Idhaya College for Women Kumbakonam

PG & Research Department of Commerce

I BCom

Banking Theory, Law & Practice – 16CCCCM4

Study materials - I to V Units

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UNIT - I

Definition of Banker

According to Section 3 of the Negotiable Instruments Act the term 'banker' includes any person acting as a banker.

According to Halsbury's Laws of England a banker as "an individual, partnership or corporation whose sole predominating business is banking, that is the receipt of money on current account or deposit account and the payment of cheques drawn by and the collection of cheques paid in by the customer."

A banker is one who in the ordinary course of his business, honors cheques drawn upon him by persons from and for whom he receives money on their account.

No person or body corporate can be a banker who does not (1) take deposit accounts and current accounts, (2) issue and pay cheques and (3) collect cheques crossed and uncrossed for its customers.

Definition of Customer

A customer is a person who has some kind of account, such as deposit or current with a bank and from this it follows that any person may become a customer by opening a deposit or current account or having some similar relation with a bank."

To constitute a customer, there must be some identifiable course or habit of dealing in the nature of regular banking business. It is difficult to settle the idea of a single transaction with that of a customer.

A customer is a person; he should have some kind of an account with the bank. The initial transaction in opening an account will not create the relation of a banker and customer. According to the 'duration theory' the relation of a banker and customer begins as soon as the first cheque is paid in and accepted for collection.

In simple words a customer can be any person for whom the bank agrees to conduct an account.

Relationship between Banker and Customer

- Debtor – Creditor
- Creditor – Debtor
- Principal – Agent
- Bailor – Bailee

- Trustor – Trustee
- Pledger – Pledgee
- Mortgagor – Mortgagee

Debtor and Creditor Relationship

When customer deposits money with a bank the relationship of debtor and creditor will be established, in this case Banker is the Debtor and Customer is the Creditor. It is the basic rule of banking law, the bank and the depositor assume the legal relation of debtor and creditor.

Creditor and Debtor

When a bank grants loan and other credit facilities to the customer, the relationship between the banker and customer is reversed, that is Customer is Debtor and Banker is Creditor.

Principal and Agent

- In some situations, the banker serves as agent of the customer (principal). Some of the agency activities of a banker are specified below:
- Collecting cheques on behalf of the customer
- Collecting dividends and bills of exchange
- Acting as an attorney, representative or executor of a customer
- Buying and selling securities on behalf of his customer.

Bailor and Bailee Relationship

- Bailment is the delivery of goods by one person to another for some purpose, upon a contract that they shall, when the purpose is fulfilled, be returned or disposed of according to the directions of the person delivering them. The person delivering the goods is called the **"bailor"** and the person to whom these are delivered is called the **"bailee".** Bailment is also an important type of relations between the banker and customer. It may arise in the following situations:
- Availing safe custody services (lockers)
- Pledge of stocks as security for availing credit from bank

Pledger and Pledgee Relationship

Pledge means the bailment of goods as security for payment of a debt or performance of a promise. When credit facility is provided by a bank to its customers against collateral security of movable property, the Relationship of Pledger and Pledgee is established. In this case customer is the **Pledger** and banker is the **pledgee.**

- ✓ **Mortgagor and Mortgagee Relationship**
  - Mortgage means the transfer of an interest in specific immoveable property for the purpose of getting the payment of money advanced or to be advanced by way of loan, an existing or future debt, or the performance of an engagement which may give rise to a financial liability.
  - When credit facility is provided by the bank to a customer against the security of immovable property, the relationship of mortgagor and mortgagee is established. In this situation:

Mortgagor— Customer Mortgagee— Bank

Special relationship between banker and customer

a) Rights of A banker

b) Obligation of a banker

a) Rights of a Banker

Right of general lien

- ✓ Lien is a right to keep possession of a property belonging to someone else until that person discharges the debt they owe you. As such, lien gives the banker a right to retain assets, securities or goods, pledged as securities/collateral belonging to the clients/borrower until the borrower repays the loan/debt. The right of general lien is conferred on the bankers by Section 171 of the Indian Contract Act.

A banker cannot exercise the right of general lien in the following cases:

a. If valuables are deposited for safe custody

b. If money or documents are deposited for specific purposes

c. If there is an express agreement that the bank shall not exercise this right.

The Right of Set-off

- ✓ Right of set-off gives the banker the power to adjust the amounts due to them from a customer, against the amount payable by the customer to the banker.
- ✓ This helps in determining the net balance payable by one party to another. If a customer has two or more accounts by the same name in a bank, the banker has the right to set-off the amounts in both the accounts. In other words, the banker has a right to combine two accounts.

Right of Appropriation

- ✓ A customer may owe several distinct debts to the bank. When the customer deposits some money in the bank without specific instructions and the amount is not sufficient to discharge all debts, then the problem arises as towards which debt this amount should be adjusted.
- ✓ In the absence of any specific instructions, the bank has the right to appropriate the deposited amount to any loan, even to a time barred-debt. But the banker must inform the customer about the appropriation.

Right to charge interest and commission

- ✓ A banker has a right to charge interest on loans and advances.
- ✓ A bank also has the right to charge a commission for services that it renders to clients.
- ✓ Such services can be SMS notification services, retail banking, multi-city cheque service, etc. Such charges can be debited to the customer’s account.

Right to close the account

The banker has the right to close an account, if it is of the opinion that an account is not being operated properly. It may do so only by sending a written intimation to the customer.

b) Obligation of a banker

1. The obligation to honour the cheques

The deposit accepted by a banker is his liabilities repayable on demand or otherwise. The banker is therefore under a statutory obligation to honor his customer’s cheque in the usual course.

According to section 31 of the negotiable instruments. Act 1881 the banker is bound to honor his customer’s cheque provided by following conditions are fulfilled:

- Availability of sufficient fund of the customer.
- The correctness of the cheque
- Proper presentation of the cheque
- A reasonable time for collection
- Proper drawing of the cheque

2. The obligation to maintain the secrecy of the customer accounts

The banker is an obligation to take utmost care in keeping secrecy about the account of his customer.By keeping secrecy is that the account books of the bank will not be thrown open to the public or government, officials if the following reasonable situation does not occur,

Discloser of information required by law.

Discloser permitted by bankers practice and wages.

The practice and wages customary amongst banker permit disclosure of certain information and the following circumstances.

- With express or implied consent of the customer.
- Banker reference.
- Duty to the public to disclose.

3. Obligation of Banker to Maintain Proper Records

The banker is under an obligation to maintain accurate record of all the transactions(credits and debits) of the customers made with the bank.

4. Obligation of Banker to Follow Customer's Instructions

The banker is under a legal obligation to follow the instructions of the customer. This is so because there is the contractual relationship between the bank and the customer.

5. Obligation of Banker to give Notice before Closing the Account

If a banker wishes to close the account of a customer, it must give a reasonable notice to this effect to the customer. Thus, a bank cannot close the account of a customer on its own wish, because it may have serious consequences to the customer.

Functions of banking

A. Primary Functions of Banks ↓

The primary functions of a bank are also known as banking functions. They are the main functions of a bank. These primary functions of banks are explained below.

