BANKING PRACTICES

NON MAJOR ELECTIVE – II

SUB.CODE - 16NMEBB3

SYLLABUS

NON MAJOR ELECTIVE – II

16NMEBB3 - BANKING PRACTICES

OBJECTIVES:

- To promote an understanding of the basic concepts in banking
- To acquaint learners with the theoretical and legal concepts of banking in India
- To help them to attain the competencies required for a career in banking services.

UNIT – I - Banking – Meaning - Definition – Function of banking - Classification of Banks

UNIT – II - Definition of the terms Banker and Customer – differential relationship between Banker and Customer – General and Special relationship

UNIT – III - Cheques - Definition of a Cheque – Characteristics of Cheques – Marking – Honor and Dishonor of Cheques

UNIT – IV - Crossing of Cheques – significance –Endorsement –Types

UNIT – V - Recent trends in banking services – Modern services of Banks – ATM, Credit Card, Debit Card, Green Card

TEXT BOOK RECOMMENDED:

Banking Theory, Law and Practice – SUNDARAM & VARSHNEY, Sultan Chand & Sons

BOOKS FOR REFERENCE:

1. Banking Theory, Law and Practice – E. GORDON & K. NATARAJAN, Himalaya Publishing House
2. Banking Law and Practice – P.N. VARSHNEY, Sultan Chand & Sons, New Delhi.
3. Money, Banking, Trade and Public Finance – M.C. VAISH, New Age International (P) Limited, New Delhi
4. Indian Banking – K. PARAMESWARAN & S. NATARAJAN, S.Chand& Company Ltd.
5. Banking Theory, Law and Practice – S.M. SUNDARAM, Sri Meenakshi Publication, Karaikudi.
6. Banking Theory – VASUDEVAN, Sultan Chand & Sons, New Delhi.

UNIT – I

I. ORIGIN AND DEVELOPMENT OF BANKING

By independence, India had a fairly well developed commercial banking system inexistence. In 1951, there were 566 private commercial banks in India with 4,151 branches, theoverwhelming majority of which were confined to larger towns and cities. Savings in the form of bankdeposits accounted for less that 1 per cent of national income, forming around 12 per cent of theestimated saving of the household sector.

The Reserve Bank of India (RBI) was originally established in1935 by an Act promulgated by the Government of India, but as a shareholder institution like the Bankof England. After India's independence, in the context of the need for close integration between itspolicies and those of the Government, the Reserve Bank became a state - owned institution fromSchool of Distance EducationJanuary 1, 1949. It was during this year that the Banking Regulation Act was enacted to provide aframework for regulation and supervision of commercial banking activity.

By independence, India had a fairly well developed commercial banking system inexistence. Reserve bank of India was nationalized in the year 1949. The enactment of the BankingCompanies Act 1949 (Later it was renamed as Banking Regulation Act) was a bold step in the history ofbanking in India. In 1955, Imperial Bank of India was nationalized and renamed as State bank of India(SBI).

The SBI started number of branches in urban and rural areas of the country. In 1967, Govt introduced the concept of social control on banking sector. Nationalization of 14commercial banks in 1969 was a revolution in the history of banking in India. Six more commercialbanks were nationalized in 1980. Other landmarks in the history of Indian banking were theestablishment of National Bank for Agricultural and Rural Development (1988), merger of New Bank ofIndia with Punjab National Bank (1993), merger of State Bank of Sourashtra with SBI (2008) and themerger of State Bank of Indore with SBI (2010). At present, there are 27 Public sector banks, 20 privatesector banks, 30 foreign banks and 82 Regional Rural Banks in India.

Finance is the life blood of trade, commerce and industry. Now-a-days, banking sector acts as thebackbone of modern business. Development of any country mainly depends upon the banking system.The term bank is either derived from **Old Italian word banca** or from a **French** word **banque** both mean a**Bench or money exchange table**. In olden days, **European** money lenders or money changers used todisplay (show) coins of different countries in big heaps (quantity) on **benches or tables** for the purpose oflending or exchanging. A bank is a financial institution which deals with deposits and advances and otherrelated services. It receives money from those who want to save in the form of deposits and it lendsmoney to those who need it.

What is a Bank?

- ***According to R.S. Sayers*** "Banks are institution whose debts usually referred to as bank deposits are commonly accepted in final settlement of other people's debts".

I. DEFINITION OF BANK

- ***According to "The Banking Regulation Act of India, 1949", "***Accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise and withdrawal by cheque, draft and order or otherwise" **(Section 5b).**
- ***Oxford Dictionary defines*** a bank as "an establishment for custody of money, which it pays out on customer's order."

II. CHARACTERISTICS / FEATURES OF A BANK

1. Dealing in Money

- Bank is a financial institution which deals with other people's money.**(i.e.) money given by depositors**

2. Individual / Firm / Company

- A bank may be a person, firm or a company.
- A banking company means a company which is in the business of banking.

3. Acceptance of Deposit

- A bank accepts money from the people in the form of deposits which are usually repayable on demand or after the expiry of a fixed period.
- It gives safety to the deposits of its customers.
- It also acts as a custodian of funds of its customers.

