque

If any cheque issued by a holder does not get withdrawn from the bank till three months, then that type of cheques are called stale cheque.

7) Post Dated Cheque

If any cheque issued by a holder to the payee for the upcoming withdrawn date, then that type of cheques are called post-dated cheque.

8) Anti Dated Cheque

If any cheque issue for the upcoming withdrawn date but it withdraw before the date printed on the cheque, then that type of cheques are called anti dated cheques.

RBI Guidelines on Alteration on Cheques

As per RBI guidelines on Alterations / Corrections on cheques, effective 1 December 2010, no changes / corrections would be allowed on cheque forms (with exception of date). For any changes in the cheque, a fresh cheque form needs to be issued. This will be applicable only for cheques cleared under the image based cheque truncation system (CTS), which is currently operational in Delhi and will be implemented across India in future. This is not applicable to cheques cleared under other clearing arrangements such as MICR clearing, non-MICR clearing, over the counter collection (for cash payment) or direct collection of cheques outside the Clearing House arrangement.

MARKED AND CROSSED CHEQUES

Marked cheque:

A cheque need not be presented for acceptance. Therefore the drawee of the cheque i.e., the banker is under liability, to the person in whose favour the cheque is drawn. The banker, however, will be liable to his customer (drawer), if he wrongly refuses to honour the cheque. In such a case, action can be taken by the customer against the banker for the loss of his reputation.

Crossed cheque:

(a) The usage of crossing cheques: Cheques are usually crossed as a measure of safety. Crossing is made by drawing two parallel transverse lines across the face of the cheque with or without the addition of certain words. The usage of crossing distinguishes cheques from other bills of exchange. The object of general crossing is to direct the drawee banker to pay the amount of the cheque only to a banker, to prevent the payment of the cheque being made to wrong person (Section 123);

Special crossing:

Where a cheque bears across its face an entry of the name of a banker either with or without the words “not negotiable”, the cheque is considered to have been crossed specially to that banker. In the case of special crossing the addition of two parallel transverse lines is not essential though generally the name of the bank to which the cheque is crossed specially is written between two parallel transverse lines (Section 124).

Crossing after issue:

(i) If cheque has not been crossed, the holder thereof may cross it either generally, or specially.

(ii) If it is crossed generally, the holder may cross it, specially.

(iii) If it is crossed, either generally or specially the holder may add the words “not negotiable”.

(iv) If a cheque is crossed specially, the banker to whom it is crossed, may again cross it specially to another banker, his agent, for collection. This is the only case where the Act allows a second special crossing by a banker and for the purpose of collection [Akro Kervi Mines vs. Economic Bank (1904) 2 K.B. 465 (Section 125)]. It may be noted that the crossing of a cheque is an instance of an alteration which is authorized by the Act.

Payment of cheque, crossed generally or specially (Section 126 & 127):

If a cheque is crossed generally, the banker on whom it is drawn shall not pay it otherwise than to a banker. Again, where a cheque is crossed specially, the banker on whom it is drawn shall not pay it otherwise than to the banker to whom it is crossed or his agent for collection.

Where a cheque is crossed specially to more than one banker except when it is crossed to an agent for the purpose of collection, the banker on whom it is drawn shall refuse payment thereof. This is because, in such a case, the instruction by the drawer would not be clear (Section 127).

Payment in due course of crossed cheque:

Where the banker on whom a crossed cheque is drawn, pays it in due course, it is to be presumed that he has made payment to the true owner of cheque, though in fact, the amount of the cheque may not reach the true owner. In other words, banker making payment in due course is protected, whether the money is or is not, in fact, received by the true owner of the cheque (Section 128).

Payment out of due course:

Any banker paying a crossed cheque otherwise than in accordance with the provisions of Section 126 shall be liable to the true owner of the cheque for any loss he may have sustained. Thus, if the money does not reach the true owner, he can claim payment over again from the banker (Section 129).

CROSSING OF CHEQUE - DIFFERENT TYPES OF CHECK CROSSING

Crossing of Cheque

A cheque is a negotiable instrument. During the process of circulation, a cheque may be lost, stolen or the signature of payee may be done by some other person for endorsing it. Under these circumstances the cheque may go into wrong hands.

Crossing is a popular device for protecting the drawer and payee of a cheque. Both bearer and order cheques can be crossed. Crossing prevents fraud and wrong payments. Crossing of a cheque means "Drawing Two Parallel Lines" across the face of the cheque. Thus, crossing is necessary in order to have safety. Crossed cheques must be presented through the bank only because they are not paid at the counter.