1. Accepting Deposits

The bank collects deposits from the public. These deposits can be of different types, such as :-

Saving Deposits

Fixed Deposits

Current Deposits

Recurring Deposits

Saving Deposits

This type of deposits encourages saving habit among the public. The rate of interest is low. At present it is about 4% p.a. Withdrawals of deposits are allowed subject to certain restrictions. This account is suitable to salary and wage earners. This account can be opened in single name or in joint names.

Fixed Deposits

Lump sum amount is deposited at one time for a specific period. Higher rate of interest is paid, which varies with the period of deposit. Withdrawals are not allowed before the expiry of the period. Those who have surplus funds go for fixed deposit.

Current Deposits

This type of account is operated by businessmen. Withdrawals are freely allowed. No interest is paid. In fact, there are service charges. The account holders can get the benefit of overdraft facility.

Recurring Deposits

This type of account is operated by salaried persons and petty traders. A certain sum of money is periodically deposited into the bank. Withdrawals are permitted only after the expiry of certain period. A higher rate of interest is paid.

2. Granting of Loans and Advances

The bank advances loans to the business community and other members of the public. The rate charged is higher than what it pays on deposits. The difference in the interest rates (lending rate and the deposit rate) is its profit.

The types of bank loans and advances are :-

Overdraft

Cash Credits

Loans

Discounting of Bill of Exchange

Overdraft

This type of advances are given to current account holders. No separate account is maintained. All entries are made in the current account. A certain amount is sanctioned as overdraft which can be withdrawn within a certain period of time say three months or so. Interest is charged on actual amount withdrawn. An overdraft facility is granted against a collateral security. It is sanctioned to businessman and firms.

Cash Credits

The client is allowed cash credit upto a specific limit fixed in advance. It can be given to current account holders as well as to others who do not have an account with bank. Separate cash credit account is maintained. Interest is charged on the amount withdrawn in excess of limit. The cash credit is given against the security of tangible assets and / or guarantees..

Loans

It is normally for short term say a period of one year or medium term say a period of five years. Now-a-days, banks do lend money for long term. Repayment of money can be in the form of installments spread over a period of time or in a lumpsum amount. Interest is charged on the actual amount sanctioned, whether withdrawn or not.

Discounting of Bill of Exchange

The bank can advance money by discounting or by purchasing bills of exchange both domestic and foreign bills. The bank pays the bill amount to the drawer or the beneficiary of the bill by deducting usual discount charges. On maturity, the bill is presented to the drawee or acceptor of the bill and the amount is collected.

B. Secondary Functions of Banks ↓

The bank performs a number of secondary functions, also called as non-banking functions.These important secondary functions of banks are explained below.

1. Agency Functions

The bank acts as an agent of its customers. The bank performs a number of agency functions which includes :-

- Transfer of Funds
- Collection of Cheques
- Periodic Payments
- Portfolio Management
- Periodic Collections
- Other Agency Functions

Transfer of Funds

The bank transfer funds from one branch to another or from one place to another.

Collection of Cheques

The bank collects the money of the cheques through clearing section of its customers. The bank also collects money of the bills of exchange.

Periodic Payments

On standing instructions of the client, the bank makes periodic payments in respect of electricity bills, rent, etc.

Portfolio Management

The banks also undertakes to purchase and sell the shares and debentures on behalf of the clients and accordingly debits or credits the account. This facility is called portfolio management.

Periodic Collections

The bank collects salary, pension, dividend and such other periodic collections on behalf of the client.

Other Agency Functions

They act as trustees, executors, advisers and administrators on behalf of its clients. They act as representatives of clients to deal with other banks and institutions.

2. General Utility Functions

The bank also performs general utility functions, such as :-

- Issue of Drafts, Letter of Credits, etc.
- Locker Facility
- Underwriting of Shares
- Dealing in Foreign Exchange
- Project Reports
- Social Welfare Programmes
- Other Utility Functions

Issue of Drafts and Letter of Credits

Banks issue drafts for transferring money from one place to another. It also issues letter of credit, especially in case of, import trade. It also issues travellers' cheques.

Locker Facility

The bank provides a locker facility for the safe custody of valuable documents, gold ornaments and other valuables.

Underwriting of Shares

The bank underwrites shares and debentures through its merchant banking division.

Dealing in Foreign Exchange

The commercial banks are allowed by RBI to deal in foreign exchange.

Project Reports

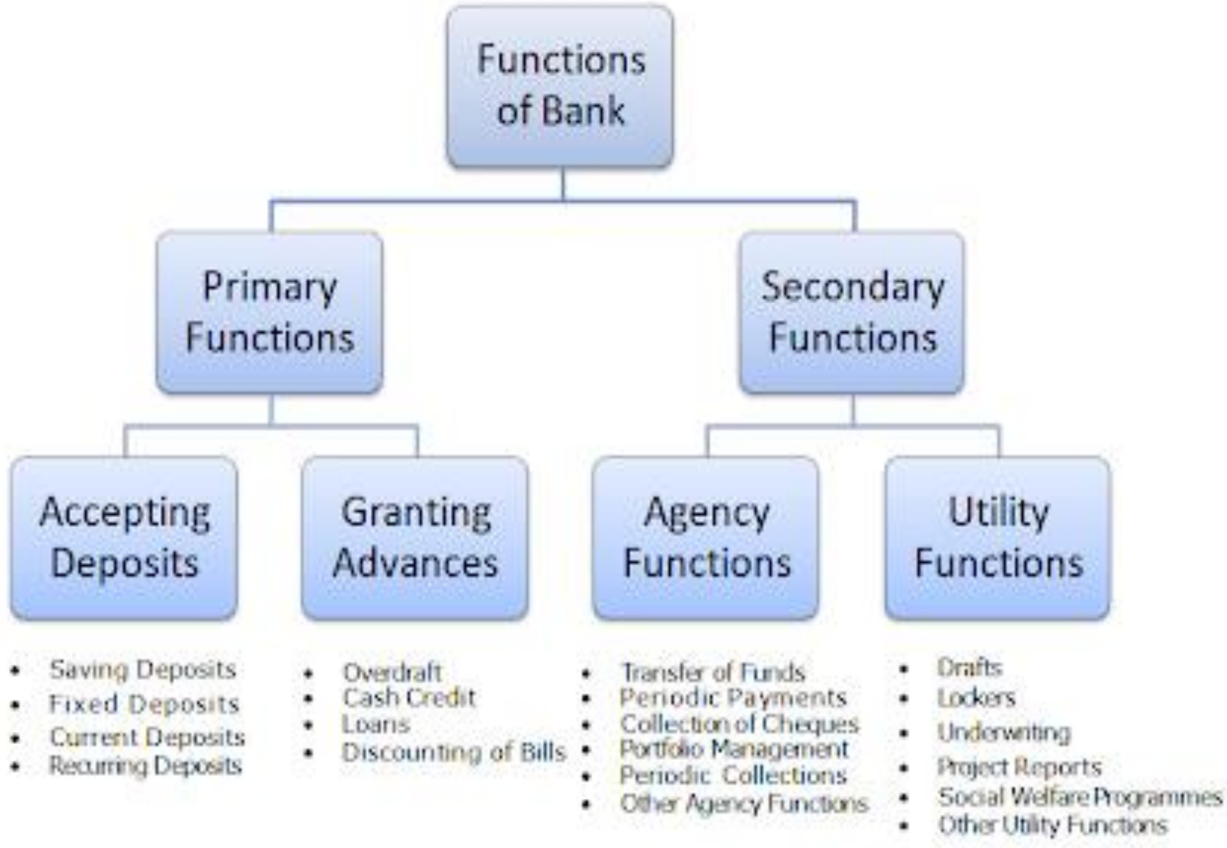
The bank may also undertake to prepare project reports on behalf of its clients.