4. Giving Advances

- A bank lends out money in the form of loans.
- To those who require it for different purposes.

5. Payment and Withdrawal

- A bank provides **easy payment and withdrawal facility** to its customers.
- In the form of **cheques and drafts, ATM, Online Fund Transfer**without the need for carrying money in hand.
- It also brings bank **money in circulation**.

6. Agency and Utility Services

- A bank provides various banking facilities to its customers.
- They include general utility services and agency services.

7. Profit and Service Orientation

- A bank is a profit seeking institution having **service oriented approach**.

8. Ever increasing Functions

- Banking is an **evolutionary concept**.
- There is continuous **expansion and diversification** as regards the **functions, services and activities of a bank.**

9. Connecting Link

- A bank acts as a connecting link between borrowers and lenders of money.
- Banks collect money from those who have surplus money and give the same to those who are in need of money.

10. Banking Business

- A bank's main activity should be to do **business of banking** which should not be **subsidiary to any other business**.

11. Name Identity

- A bank should always add the word **"bank"** to its name
- To enable people to know that it is a bank and that it is **dealing in money**.

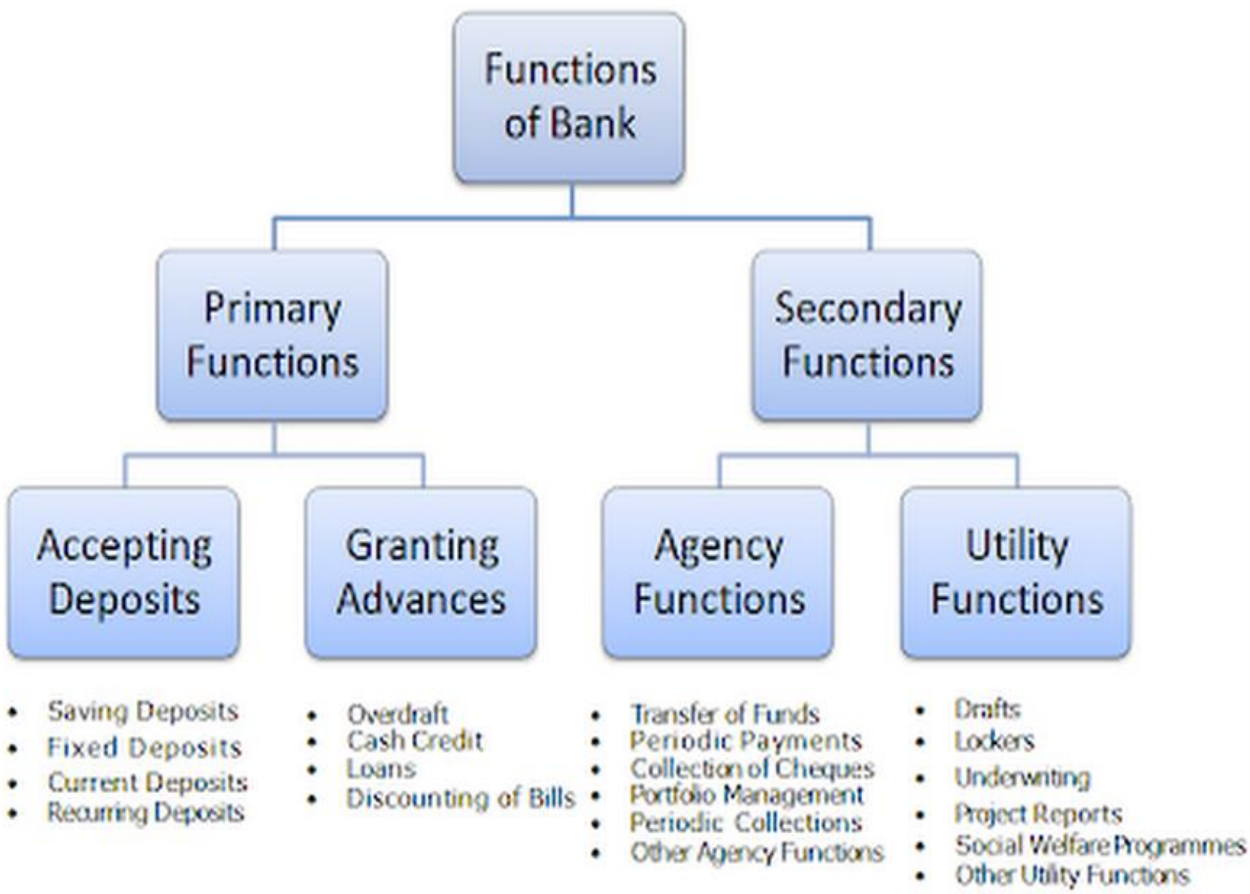
II. IMPORTANCE OF BANKS

Bankers play very important role in the economic development of the nation. The health of theeconomy is closely related to the growth and soundness of its banking system.