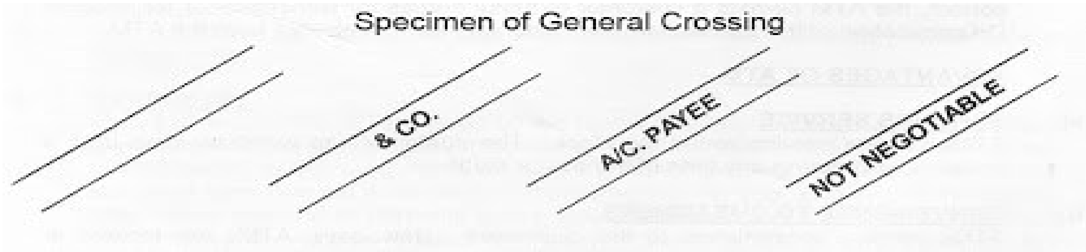
Different Types of Crossing

1. General Crossing:-

Generally, cheques are crossed when

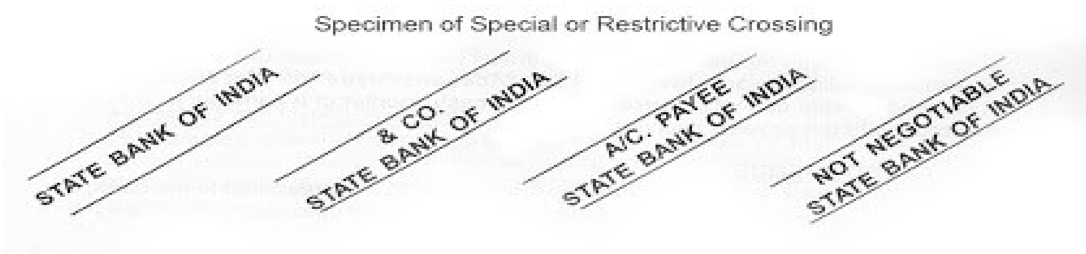
- ❖ There are two transverse parallel lines, marked across its face or
- ❖ The cheque bears an abbreviation "& Co. "between the two parallel lines or
- ❖ The cheque bears the words "Not Negotiable" between the two parallel lines or
- ❖ The cheque bears the words "A/c. Payee" between the two parallel lines.

A crossed cheque can be made bearer cheque by cancelling the crossing and writing that the crossing is cancelled and affixing the full signature of drawer.



2. Special or Restrictive Crossing:-

When a particular bank's name is written in between the two parallel lines the cheque is said to be specially crossed.



In addition to the word bank, the words "A/c. Payee Only", "Not Negotiable" may also be written. The payment of such cheque is not made unless the bank named in crossing is presenting the cheque. The effect of special crossing is that the bank makes payment only to the banker whose name is written in the crossing. Specially crossed cheques are more safe than a generally crossed cheques

ENDORSEMENT LOSS OF CHEQUES IN TRANSIT

A cheque deposited in a bank can be rejected for reasons ranging from an incorrect date to a spelling error. Then there are the numerous cheques that are lost in transit — you put it in the drop box, but it never turns up for processing at the bank branch. In both the cases, you learn of the problem when the money has not been credited to your account even after a month. The customer care executives have been known to wash their hands off the matter by asking you to issue a new cheque.

But did you know that RBI has directed all commercial banks in the country to return dishonoured instruments to the customer within 24 hours? According to a circular issued by the Indian Banks' Association on orders from the apex bank, "In respect of cheques lost in transit or at the paying bank's branch, banks should immediately bring it to the notice of the account holder so that he can issue a stop payment instruction. He can also take care that other cheques issued by him are not dishonoured due to the non-crediting of the amount of the lost cheque."

Since the onus for such a loss is on the collecting banker, not on the account holder, customers are not only expected to be reimbursed for any ensuing expenses, but are also entitled to the interest for the time taken to obtain the duplicate cheque.

Typically, a photocopy of the deposited cheque is enough to prove a deficiency in service. The pay-in slip does not bear any bank endorsement, so customers should not rely on these alone. Should you have a cheque-related grievance, you can file an online complaint with the banking ombudsman (https://secweb.rbi.org.in/BO/comp ltindex.htm). However, you will have to wait for a month for the bank to reply to your complaint.

As far as dishonoured cheques are concerned, RBI also takes customers to task. If cheques drawn on a particular account are dishonoured four times during a financial year for want of sufficient funds, banks are allowed to deny a fresh cheque book to the customer. However, they have to alert the customers on time. Says an RBI official: "The cheques dishonoured due to insufficient funds have to be returned to the customer along with a memo clearly stating the reason."