Social Welfare Programmes

It undertakes social welfare programmes, such as adult literacy programmes, public welfare campaigns, etc.

Other Utility Functions

- ✓ It acts as a referee to financial standing of customers.
- ✓ It collects creditworthiness information about clients of its customers.
- ✓ It provides market information to its customers, etc. It provides travellers' cheque facility.
- ✓ The functions of banks are briefly highlighted in following Diagram.



UNIT - II

Types of Deposit and Accounts

Money and banking are part of everyday life. Banks offer all sorts of financial products to help customer manage their money on a day-to-day basis. The bank is such a place where once customer deposit money, it remains safe and also earns interest over some time. This is known as the deposit and to each deposit, the bank assigns a unique identity which is known as the account. Each deposit corresponds to a unique account and vice versa.

Savings Bank Account

As the name suggests this type of account is suitable for people who have a definite income and are looking to save money. For example, the people who get salaries or the people who work as laborers. This type of account can be opened with a minimum initial deposit that varies from bank to bank. Money can be deposited at any time in this account.

Withdrawals can be made either by signing a withdrawal form or by issuing a cheque or by using an ATM card. Normally banks put some restriction on the number of withdrawal from this account. Interest is allowed on the balance of deposit in the account. The rate of interest on savings bank account varies from bank to bank and also changes from time to time. A minimum balance has to be maintained in the account as prescribed by the bank.

Savings Bank account may be opened by:

A single person in his or her name.

Two persons in their joint names, payable to:

i. Either or Survivor
ii. Both jointly

iii. Both or Survivor
iv. Former or Survivor
v. Latter or Survivor

By more than two persons in their joint names payable to:

i. All of them or the survivors or the last survivor
ii. Any one or more of them or survivors or the last survivor
iii. A particular person during his/her lifetime or survivors jointly or the last survivor

Current Deposit Account

Big businessmen, companies, and institutions such as schools, colleges, and hospitals have to make payment through their bank accounts. Since there are restrictions on the number of withdrawals from a savings bank account, that type of account is not suitable for them. They need to have an account from which withdrawal can be made any number of times.

Banks open a current account for them. Like a savings bank account, this account also requires a certain minimum amount of deposit while opening the account. On this deposit, the bank does not pay any interest on the balances. Rather the account holder pays a certain amount each year as an operational charge.

For the convenience of the account holders banks also allow withdrawal of amounts in excess of the balance of the deposit. This facility is known as an overdraft facility. It is allowed to some specific customers and up to a certain limit subject to previous agreement with the bank concerned.

Features of Current Accounts :

- The main objective of Current Account holders in opening these account is to enable them (mostly businessmen) to conduct their business transactions smoothly.
- There are no restrictions on the number of times deposit in cash / cheque can be made or the amount of such deposits;
- Usually banks do not have any interest on such current accounts. However, in recent times some banks have introduced special current accounts where interest (as per banks' own guidelines) is paid
- The current accounts do not have any fixed maturity as these are on continuous basis accounts

Fixed Deposit Account

Some bank customers may like to put away money for a longer time. Such deposits offer a higher interest rate. If money is deposited in a savings bank account, banks allow a lower rate of interest. Therefore, money is deposited in a fixed deposit account to earn interest at a higher rate.

This type of deposit account allows the deposit to be made of an amount for a specified period. This period of deposit may range from 15 days to three years or more during which no withdrawal is allowed. However, on request, the depositor can encash the amount before its maturity. In that case, banks give lower interest than what was agreed upon.

Features of Fixed Deposit Account:

Account type: Tax saving fixed deposit can either be held in a single mode or joint mode as per the account holder's preference. However, the tax benefit can only be claimed by the first account holder, in the case of a joint account.

Interest rate: The interest rate offered fixed deposits vary from bank to the bank even for the same tenure. The interest rate also depends on the period for which the investments are being made. The interest is payable on a monthly or quarterly basis on the deposit amount, which can also re-invested.\

Interest payments: Investors can choose from cumulative option or non-cumulative option, to receive their interest payment. Along with the principal amount, interest accrued on the deposit is reinvested and paid at the time of maturity, under the cumulative option. Senior citizens receive a higher rate of interest, as compared to the general public.

Tax: Interest received on a fixed deposit is fully taxable in the hands of the investor. According to an individual's tax bracket, tax is levied on the interest earned on an FD account. TDS is also applicable to fixed deposits. However, by submitting Form 15G or Form 15H (as applicable) to the bank, one can avoid TDS.

Premature withdrawals: Premature withdrawals on FDs are generally not allowed. Having said that, in case of an emergency, one can break into one's fixed deposit account before the maturity date. Note that penalty will be charged by the bank on premature withdrawals, the percentage of which varies from bank to bank.

Loan facility: Bank fixed deposit also offers collateral loans. The loan amount is, however, is limited to only a certain percentage of the principal deposit. This percentage varies from bank to bank.

Fixed Deposit Receipt

FDR or a Fixed Deposit Receipt is a document which is given by the bank or the company to the depositor on booking a fixed deposit. Just like a shopkeeper gives bill (invoice) on buying something from the shop, FDR is also like a bill in which all the important details about the fixed deposit made are mentioned.

Contents of an FDR

A Fixed Deposit Receipt is proof that the depositor has kept a certain amount for a specified time period at the prevailing fixed rate of interest locked in the bank. This receipt or document contains every single detail of the scheme. The contents of the Fixed Deposit Receipt have been mentioned below:

- ✓ Declaration by the bank
- ✓ Name and age of the depositor
- ✓ Account number linked to the FD
- ✓ Total amount deposited (Principal amount)
- ✓ Tenure/Term of the deposit
- ✓ Applicable rate of interest on the deposit
- ✓ Booking date
- ✓ Maturity date
- ✓ Interest that the depositor will get on maturity
- ✓ Nominee
- ✓ Deposit and scheme related instructions

Recurring Deposit Account

While opening the account a person has to agree to deposit a fixed amount once in a month for a certain period. The total deposit along with the interest therein is payable on maturity. However, the depositor can also be allowed to close the account before its maturity and get back the money along with the interest till that period.

The account can be opened by a person individually, or jointly with another, or by the guardian in the name of a minor. The rate of interest allowed on the deposits is higher than that on a savings bank deposit but lower than the rate allowed on a fixed deposit for the same period.