1. Banks mobilize small, scattered and idle savings of the people, and make them available for productive purposes.
2. By offering attractive interests, Banks promote the habit of thrift and savings.

3. By accepting savings, Banks provide safety and security to the surplus money.
4. Banks provide convenient and economical means of payments.
5. Banks provide convenient and economical means of transfer of funds.
6. Banks facilitate the movement of funds from unused regions to useful regions.
7. Banking helps trade, commerce, industry and agriculture by meeting their financial requirements.
8. Banking connects saving people and investing people.
9. Through their control over the supply of money, Banks influence the economic activities, employment, income level and price level in the economy.

I. FUNCTIONS OF BANKING OR COMMERCIAL 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.***

- ❖ **Accepting Deposits**
- ❖ **Granting of Loans and Advances**

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 or (Demand Deposits)**
- **Recurring Deposits**

a) 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 are also allowed but only in a limited number.
- The account is suitable for people who want to save on salaries and similar sources of income.

b) 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.
- The withdrawals are not allowed in before the completion / expiry of the time of the fixed deposit.

c) 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.

d) 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**

a. Overdraft

- This type of advances is given to **current account holders**.
- A certain amount is **sanctioned as overdrafts** which can be withdrawn within a certain period of time say **3** months**(90 days)** 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**.

b. Cash Credits

- It is a facility to withdraw money from a **current account holders**(specially metropolitan area)
- It is **without having credit balance**
- But limited to the level of borrowing limit which is fixed by the commercial bank.
- This is a very common facility by banks.
- It is one of the important **short term sourcesof finance for a business**.

c. Loans

A thing that is borrowed, especially a sum of money that is expected to be paid back with interest, there are two types of loan which includes clean loan and secured 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 lump sum amount. Interest is charged on the actual amount sanctioned, whether withdrawn or not. The rate of interest may be slightly lower than what is charged on overdrafts and cash credits, Loans are normally secured against tangible assets of the company.

d. 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.**

- **Agency Functions**
- **Utility functions**

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**

a. Transfer of Funds ------- The bank transfer funds from one branch to another or from one place to another.

b. 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.

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

d. Portfolio Management -------- The bank 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.

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

f. 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

a. 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.

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

c. Underwriting of Shares -------- The bank underwrites shares and debentures through its merchant banking division.

d. Dealing in Foreign Exchange ---------- The commercial banks are allowed by RBI to deal in foreign exchange.

e. Project Reports --------- The bank may also undertake to prepare project reports on behalf of its clients.

f. Social Welfare Programmes --------- It undertakes social welfare programmes, such as adult literacy programmes, public welfare campaigns, etc.

g. 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.

FUNCTION OF RESERVE BANK OF INDIA

As a central bank, the Reserve Bank has significant **powers and duties to perform**. For **smooth and speedy progress of the Indian Financial System**, it has to perform some important tasks.

a) Traditional Function

Issue of the Currency Note

- The RBI has the **sole right or authority or monopoly of issuing currency notes except one rupee note and coins of smaller denomination**.
- These **currency notes** are **legal tender issued by the RBI**.
- Currently it is in **denominations of Rs. 2, 5, 10, 20, 50, 100, 500, and 1,000**.
- The RBI has powers not only to **issue and withdraw** but even to exchange these currency notes for other denominations.
- It issues these notes against the **security of gold bullion, foreign securities, rupee coins, exchange bills and promissory notes and government of India bonds**.

Banker to the Banks

- The RBI being **atop monitory institution has obligatory powers toguide, help and direct other commercial banks** in the country.
- The RBI can **control the volumes of banks reserves and allow other banks** to create creditin that proportion.
- Every commercial bank has to maintain a part of theirreserves with its parent's viz. the RBI.
- Similarly in **need or in urgency**these banks approach the RBI for fund.
- Thus it is called as the **lender of the lastresort**.

Banker to the Government

- The RBI being the top monitory body has to work **as an agent of the central and state governments.**
- It performs various banking function such **as to accept deposits, taxes and make payments on behalf of the government.**
- It works **as a representative of the government even at the international level**.
- It maintains **government accounts, provides financial advice to the government**.
- It manages **government public debts and maintains foreign exchangereserves on behalf of the government**.
- It provides **overdraft facility to thegovernment when it faces financial crunch**.

Exchange Rate Management

- **It is an essential function of the RBI**.
- In order **to maintain stability in the external value of rupee**, it has to prepare **domestic policies in that direction**.
- Also it **needs to prepare and implement the foreign exchange rate policy**which will help in attaining the exchange rate stability.
- In order **to maintain the exchange rate stability it has to bring demand and supply of the foreign currency** (U.S Dollar) close to each other.

Credit Control Function

- Commercial bank in **the country creates credit according to the demand in the economy**.
- But if this credit creation is **unchecked or unregulated then it leads the economy into inflationary cycles**.
- On the other credit creation is **below the required limit then it harms the growth of the economy**.
- As a central bank of the nation the RBI has to look **for growth with price stability**.