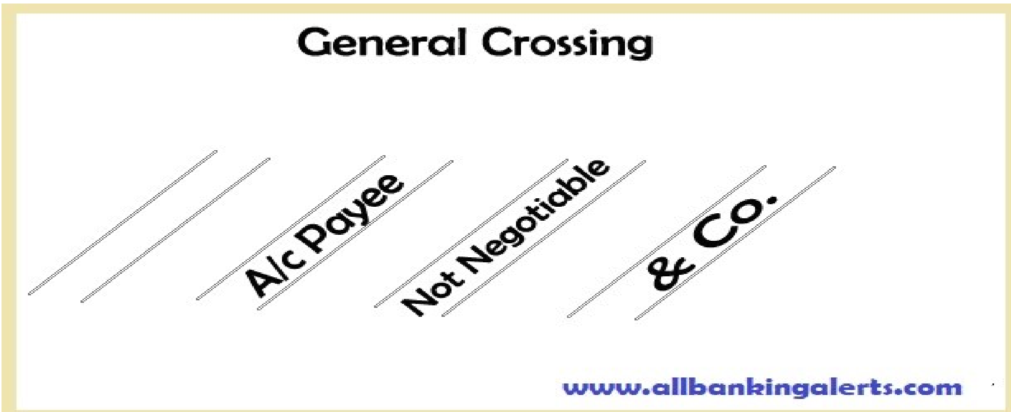
LEGAL EFFECT. Different Types of Crossing on Cheque in Banking and its effect : Cheque is a negotiable instrument. A person issue the cheque to make the payment to an intended person but cheque may be lost or stolen in between going into wrong hands. So to add some security to restrict the way it can be redeemed, drawer marks some types of crossing on the cheque. Crossing protects the drawer and payee preventing the wrong payments and fraud. In our last article, we read about what is cheque and different types of a cheque like order cheque, bearer cheque, crossed cheque, stale cheque etc. Now here in this article, we will read about different types of crossing on cheques.

Generally, Crossing means making two transverse parallel line across the cheque on top left hand corner or in top middle. In other words, Crossing is an instruction by drawer to the payee bank to pay the amount in payee bank account only and not to encash to person who present it over the counter.

Different Types of Crossing on Cheques and its effects:

1. General Crossing

In General crossing, two transverse parallel lines are drawn by the drawer of the Cheque with or without words "NOT NEGOTIABLE" in between parallel lines. Such a crossing is called General Crossing.



Words such as 'and Company' or '& Co' may be written between two parallel lines. "Account Payee" or "A/c payee" is written between two parallel lines.

Effect of General Crossing:

Cheques which are generally crossed by the drawer can only be paid into a bank account of the payee whose name written on the cheque.

*They cannot be encashed over the counter by bearer or payee.

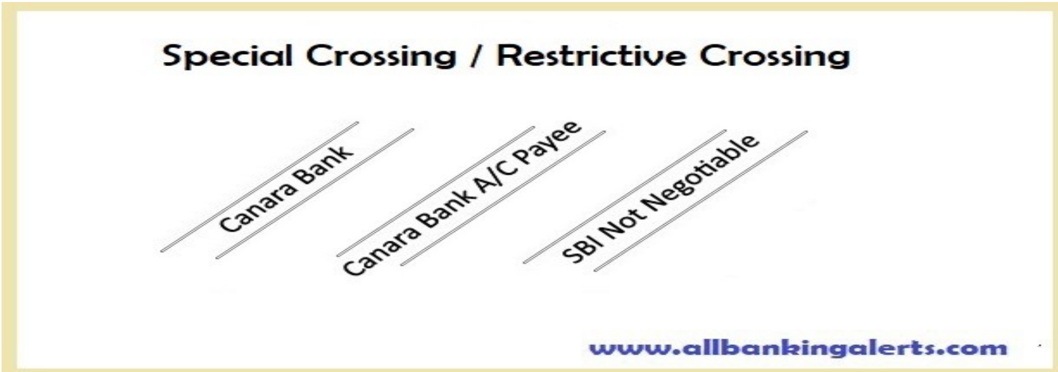
Both bearer and order cheques can be crossed. However, drawer can make it bearer cheque by cancelling the crossing, writing that CROSSING IS CANCELLED and Putting full signature verifying the crossing cancellation.

Special Crossing

When drawer imposes restrictions on collecting or paying banker by writing particular bank's name between two parallel lines.

Effect of Special Crossing:

The bank makes payment only to banker whose bank name is written in special crossing.



There can be two special crossing. In this collecting banker add an additional crossing and write the name of other bank who act as their agent in collection of cheque. It allow other bank to collect the amount on their behalf.

Restrictive Crossing / Account Payee Crossing

Drawer write the word such as “Account payee only” or “A/c Payee” in between the parallel lines.

Effect of Restrictive crossing:

This crossing restrict the collecting banker to make the payment in account of payee named in Cheque. If collecting banker credit the amount to any third person other than payee, he will be liable for any loss arising to drawer or payee.

Not Negotiable Crossing

Drawer write the word “Not Negotiable” in crossing.

Effect of Not Negotiable Crossing:

The effect of Not Negotiable crossing is that cheque lost its essential feature of “a Negotiable Instrument”. The Transferee of such crossed cheque cannot get a better title than that of the transferor (cannot become holder in due course) amd cannot convey a better title to his own transferee but the instrument remains transferable.

Banker don’t comply with crossing

A banker can’t debit its customer’s account without complying with the crossing on cheque.

If a banker fails to comply with instructions or crossing marked by the drawer of the cheque, it amounts to breach of contract of the bank with its customer.

Banker will be liable to pay any losses arising out to the drawer or payee.