Features of Recurring Deposit

RD allows to earn fixed interests on the amount invested at frequent intervals until the investment matures or a pre-determined term ends. The total amount (i.e., the capital invested and the interest accumulated) is disbursed to the investor after the maturity period completes.

A brief overview of RD features:

- RD Features Applicability
- Rate of interest Between 5% to 8% (variable from one bank to another)
- Amount of minimum deposit From Rs. 10
- Tenure of investment Between 6 months and 10 years
- Frequency of interest calculation Usually every quarter
- Mid-term or partial withdrawal Not allowed
- Premature account closure Allowed with penalty

New Deposit Savings Schemes

Super Savings Package

The Super Savings Account is a new product offered by FundsIndia, which offers customers the flexibility of a savings account with the growth of a mutual fund. This new offering will enable a customer to get higher returns compared to their bank savings account, without missing out on flexibility and easy withdrawal of funds.

Any resident of India can open the Super Savings Account. To invest in the account, customers can log on to FundsIndia.com and complete their registration process. With the benefits of e-KYC and paperless transacting, the registration process just takes a few minutes.

Cash Certificate

Regulated by the Reserve Bank of India, a Certificate of Deposit is a type of money market instrument issued against the funds deposited by an investor with a bank in a dematerialized form for a specific period of time.

The Certificate of Deposit (CD) is an agreement between the depositor and the bank where a predetermined amount of money is fixed for a specific time period

Issued by the Federal Deposit Insurance Corporation (FDIC) and regulated by the Reserve Bank of India, the CD is a promissory note, the interest on which is paid by the bank

The Certificate of Deposit is issued in dematerialised form i.e. issued electronically and may automatically be renewed if the depositor fails to decide what to do with the matured amount during the grace period of 7 days

It also restricts the holder from withdrawing the amount on demand or paying a penalty, otherwise. When the Certificate of Deposit matures, the principal amount along with the interest earned is available for withdrawal

Features of Certificate of Deposit

Eligibility: Not all institutions or banks are allowed to issue Certificates of Deposit and not every individual or organization can purchase one. There are certain conditions laid down by the RBI that allow the purchase of CDs

Maturity Period: A Certificate of Deposit issued by the commercial banks can have a maturity period ranging from 7 days to 1 year. For financial institutions, it ranges from 1 year to 3 years

Minimum investment amount– A Certificate of Deposit can be issued to a single issuer for a minimum of Rs.1 Lakh and its multiples

Transferability: Certificates that are available in Demat forms must be transferred according to the guidelines followed by Demat securities. While dematerialised/electronic certificates can be transferred by endorsement or delivery

Non-availability of loan: Since these instruments do not have any lock-in period, banks do not grant loans against them. In fact, banks cannot even buy back certificates of deposit before maturity

Discount offered– Certificate of deposit is issued at a discounted rate on the face value. Moreover, banks and financial institutions can also issue CDs on a floating rate basis.

Annuity Deposit Scheme

\Annuity Deposit Scheme allows depositors to earn a monthly income over a period of time by depositing a lump sum amount. The scheme enables the depositor to pay one-time lump sum amount and to receive the same in Equated Monthly Instalments (EMIs), comprising a part of the principal amount as well as interest on the reducing principal amount.

It may be noted that this scheme is ideal for retirees who want to earn a regular income every month on their savings.

Interest: The rate of interest is as applicable to Term Deposits. According to the SBI website, the lender currently offers 5.7% interest on deposits maturing in 1 year and 10 years. Interest will be calculated at quarterly intervals and will be discounted to the monthly value.

Eligibility: Resident individuals, including minors

Mode of Holding: Singly or jointly

Features of the Scheme:

- Period of deposit from 36/60/84 or 120 months
- Available at all branches (except specialized credit intensive branches) all over India.
- Amount Based on minimum monthly annuity Rs 1,000 for the relevant period.
- In no case, the Minimum Amount of deposit should be below Rs 25,000
- There is no limit on the maximum deposit amount.
- The rate applicable to all Senior Citizens of age 60 years and above will be 0.50% above the applicable rate.
- Payment of annuity will be on the anniversary date of the month following the month of deposit.
- Annuity payment, net of TDS, will be credited to linked SB/CA account.
- Nomination is available
- Overdraft/loan up to 75% of the balance amount of annuity may be granted on special cases.
- Universal Passbook is issued.
- Transferability among SBI branches allowed

Reinvestment Plan

A Reinvestment Deposit Plan basically allows customer to reinvest the interest earned on deposit. The interest on deposit also earns interest. The minimum deposit amount is Rs. 1,000/-. Initially deposits should be made only in multiples of Rs. 100/-. Renewals can be made in any amount. The minimum deposit amount is Rs. 1,000/-. Initially deposits should be made only in multiples of Rs. 100/-. Renewals can be made in any amount.

Non Resident (External) Account

An NRE account is a bank account opened in India in the name of an NRI, to park his foreign earnings; whereas, an NRO account is a bank account opened in India in the name of an NRI, to manage the income earned by him in India. ... An NRI can open a joint NRO account with one or more NRIs or Indian citizens.

NRE Account Benefits:

NRE accounts are exempt from tax. This means that both, the principal amount and the interest you earn is free from tax.

NRE Accounts can be used for personal purposes or for carrying on business activities in India. NRE Accounts are primarily used for making direct investment in India.

UNIT- III

Types of Customers in Banks

The term customer of a bank is not defined by law. Ordinarily, a person who has an account in a bank is considered as its customer. Banks open accounts for different types of customers like an individual, 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 and also practices followed in conducting those accounts. Normally, the banks have to deal with following types of customers.

To constitute a customer, there must be some identifiable course or habit of dealing in the nature of regular banking business. It is difficult to settle the idea of a single transaction with that of a customer.

A customer is a person; he should have some kind of an account with the bank. The initial transaction in opening an account will not create the relation of a banker and customer. According to the 'duration theory' the relation of a banker and customer begins as soon as the first cheque is paid in and accepted for collection.

Types of customers

- ❖ Individual
- ❖ Minor
- ❖ Joint account
- ❖ Married Woman
- ❖ Pardanasheen Women
- ❖ Illiterate Person
- ❖ Joint stock companies (Limited Liability Companies)
- ❖ Partnership Firms
- ❖ Unincorporated Associations
- ❖ Societies, Clubs and Associations
- ❖ Trustees

Individual

An individual can be a person holding a bank account for personal use. Such customers must comply with existing regulations and bankers must ensure that they do not open and use bank accounts for illegal purposes. The customer should be properly introduced to the bank. The introduction is necessary for terms of banking practice and also for the purpose of protection.

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

Joint account

A joint account is an account which is opened by two or more persons jointly. It's simply a joint debt such an account is opened by them for the convenience of the operation of the account as well as for the withdrawal of money after the death of any one of them.

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.

Pardanasheen Women

A pardanasheen woman observes complete seclusion in accordance with the custom of her own community. She does not deal with the person other than the members of her own family. As she remains completely secluded as the presumption in law. The banker should take due precaution in opening an account in the name of a pardanasheen woman. As the identity of such a woman cannot be ascertained, the banker generally refuses to open an account in her name.