Supervisory Function

- The RBI has been **endowed with vast powers for supervising the banking system** in the country.
- It has **powers:**
  - To issue license for setting upnew banks,
  - To open new branches,
  - To decide minimum reserves,
  - To inspectfunctioning of commercial banks in india and abroad, and
  - To guide and directthe commercial banks in india.

A. Developmental Function

Along with **the routine traditional functions**, central banks especially inthe developing country like India have to perform numerous functions. Thesefunctions are **country specific functions and can change according to the requirements of that country**. The RBI has been performing **as a promoter of the financial system** since its inception. Some of the major developmentfunctions of the RBI are maintained below.

Development of the financial System

The financial system comprises the financial institutions, financialmarkets and financial instruments. The sound and efficient financial system isa precondition of the rapid economic development of the nation. The RBI hasencouraged establishment of main banking and non-banking institutions tocater to the credit requirements of diverse sectors of the economy.

Development of Agriculture

In an agrarian economy like ours, the RBI has to provide special attention for the credit need of agriculture and allied activities. It has successfully rendered service in this direction by increasing the flow of credit to this sector. It has earlier **the Agriculture Refinance and Development Corporation (ARDC)** to look after the credit, **National Bank for Agriculture and Rural Development (NABARD)** and **Regional Rural Banks (RRBs).**

Provision of Industrial Finance

Rapid industrial growth is the key to faster economic development. Inthis regard, the adequate and timely availability of credit to small, medium andlarge industry is very significant. In this regard the **RBI has always beeninstrumental in setting up special financial institutions** such **as ICICI Ltd. IDBI,SIDBI and EXIM BANK etc**

Provision of Training

The RBI has always tried to provide essential training to the staff of the banking industry. The RBI has set up the bankers' training colleges at several places. **National Institute of Bank Management** (**NIBM), Bankers Staff College (BSC)**and **College of Agriculture Banking (CAB) are few to mention.**

Collection of Data

Being the apex monetary authority of the country, the RBI collectsprocess and disseminates statistical data on several topics. It includes interest rate, inflation, savings and investments etc. This data proves to be quite useful for researchers and policy makers.

Publication of the Reports

The Reserve Bank has **its separate publication division**. This **division collects and publishes data on several sectors of the economy**. The **reports and bulletins** are regularly published by the RBI. It includes **RBI weekly reports**, **RBI Annual Report, Report on Trend and Progress of Commercial Banks India**., etc. This information is made available to the public also at cheaper rates.

Promotion of the Banking Habits

As atop organization, the RBI always tries **to promote the banking habits in the country**. It **institutionalizes savings and takes measures for an expansion of the banking network**. It has set up many institutions such as the **Deposit Insurance Corporation-1962, UTI-1964, IDBI-1964, NABARD-1982,NHB-1988,** etc. These organizations develop and promote banking habits among the people. During economic reforms it has taken many initiatives for encouraging and promoting banking in India.

Promotion of Export through Re-Finance

The RBI always tries to **encourage the facilities for providing finance for foreign trade** especially exports from India. The **Export-Import Bank of India (EXIM Bank India)** and the **Export Credit Guarantee Corporation of India (ECGC)** are supported by refinancing their lending for export purpose.

B. Supervisory Function

The reserve bank also **performs many supervisory functions**. It has**authority to regulate and administer the entire banking and financial system**.Some of its supervisory functions are given below.

Granting Licenses to the Banks

The RBI **grants license to banks for carrying its business**. License isalso given for **opening extension counters, new branches, even to close down existing branches**.

Bank Inspection

The RBI grants license to banks working as per the directives and in aprudent manner without undue risk. In addition to this it can ask for periodicalinformation from banks on various components of assets and liabilities.

Control over NBFIS (Non-Bank Financial Institutions**)**

The **Non-Bank Financial Institutions** are **not influenced by the working of a monitory policy**. However RBI has a **right to issue directives to the NBFIs from time to time regarding their functioning**. Through periodic inspection, itcan control the **NBFIs.**

Implementation of the Deposit Insurance System

The RBI has **set up the Deposit Insurance Guarantee Corporation** inorder to protect the deposits of **small depositors**. All bank deposits **below Rs. One lakh** are **insured with this corporation.** The RBI work to implement the**Deposit Insurance Scheme** in case of a bank failure.

C. Traditional Banking Functions

In very **general terms, the traditional functions of a commercial bank**can be classified under following main heads:

Receiving of Money on Deposit

This is the **most important function of banks, as it is largely by means of deposits that a bank prepares the basis for several other activities**. The money power of a bank, by which it helps largely the business community and other customers, depends considerably upon the amounts it can borrow byway of deposits. The deposits of a bank can take the form of fixed, savings orcurrent deposits.

Lending of Money

This function is not only very important but is the chief source of profitfor banks. By lending money banks place funds at the disposal of theborrower, in exchange for a promise of payment at a future date, enabling theborrowers to carry on their Business/productive activities and meet their otherrequirements. Banks thus, help their clients to meet their needs with themoney lent to them and return the money with interest as per agreed terms.The advances of a bank can take the form of loans, cash, credits, billspurchase / discount facilities.

Transferring Money From Place to Place

This function is also one of the important functions of banks. Banks allow thefacilities of transfer of funds by issuing demand drafts, Telegraphic /Telephonic Transfers, Mail Transfer etc.

Miscellaneous Functions

Safe custody of valuables, issue of various forms of credits e.g. lettersof credit, traveler's cheques and furnishing guarantees on behalf of customersand providing fee based services are also important functions performed bybanks.

VIII. CLASSIFICATION OF BANKS / AND THEIR FUNCTIONAL TYPES OF BANKS:

RESERVE BANK OF INDIA (RBI)

The Reserve Bank of India (RBI), the central bank of India, which was established in 1935, has beenfully owned by the government of India since nationalization in 1949. Like the central bank in mostcountries, Reserve Bank of India is entrusted with the functions of guiding and regulating the bankingsystem of a country.

Broadly, banks are classified either into commercial banks or as central bank. They are also classified as:

- **Scheduled, and**
- **Non-scheduled Banks.**

- **Scheduled banks** have been included in the second schedule of the Reserve Bank, and fulfill the following three criteria:
  - **Commercial banks**
  - **Co-operative banks**

- **Non-Scheduled Banks** are excluded from the Second schedule of RBI. The Reserve Bank does not exercise much control over them, but they report monthly to RBI.

There are several types of **commercial banks functioning** in India based upon different categories:

A. COMMERCIAL BANKS

Short-term, relatively liquid deposits and transforming these into larger, longer maturity loans

There are three types of commercial banks in India

- **Public sector banks**
- **Private Banks**
- **Foreign banks**

a) Public sector banks (21)

These are banks where majority stake is held by the Government of India or Reserve Bank ofIndia. In 2012, the largest public sector bank is the State Bank of India. This consists of 14 banks which are nationalized in the year 1969, 6 banks in the 1980, and 1 bank in the 1990 which are nationalized in the year1993.

b) Private Banks (22)

Private Banks are banks that the majority of share capital is held by privateindividuals. In Private sector small scheduled commercial banks and newly established banks with anetwork of **8,965 branches** are **operating**. To encourage competitive efficiency, the setting up of newprivate bank is now encouraged.

c) Foreign Banks(45)

Foreign banks **are registered and have their headquarters in a foreign country** but **operate their branches in India**. Apart from financing of foreign trade, these banks have performed all functions ofcommercial banks and they have an advantage over Indian banks because of their vast resources andsuperior management.

B. CO-OPERATIVE BANKS

Co-operative banks are banks incorporated in the legal form of cooperatives. Any cooperativesociety has to obtain a license from the Reserve Bank of India before starting banking business andhas to follow the guidelines set and issued by the Reserve Bank of India.

- **Primary Credit Societies**
- **Central Co-operative Banks**
- **State Co-operative Banks**

a) Primary Credit Societies:

Primary Credit Societies are formed at the village or town level with borrower and non-borrower members residing in one locality. The operations of each society are restricted to a small areaso that the members know each other and are able to watch over the activities of all members to preventfrauds.

b) **Central Co-operative Banks:**

Central co-operative banks operate at the district level having some of the primary creditsocieties belonging to the same district as their members. These banks provide loans to their members(i.e., primary credit societies) and function as a link between the primary credit societies and stateco-operative banks.

c) **State Co-operative Banks:**

These are the highest level co-operative banks in all the states of the country. They mobilizefunds and help in its proper channelization among various sectors. The money reaches the individualborrowers from the state co-operative banks through the central co-operative banks and the primarycredit societies.