Illiterate Person

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

Joint Hindu family

Joint Hindu family it's an undivided family which comprises of all male members descended from a common ancestor. A Joint Hindu Family is a family which consists of more than one member possesses ancestral property & carries on family business. The senior male member is called "Karta" and other male members as "coparceners". Karta manages the whole business of the family and the liability is unlimited whereas coparceners have limited liability. The Karta has the power to mortgage and pledges the property of JHF for raising the loan.

Joint stock companies (Limited Liability Companies)

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.

Essentials documents required to open an account.

- 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

Unincorporated Associations

Banks open accounts of unincorporated associations and clubs started for purposes of Sports, Recreation, Promotion of Fine Arts, and Education etc. Accounts are opened for reliable and reputed parties. These unincorporated associations have no legal entity. While opening an account in the name of association the bank makes detailed inquiry in the existing rules and regulations governing such associations. All usual formalities for opening the account are adhered by the bank. Bank also obtains the certified copy of the resolution passed by the

Governing Body for an opening of the account in the bank and names of the office bearers authorised to open and to operate the account on behalf of the association duly certified by the Chairman are obtained.

Societies, Clubs and Associations

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

Copy of the bylaws

Copy of resolution passed by the managing committee regarding opening and conduct of account

Certificate of registration in original

A list of the Managing Committee members

Copies of resolutions for electing them as Committee members duly certified by the Chairman.

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

Partnership Firms

A partnership is a relationship between persons who have agreed to share the profits of a business carried on by all or any of them acting for all. Since a firm is not a person is not entitled to enter into the partnership with another firm or Hindu undivided family or individual. Therefore banks do not an open account where a firm is a partner of another firm. As per the Indian Partnership Act, the minimum number of partners can be two and maximum twenty. The number of partners is restricted to 10 if the partnership firm carries out business for banking. Minors can be admitted as the partner only to the benefits of the partnership.

Trustees

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

UNIT- IV

PAYING BANKER

Paying banker refers to the banker who holds the account of the drawer of the cheque and is obliged to make payment, if the funds of the customer are sufficient to cover the amount of his cheque drawn.

Statutory Protection for Paying Banker

The paying banker should take the following protection, in order to protect himself and customer's interest, while making the payment of his customer's cheques:

(**i) Protection regarding the order cheque**

In case of an order cheque, Section 85(1) of the NI Act 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.

(ii) Protection in case of bearer cheques

Section 85 (2) of the Negotiable Instruments Act, 1881 states, "Whereas 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 in blank appearing thereon, notwithstanding that any such endorsement purports to restrict or exclude further negotiation."

(iii) Protection in case of crossed cheques

Regarding payment of crossed cheque, the paying banker gets the protection under Section 128 of the Negotiable Instruments Act, 1881: "Whereas the banker on whom a crossed cheque is drawn has paid the same in due course, the banker paying the cheque and the drawer thereof (in case such cheque has come to the hands of the payee) shall be entitled respectively to the same rights and placed in the same position if the amount of the cheque had been paid to and received by the true owner thereof."

(v) Protection in case of draft

Section 85A of the NI Act states that, Drafts drawn by one branch of a bank on another payable to order where any draft, that is an order to pay money, drawn by one office of a bank upon another office of the same bank for a sum of money payable to order on demand, purports to be endorsed by or on behalf of the payee, the bank is discharged by payment in due course.

Precautions to be taken by paying banker while making payment of Cheques

The banker has to take the following precautions while honouring the cheques:

1. Crossed Cheque

The most important precaution that a banker should take is about crossed cheques. A banker has to verify whether the cheque is open or crossed. He should not pay cash across the counter in respect of crossed cheques. If the cheque is a crossed one, he should see whether it is general crossed or special crossed. If it is general crossing, the holder must be asked to present the cheque through some banker and should be paid to a banker. If the cheque bears a special crossing, the banker should pay only the bank whose name is mentioned in the crossing.

2. Open Cheque

If it is an open cheque, a banker can pay cash to the payee or the holder across the counter. If the banker pays against the instructions as indicated above, he is liable to pay the amount to the true owner for any loss sustained. Further, a banker loses statutory protection in case of forged endorsement.

3. Proper Form

A banker should see whether the cheque is in the proper form. That means the cheque should be in the manner prescribed under the provisions of the Negotiable Instruments Act. It should not contain any condition.

4. Presentment of Cheque

Presentation of the cheque should be in right format and right place. A banker can honour the cheques provided it is presented with that branch of the bank where the drawer has an account or another branch if it is multi-city cheque.

5. Date of the Cheque

The paying banker has to see the date of the cheque. It must be properly dated. It should not be either a post-dated cheque or a stale-cheque. If a cheque carries a future date, it becomes a post-dated cheque. If the cheque is presented on the date mentioned in the cheque, the banker need not have any objection to honour it. If the banker honours a cheque before the date mentioned in the cheque, he loses statutory protection. If the drawer dies or becomes insolvent or countermands payment before the date of the cheque, he will lose the amount. The undated cheques are usually not honoured.

6. Words and Figures

The amount of the cheque should be expressed in words, or in words and figures, which should agree with each other. When the amount in words and figures differ, the banker should refuse payment. However, Section 18 of the Negotiable Instruments Act provides that, where there is difference between the amount in words and figures, the amount in words is the amount payable. If the banker returns the cheque, he should make a remark ‘amount in words and figures differ’.

7. Alterations and Overwriting

The banker should see whether there is any alteration or over-writing on the cheque. If there is any alteration, it should be confirmed by the drawer by putting his full signature. The banker should not pay a cheque containing material alteration without confirmation by the drawer. The banker is expected to exercise reasonable care for the detection of such alterations. Otherwise, he has to take risk. Material alterations make a cheque void.

8. Proper Endorsements

Cheques must be properly endorsed. In the case of bearer cheque, endorsement is not necessary legally. In the case of an order cheque, endorsement is necessary. A bearer cheque always remains a bearer cheque. The paying banker should examine all the endorsements on the cheque before making payment.

Payment in due course

Payment in due course means payment of a negotiable instrument at or after its date of maturity, made to its holder in good faith and without notice of any defect in his title.

The payment of the amount due under a negotiable instrument must amount to ‘payment in due-course’ in order to operate as a valid discharge of the instrument against the holder.

According to Section 10 in order to constitute a payment of a negotiable instrument as a ‘payment in due course’ the following conditions must be fulfilled :

The payment _must be in accordance with the apparent tenor. It should be made at or after maturity. A payment before maturity is not a payment in due course so as to discharge the instrument.

The payment must be made by or on behalf of the drawee or acceptor. It must be made in money (or by cheque if accepted to the holder).

The payment should be made in good faith, without negligence. It must be honestly made in the bonafide belief that the person demanding payment is legally entitled to it. The payer must not be guilty of any negligence in making the payment.

Dishonour of Cheque

A cheque is said to be dishonoured when it is refused to accept or pay when presented to the bank. It is a condition in which the paying banker does not pay the amount of the cheque to the payee.