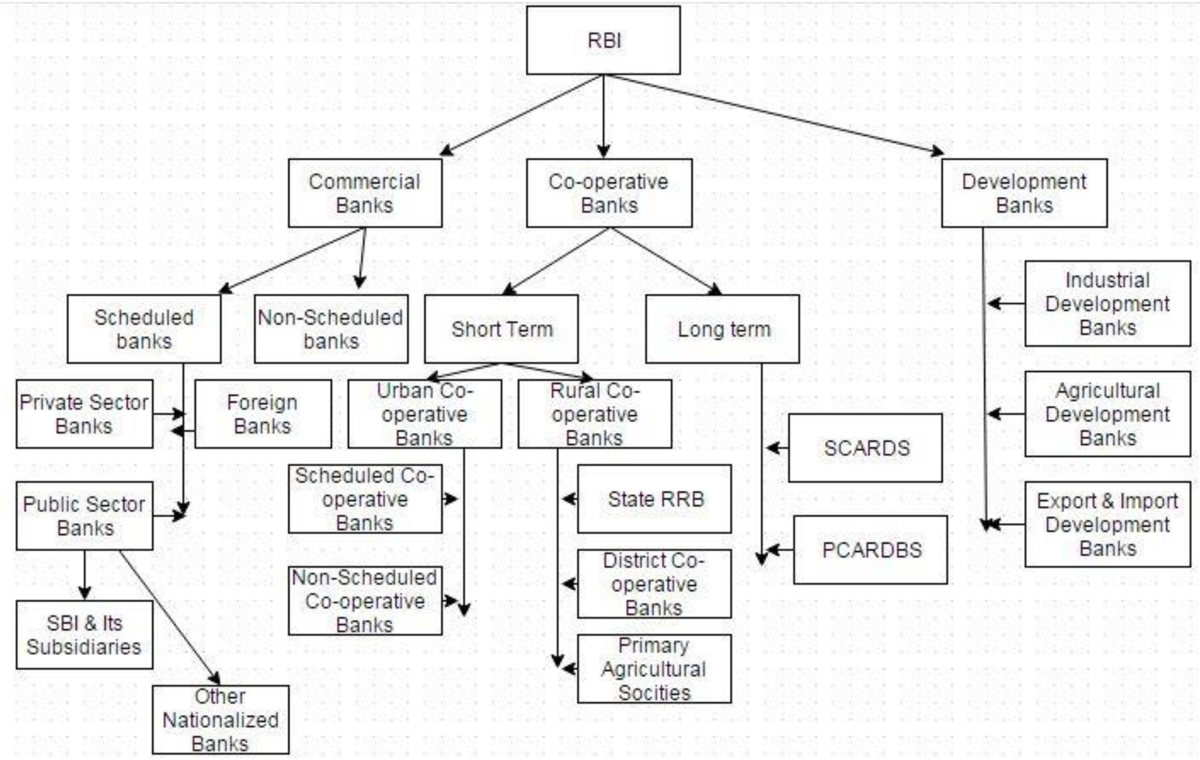
C. REGIONAL RURAL BANKS (RRB)

The regional rural banks are banks set up to increase the flow of credit to smaller borrowers inthe rural areas. These banks were established on realizing that the benefits of the co-operative bankingsystem were not reaching all the farmers in rural areas.

Regional rural banks (RRB) perform the following two functions:

- Granting of loans and advances to small and marginal farmers, agricultural workers, co - operative societies including agricultural marketing societies and primary agricultural credit societiesfor agricultural purposes or agricultural operations or related purposes
- Granting of loans and advances to artisans small entrepreneurs engaged in trade,commerce or industry or other productive activities.

- **Non-Scheduled Banks**are excluded from the Second schedule of RBI. The Reserve Bank does not exercise much control over them, but they report monthly to RBI.There are several types of **commercial banks functioning** in India based upon different categories:



DEVELOPMENT BANKS

They are provides:

- ❖ Financial assistance to business requirements of medium and long-term capital for purchase of machinery and equipment,
- ❖ Using latest technology, or
- ❖ Expansion and modernization.

A development bank is a multipurpose institution which

- ❖ Shares entrepreneurial risk,
- ❖ Changes its approach in tune with industrial climate and
- ❖ Encourages new industrial projects to bring about speedier economic growth.

There are 5 development banks:

1. **Industrial Development Bank of India (IDBI)**
2. **Industrial Finance Corporation of India (IFCI)**
3. **Industrial Credit and Investment Corporation Of India (ICICI)**
   - **Project and equipment financing,**
   - **Underwriting, and**
   - **Direct subscription**
     - To capital issues,

- To Leasing,
- To Deferred credit,
- To Trusteeship and custodial services,
- To Advisory services and business consultancy

4. Specialized Banks

There are three important types ofspecialized banks with different functions:

- **Export Import Bank of India (EXIM Bank)**
- **Small Industries Development Bank of India**
- **National Bank for Agricultural and Rural Development**

5. Indian Bank-Like Financial Institution

a) **Microfinance Institutions**

b) **Development financial institutions (DFIs)**

Review Questions

1. Explain the meaning of bank.
2. What is the origin of the word ‘bank’?
3. Explain the characteristics of Indian Banking System.
4. What are the primary functions of commercial banks?
5. What do you understand by secondary functions of commercial banks?
6. Explain briefly the concept of discounting of bills.
7. Who performs the agency functions and briefly explain them?
8. What are the general utility services provided by commercial banks?
9. Why banks are considered as the heart of the financial system?
10. What are the two sets of institutions of Indian Banking System? Discuss in detail.

UNIT – II

Definition of the terms Banker and Customer – differential relationship between Banker and Customer – General and Special relationship

I. DEFINITION OF THE TERMS BANKER AND CUSTOMER

Banker & Customer: There is no statutory definition of the term 'banker' and 'customer', but banks appear to rely upon to recognize a customer:

BANKER MEANING

A banker is the one who gets into debts and creates debts.

What is the meaning of Banker?

A banker → dealer in Money

A banker → an intermediate party between the borrower and the lender

A banker is a dealer in capital or more properly a dealer in money. He is an intermediate party between the borrower and the lender. He borrows from one party and lends to another.

DEFINITIONS

H.L. HART – the banker is one who receives money, collects cheques and drafts, for customers, with an obligation to honour the cheques drawn by customers from time to time subject to availability of amounts in the account**.**

1. Section 3 of "**Negotiable Instruments ACT 1881**" and Section 2 of "**BILL OF EXCHANGE ACT 1882"** State that the term banker includes person or corporation or a company acting as banker.
2. Under Section 5 (1) of **"Banking Regulations of 1949",** a banking company is defined as any company which transacts banking business.

Under Section 5 (1) B, banking business means "*accepting for the purpose of landing or investment, deposits of money from the public, repayable on demand or otherwise withdrawal by cheque, draft or otherwise".*

MANAGEMENT ASPECTS OF CUSTOMER

A person who buys goods or services from a shop or a business entity, a person you deal with as a business entity. There is no statutory definition. A person/ company/entity who have an account with a bank are a customer. There is no unanimity as regards to the time period of the dealings.

CUSTOMER MEANING

What is the meaning of a customer?

A customer is a person who maintains an account with the bank, without taking into consideration the duration and frequency of operation of his account.

A customer is a person who has some sort of account, either saving deposit, current deposit, fixed depositand recurring deposit with the banker.

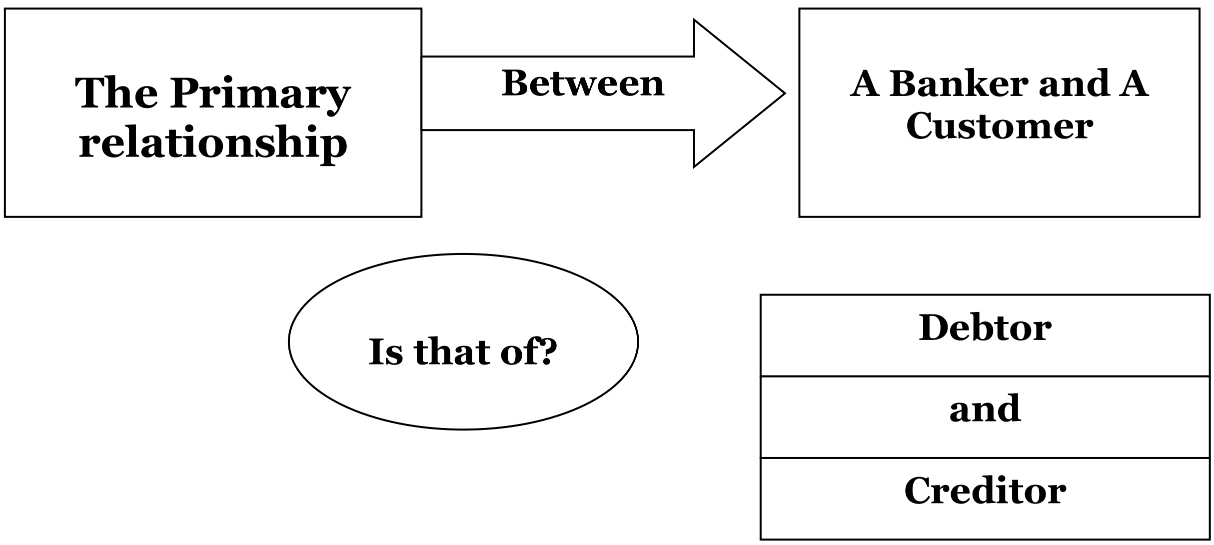
CUSTOMER DEFINITIONS

Under the LAW of contract person are able in ‘‘section 11: of contract act’’

- Person have maturity aged (+18)
- Person is sound mind
- Person is not disqualified in contract by court.

II. DIFFERENTIAL RELATIONSHIP BETWEEN BANKER AND CUSTOMER

BANKER CUSTOMER RELATIONSHIP



Banker Customer Relationship meaning:

- The position is either a creditor or a debtor depending upon whether the bank has lent money or accepted deposits.
- Various transactions gives rise to different relations

TRANSACTION-RELATIONSHIP

TRANSACTION	BANKER	CUSTOMER
Deposits in the bank	Debtor	Creditor
Loan from bank	Creditor	Debtor
Locker	Lessee	Lessor
Safe custody	Bailee	Bailor
Purchase of draft	Debtor	Creditor
Payee of draft	Trustee	Beneficiary
Sale / purchase of securities on behalf of customer, Cheque Collection and Standing instruction	Agent	Principal
Pledge	Pawner (Pledge)	Pawnee (Pledger)
Mortgage	Mortgagee	Mortgagor
Assignment	Assignee	Assignor
Hypothecation	Hypothecatee	Hypothecator

Discuss the details about differential Relationship betweenBanker and Customer.

- ❖ The opening of an account with a banker and the banker's acceptance for such opening of account gives rise to a '**Contractual Relationship'**.
- ❖ The relationship between the banker and customer is, generally, like a '**Commercial Transaction'**.
- ❖ The relationship between a banker and a customer is the foundation on which mutual duties, liabilities and privileges are being built.