Circumstances or reasons for dishonour of Cheques

A paying banker must refuse payment on cheques, issued by his customers, in the following circumstances:

Insufficiency of funds: When adequate funds are not available in the account of a customer, then the cheque can be dishonoured. If the banker pays a countermanded cheque, he will not only be required to reverse the entry but also be held liable to pay damages for dishonouring the cheques presented subsequently which would have been honoured otherwise.

Notice of the Customer's Death: The banker should not make payments on cheques presented after the death of the customer. He should return the cheque with the remark 'Drawer Deceased'.

Notice of the Customer's Insolvency: A banker should refuse payment on the cheques soon after the customer is adjudicated as insolvent.

Receipt of the Garnishee Order: Where Garnishee order is received attaching the whole amount, the banker should stop payment on cheques received after the receipt of such an order. But if the order is for a specific amount, leaving the specified amount, cheques should be honoured if the remaining amount is sufficient to meet them.

Presentation of a post dated cheque: The banker may refuse the cheque when the cheque is presented before the valid date.

Stale Cheques: When the cheque is presented after a period of three months from the date it bears, the banker may refuse to make payment.

Material Alterations: When there is material alteration in the cheque, the banker may refuse payment.

Drawer's Signature: If the signature of the drawer on the cheque does not tally with the specimen signature, the banker may refuse to make payment.

Types of Dishonour

Dishonour of cheque can be divided into two categories i.e.:

Rightful Dishonour

Dishonour of cheque by the drawee banker for any of the reasons specified above or for any other rightful reason. In this case there is no remedy available against the banker but the holder in due course has remedy both civil and criminal against the drawer.

Wrongful Dishonour

Dishonour of cheque by the banker due to negligence or carelessness by its employees. The drawer may bring an action against the bank for losses suffered by him. The payee has no action against the banker in this case.

Consequences of wrongful dishonour of Cheque

i. Wrongful dishonour of the customer's cheque makes the Bank liable to compensate the customer on contractual obligations as well as for injury to his creditworthiness. A return of a cheque would cause injury to the drawer's reputation.

ii. Quantum of Damages is not limited to the actual pecuniary loss sustained by reason of such dishonour. When the customer is a trader he is entitled to claim substantial damages even if he had suffered no actual pecuniary loss sustained by such dishonour, if he can show that his creditworthiness had suffered by the dishonour of the cheque.

iii. A non-trader is not entitled to recover substantial damages unless the damage he has suffered is alleged and proved as special damages, otherwise he would be entitled to nominal damages.

iv. The Plaintiff's evidence on the transaction was vague, ill-defined and indeterminate and further he had not proved any actual or special damages, unless special damages are claimed and proved nominal damages will be awarded.

Collecting Banker

A Collecting banker is one who undertakes to collect cheques, drafts, bill, pay order, traveller cheque, letter of credit, dividend, debenture interest, etc., on behalf of the customer. For undertaking this collection, the collecting banker will be charging commission.

Duties and Responsibilities of a Collecting Banker

The duties and responsibilities of a collecting banker are discussed below:

1. Due care and carefulness in the collection of cheque.
2. Serving notice of dishonour.
3. Agent for collection.
4. Payment of interest to the customer.
5. Collection of bills of exchange.

1. Due Care and carefulness in the Collection of Cheques

The collecting banker is bound to show due care and carefulness in the collection of cheques presented to him. In case a cheque is entrusted with the banker for collection, he is expected to show it to the drawee banker within a reasonable time.

2. Serving Notice of Dishonour

When the cheque is dishonoured, the collecting banker is bound to give notice of the same to his customer within a reasonable time. It may be noted here, when a cheque is returned for confirmation of endorsement, notice must be sent to his customer.

3. **Agent for Collection**

In case a cheque is drawn on a place where the banker is not a member of the 'clearing-house', he may employ another banker who is a member of the clearing-house for the purpose of collecting the cheque. In such a case the banker becomes a substituted agent.

4. Payment of Interest to the Customer

In case a collecting banker has realised the cheque, he should pay the interest to the customer as per his (customer's) direction.

5. Collection of Bills of Exchange

There is no legal obligation for a banker to collect the bills of exchange for its customer. But, generally, bank gives such facility to its customers.

Holder

Holder is an individual who has lawfully received possession of a Commercial Paper, such as a cheque and who is entitled for payment on such instrument.

Holder for Value

Holder for value is a holder to whom an instrument is issued or transferred in exchange for something of value as a promise of performance or a negotiable instrument.

Example: A banker becomes a holder for value when: The value of cheque is paid before collection of the cheque.

Holder in Due Course

A holder in due course is the holder of negotiable instruments who has given value in good faith without notice of any previous dishonour in taking the bill, which appears to be complete and regular.

Statutory protection to Collecting Banks under the Negotiable Instruments Act

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 dishonesty or fraud and does necessarily require carefulness. Negligence means failure to exercise reasonable care. The banker should have exercised reasonable care and deligence.

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. A bank cannot get protection when he collects a cheque as holder for value

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.

UNIT - V

Passbook

A passbook is a small book recording the amount of money pay in or take out of a savings account at a bank or building society. Traditionally, the bank passbook is the written account of all transactions conducted under savings bank account. Earlier there was no trend of issuing bank statements so people used to maintain these passbooks to have a detailed information of the transaction be it through cheque, cash deposits or any withdrawals all were entered in the passbook. Even in today's times, people who are not hands on with technology maintain their passbooks. They specially visit the bank for passbook updation.

Nowadays, there have been special machines installed for automatic passbook updation that gives a complete record of the transactions made and the balance in savings account. To understand simple, it is a bank statement in a booklet form giving account's balance information of all the withdrawals and deposits.

Duplicate Pass Books are issued only after confirming the genuineness of the. Application and verification of the depositor's identity, signature and the. Account balance. In case the original Pass Book is submitted after issue of duplicate pass book, transactions are not entered in the original Pass Book.

Meaning of Cheque

Cheque is a negotiable instrument used to make payment in day to day business transaction minimizing the risk and possibility of loss. It is used by individuals, businesses, corporate and others to transact for making and receiving payment.

As per negotiable instrument act 1881, A "cheque" is a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand.

There are three parties in cheque transaction – Drawer, Drawee and Payee.

Drawer (Maker of Cheque) – The person who issue the cheque or hold the account with bank.

Drawee – The Person who is directed to make the payment against cheque. In case of cheque, it is bank.

Payee – A person whose name is mentioned in the cheque or to whom the drawee makes payment. If drawer has drawn the cheque in favour of self then drawer is payee.

Features of a Cheque

Cheque is one of the important negotiable instruments. It is frequently used by the people and business community in the course of their personal and business transactions.

The definition of cheque has been given in Section 6 of Negotiable Instrument Act in these words," A cheque is a bill of exchange drawn on a specified banker and is expressed to the payable, otherwise than on demand."

The essential requisites of cheque are as:

Must be in Writing – The cheque may be written in hand by using ink or ballpoint pen, typed or even it may be printed. But the customer should not use pencil to fill up the cheque form. Even though other columns may be permitted to be written in hand or printed or typed, the signatures should be made by ink pen or ballpoint pen by the maker.

Must be Unconditional – The order to pay the amount must be unconditional. If there is any condition imposed to pay the amount to the holder of the cheque then it will not be considered as a cheque. A cheque made payable on the happening of a contingent event is void ab-initio.

Must be Drawn on a Specified Banker – For the validity of a Cheque it must be drawn on a specified banker. If there is not mentioned in the cheque about the banker it would not be a valid cheque. In addition to it, it must contain all the three parties i.e. Drawer, Drawee and Payee.

Certain Sum of Money – It is one of the essential requirement of the Cheque that it must be payable in money and money only. If is not in term of money then it will be a valid one. The sum mentioned in it must be certain.

Certain Payee – The parties of the Cheque must be certain. There are three parties of the cheque i.e. Drawer, Drawer and Payee. In a valid Cheque the name of the must contain in other words they must be certain. It must contain an order, which must be unconditional. If any condition were imposed then it would not be a valid cheque.

Date – In a valid cheque it must be signed by the drawer with date otherwise it would not be a valid cheque. It must be written in hand by using ink or ball point pen, typed or even it may be printed as it becomes conclusive proof i.e. presumption under Section 118(b) unless contrary is proved.

Difference Between Cheque and Bill of Exchange

A cheque is no doubt essentially a bill of exchange, but it has certain peculiarities, which distinguish it from a bill of exchange. There are many differences between cheque and a bill of exchange. Some of them are as under:

The acceptance of drawee is not required for payment of cheques, whereas the bill of exchange requires the acceptance of drawee before it is made liable for payment;

A banker is only a drawee in case of payment by cheque, while any person including a Banker can be the drawee of a bill of exchange;

A cheque is payable immediately when the demand is made and without any days of grace but in a bill of exchange, the grace of three days is given for its payment;

In case of bill of exchange, if it is not duly presented for payment or otherwise, the drawer is discharged, while in case of cheque, the drawer is discharged if the holder of cheque causes delay in taking payment or present it to Banker for payment after the expiry of period by Banker from the date of its issue;

When a bill of exchange is dishonoured, due to non-payments, a notice to that effect should necessarily be given to all concerning parties, whereas it is not necessary in case of 33ishonor of a cheque;

A cheque has always to be made payable on demand whereas and ordinary bill of exchange can be made after a fixed period.

Difference Between Cheque and Draft

A draft is as much a bill of exchange as a cheque and there is hardly any difference between a dishonoured draft and a dishonoured cheque, which is issued by a bank on itself. The basic difference between the two consists in two aspects:

A draft can be drawn only by a bank on another bank and not by a private person as in the case of a cheque and;

A draft cannot be so easily counter-manded as a cheque either by the person purchasing it or by the bank to which it is presented.

Dfferent Types of Cheque

- There may be different types of Cheques depending on how the drawer has issued the Cheque.
- Open / Bearer Cheque
- Order Cheque
- Crossed Cheque
- Anti Dated Cheque
- Post Dated Cheque
- Stale Cheque
- Mutilated Cheque

Open / Bearer Cheque

This type of Cheques are risky in nature for drawer. When the word "Bearer" on the cheque is not crossed or cancelled, the cheque is called a bearer cheque. Open / Bearer Cheques are payable to person specified in the instrument or any person who posses it and present for payment over the counter. In case of cheque is lost, person who find it can collect payment from the bank.

Order Cheque

When the word "Bearer" written on cheque is crossed or cancelled it becomes an order cheque. An order Cheque is payable to a specified person named in the cheque or any other to whom it is endorsed.counter. In case of cheque is lost, person who find it can collect payment from the bank.

Crossed Cheque or Account Payee Cheque

The person who issue or write the cheque specify its as account payee by simply making two parallel lines on top left or middle or right hand corner of the cheque. This type of cheque can not be encashed over the counter. Considered as safest type of cheque, it can only be credited to payee's account whose name is mentioned in the Cheque.

Anti Dated Cheque

Cheque bearing the date earlier than the date of presentation for payment is known as anti dated cheque. All types of cheque are valid for three month from the date of issue (or written on cheque).

Post Dated Cheque

Cheque bearing the date which is yet to come in future is called Post Dated Cheque. Cheque is honored only on or after the date (upto three months) written on cheque.

Stale Cheque

A Cheque turns stale after three months of the date written on cheque. A Stale Cheque can not be honored by the bank.

Mutilated Cheque

When cheque gets torn into two or more pieces and presented in bank for payment. Such cheques are called mutilated cheque. Bank requires confirmation by the drawer before honoring such cheques.

Marking of cheques

Marking or certification is a method adopted when the paying banker verifies the customer’s account and indicates thereon that there are enough funds in his account torn that cheque. Marking only certifies the genuineness of the drawer’s signature and the sufficiency of funds.

Material alterations

An alteration is material if it alters materially or substantially the operation of the instrument and thereby the rights and liabilities of the parties. Material alteration was defined as “an alteration, which alters the business effect of the instrument if used for any business purpose.

6. date;(ii) the time of payment;(iii) the place of payment;(iv) the sum payable;(v) the number of parties;(vi) the relationship between parties;(vii) legal character of the instrument;(viii) opening a crossed cheque;(ix) converting an order cheque into a bearer cheque.

An alteration made by an outsider or stranger to the instrument will be considered as an alteration made by the holder himself as it is the duty of the holder to preserve 35ishonor35ument, free from such forgeries.

Effect of Material Alteration

Any material alteration of a negotiable instrument, which has not been, consented to by either the drawee or the payee is void as against them.

Alterations which are not material

7. filling blanks of the instrument;

(ii) conversion of blank endorsement into endorsement in full;

(iii) crossing of cheques;

(iv) altering a general crossing into a special crossing; addition of the words 'account payee' negotiable' to a crossing; and where a cheque is crossed specially, the banker to whom crossed, crossing it specially to another banker, his agent for collection;

Circumstances when a banker refuse payment of Cheque

- When the customer has countermanded payment:
- When the banker has received a Garnishee order:
- When the customer has died:
- When the customer has become insolvent or insane:
- Where the banker has received a Notice of Assignment:
- When the customer has lost the instrument:
- When the banker has come to know of any defect in the Title:
- Where the instrument has been materially altered:
- When the account is closed:

Endorsement

The word "Endorsement or Indorsement" is a word derived from a Latin term "in dorsum" which means in English "on the back". Therefore, endorsement means signing of one's name on the back of a cheque.

Section 15 of the N.I. Act, 1881, defines an endorsement as, "when the maker or holder of a NI signs the same for the purpose of negotiation on the back or face thereof or on a slip of paper annexed thereto, … he is said to endorse the same, and is called the endorser"

The person who endorser or the person who signs his name on the back of the instrument for the purpose of transferring its property to another person is called the "endorser". The person to whom the instrument is endorsed is called "endorsee".

Further as per Section 51, the following can also endorse the Nis

1. The payee of the instrument.
2. The drawer of the cheque
3. The holder of a negotiable instrument.
4. The endorsee of the instrument.

Endorsement of a cheque means writing something on the back of the cheque with the intention of transferring the rights therein.

Type of Endorsement

8. Blank or General Endorsement

The endorser simply puts down his signature without writing the name of the endorsee. This implies that the cheque is payable to the bearer and the property of the cheque can be transferred by mere delivery.

2. Full or Special Endorsement

The endorser specifies the name of the endorsee and then signs the cheque. It implies that the endorsee must endorse it again if he wants to transfer the property of the cheque to someone else.

3. Restrictive Endorsement

The endorser restricts further endorsement of the cheque. The endorsee gets all the rights of the cheque except for negotiation.

Ex- Pay to 'X' only.

4. Partial Endorsement

The endorsement is made for part of the amount of the cheque. This is not legally valid. However, in case of advance payment, the cheque may be endorsed for part of the amount.

9. Sans Recourse or Sans Frais Endorsement

This means 'without recourse to me'. This is when the endorser excuses his liability on the cheque in express words.

10. Conditional or Qualified Endorsement

The endorser makes his liability on the cheque dependent on the happening of a particular event.

11. Facultative Endorsement

The endorser waives his right of receiving the notice of 37ishonor.

Modern Banking

e-banking

E-banking or virtual banking, or net banking or internet banking is an electronic payment system wherein customers of a given bank can perform all their banking transactions.In other words, e-banking refers to all the financial transactions undertaken

A**dvantages of e-banking**

- Notifications and Alerts
- Faster Transactions
- Convenience
- Security
- Easy Access
- Speed and Efficiency
- Lesser Limitations
- More Features
- Better Customer Service

Internet banking

Internet banking is the system that provides the facility to the customer to conduct the financial and non-financial transactions from his net banking account. The user can transfer funds from his account to other accounts of the same bank/different bank using a website or an online application. The customer uses a resource and a medium to conduct financial transactions. The resource that a customer uses might be an electronic device like a computer, a laptop, or a mobile phone. The internet is the medium that makes the technology possible.

Features of Internet Banking

The customer using this facility can conduct transactional and non-transactional tasks including:

The customer can view account statements.

The customer can check the history of the transactions for a given period by the concerned bank.

Bank, statements, various types of forms, applications can be downloaded.

The customer can transfer funds, pay any kind of bill, recharge mobiles, DTH connections, etc.

The customer can buy and sell on e-commerce platforms.\

Advantages of Internet Banking

- The customers get permanent access to his/her bank anytime and anywhere.
- Transactions are safe and highly secure.
- Immediate funds transfer helps the user in time of urgent need.
- It saves valuable time of the users.

Mobile banking

Mobile banking is a term used to refer to systems that allow customers of a financial institution to conduct a number of financial transactions through a mobile device such as a mobile phone or tablet. Mobile banking differs from mobile payments, which involve the use of a mobile device to pay for goods or services either at the point of sale or remotely, analogously to the use of a debit or credit card to effect an EFTPOS payment.

The earliest mobile banking services were offered over SMS, a service known as SMS banking. With the introduction of smart phones with WAP support enabling the use of the mobile web in 1999, the first European banks started to offer mobile banking on this platform to their customers. Mobile banking has until recently most often been performed via SMS or the mobile web.

Advantages of Mobile Banking

Convenience: In mobile banking, a customer is able to access bank accounts and make payments regardless of the time and place. Financial transactions can be performed round-the-clock and even during holidays. Mobile banking does not require calling a bank or physically visiting it. It also eliminates the inconvenience of carrying multiple payment cards or a laptop for internet banking.

• **Time saving:** It eliminates the time lost in physically going to the bank. A customer can schedule and receive payments, transfer money and check account balances within minutes.

• **Easy access to finance:** In some far flung areas where there are no banks and the nearest bank is a good distance away, it serves as a convenient choice for accessing financial services for most mobile phone owners. A user can easily check his account balance, transfer funds, pay bills, etc.

• **Fraud Avoidance:** Customers who use mobile banking have a better knowledge of their financial transactions and day to-day balances and hence are more likely to catch incorrect or fraudulent transactions.

- **Increased efficiency:** Mobile banking is functional, competitive and efficient. It reduces the amount of paperwork and decongests the banks.

Automated Teller Machine (ATM)

An automated teller machine (ATM) is an electronic banking outlet that allows customers to complete basic transactions without the aid of a branch representative or teller. Anyone with a credit card or debit card can access cash at most ATMs.

ATMs are convenient, allowing consumers to perform quick self-service transactions such as deposits, cash withdrawals, bill payments, and transfers between accounts. Fees are commonly charged for cash withdrawals by the bank where the account is located, by the operator of the ATM, or by both.

Electronic funds transfer

Electronic funds transfer (EFT) are electronic transfer of money from one bank account to another, either within a single financial institution or across multiple institutions, via computer-based systems, without the direct intervention of bank staff.

Electronic Funds Transfer (EFT) is a system of transferring money from one bank account directly to another without any paper money changing hands. One of the most widely-used EFT programs is direct deposit, through which payroll is deposited straight into an employee’s bank account. However, EFT refers to any transfer of funds initiated through an electronic terminal, including credit card, ATM, Fedwire and point-of-sale (POS) transactions. It is used for both credit transfers, such as payroll payments, and for debit transfers, such as mortgage payments.

Real-Time Gross Settlement (RTGS)

The term real-time gross settlement (RTGS) refers to a funds transfer system that allows for the instantaneous transfer of money and/or securities. RGTS is the continuous process of settling payments on an individual order basis without netting debits with credits across the books of a central bank. Once completed, real-time gross settlement payments are final and irrevocable. In most countries, the systems are managed and run by their central banks.

RTGS systems, increasingly used by central banks worldwide, can help minimize the risk to high-value payment settlements among financial institutions. Although companies and financial institutions that deal with sensitive financial data typically have high levels of security in place to protect information and funds, the range and nature of online threats are constantly evolving.

NEFT: National Electronic Funds Transfer

National Electronic Funds Transfer (NEFT) is an Indian system of electronic transfer of money from one bank to another. It was introduced by Reserve Bank of India. It is an electronic fund transfer system that is based on Deferred Net Settlement (DNS) which settles transaction in batches. It is a nation-wide payment system facilitating one-to-one funds transfer. Under this Scheme, individuals can electronically transfer funds from any bank branch to any individual having an account with any other bank branch in the country participating in the Scheme.

Magnetic Ink Character Recognition (MICR)

The term magnetic ink character recognition (MICR) refers to the line of numbers that appears at the bottom of a check. The MICR line is a group of three numbers, which are the check number, account number, and bank routing number. The MICR number includes the magnetic ink character recognition line printed using technology that allows certain computers to read and process the printed information.

One of the benefits of the magnetic ink character recognition line is its ability to quickly facilitate the use of routing numbers. A routing number or routing transit number is a specific nine-digit numerical code, which banking and other financial institutions use for the purpose of clearing funds and/or processing checks in the U.S. As it appears on the front of a check, the routing number represents the bank that holds the account from which funds are to be drawn. Wire transfers and direct deposits often rely on routing numbers.

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