There are two major differences between a banker and a customer:

1. **General Relationship**
2. **Special Relationship**

1. GENERAL RELATIONSHIP

- ❖ Creditor-debtor
- ❖ Debtor-creditor
- ❖ Agent and Principal

a) <u>Relationship of Creditor and Debtor</u>

Loan from bank = Creditor → Banker (Money handed over to the bank debt)

Debtor → Customer(customer having a deposit account **i.e.** depositor)

Here the banker acts as a creditor. The debtor creditor relationship holds good in the case of deposit account. But in the case of **loan cash credit and overdraft** the banker becomes a creditor and the customer assumes the role of a debtor.

b) Relationship of Debtor and Creditor

Deposits in the bank = { Debtor → Banker
Creditor → Customer

When **banker accepts deposits from the customer** he becomes the debtor and the customer is the creditor. The only obligation is to return the amount deposited with interest on demand. The banker can deal with the money anyway he likes.

c) Relationship of Agent and Principal

The banker acts as an agent of the customer (principal) by providing the following agency services:

Sale / purchase of securities on behalf of customer, Cheque Collection and Standing instruction = { Agent → Banker
Principal → Customer

- Buying and selling securities on his behalf,
- Collection of cheques, dividends, bills or promissory notes on his behalf, and
- Acting as a trustee, attorney, executor, correspondent or representative of a customer.

Banker as an agent performs many other functions such as payment of insurance premium, electricity and gas bills, handling tax problems, etc.

2. SPECIAL RELATIONSHIP

1. Bailer and bailee
2. Pawner and pawnee:
3. Mortgager and mortgagee:
4. Lessee and lessor
5. Indemnifier and indemnified
6. Trustee and Beneficiary

a) Relationship of Bailer and bailee

The relationship between banker and customer can be that of Bailer and Bailee.

Safe custody= Bailer → Customer (The party that delivers property to another)
Bailee → Banker (The party to whom the property is delivered)

- ❖ **Bailment** is a contract for delivering goods by one party to another to be held in trust for a specific period and returned when the purpose is ended.A bank may accept the valuables of his customer such as jewellery, documents, and securities for safe custody
- ❖ **Bailer** is the party that delivers property to another.
- ❖ **Bailee** is the party to whom the property is delivered.

So, when a customer gives a sealed box to the bank for safe keeping, the customer became the bailer, and the bank became the bailee.

b) Relationship of Pawnor and Pawnee: (Pledge)

(Pledge means: promise, assurance, guarantee, undertaking, and word of honour)

Pawnor → (Pledger or Bailer) Customer
Pawnee → (Pledgee or Bailee) Banker

"Pledge", "**pawnor**", and "**pawnee**" **defined**. The bailment of goods as security for payment of a debt or performance of a promise is called "pledge". The bailer is in this case called the "**pawnor**". The bailee is called "**pawnee**".

c) Relationship of Mortgagor and Mortgagee: (Pledge)

(Pledge means: promise, assurance, guarantee, undertaking, and word of honour)

- Mortgagor → Customer
- Mortgagee → Banker

- ❖ A **mortgagee** is an entity that lends money to a borrower for the purpose of purchasing real estate.
- ❖ In a **mortgage** lending deal the lender serves as the mortgagee and the borrower is known as the **mortgagor**.

Mortgage is the transfer of an interest in specific immovable property for the purpose of securing the payment of money advanced or to be advanced by way of loan.When a customer pledges a specific immovable property with the bank as security for advance, the customer becomes mortgager and banker is the mortgagee.

d) Relationship of Lessee and Lessor : (Lease – Rent) - relationship is termed as licensee and licensor

Locker = { Lessor → Customer
Lessee → Banker

- ❖ The **banks** provide **safe deposit lockers** to the **customers** who hire them on **lease basis**.
- ❖ The relationship therefore, is that of **lessee and lessor**.
- ❖ In certain **banks**, this relationship is termed as **licensee and licensor**.
- ❖ The **bank leases** out the **Assets** to clients for their use on **lease the customer become lessor** and **Bank become lessee**

A **lessee** is a person who rents land or property from a **lessor**. The **lessee** is also known as the "**tenant"** and must uphold specific obligations as **defined** in the lease agreement and by law. The lease is a legally binding document and if the **lessee**violates its terms he or she could be evicted.

e) Relationship of Indemnifier and Indemnified

“Security against loss”={ Indemnifier → Customer
Indemnified Banker →

The term **Indemnity** literally means “Security against loss”.

In a contract of **indemnity** one party – i.e. the **indemnifier** promise to compensate the other party i.e. the **indemnified** against the loss suffered by the other.

The **customer** is **indemnifier** and the **bank** is **indemnified**.

A contract by which one party promises to save the other from loss caused to him by the conduct of the promisor himself or the conduct of any other person is called a contract of indemnity – section 124 (Indian Contract Act, 1872).

In the case of banking, this relationship happens in transactions of issue of duplicate demand draft, fixed deposit receipt etc. The underlying point in these cases is that either party will compensate the other of any loss arising from the wrong/excess payment.

f) Relationship of Trustee and Beneficiary

Payee of draft = Trustee → Banker

Beneficiary → Customer

- ❖ A trustee holds property for the beneficiary, and the profit earned from this property belongs to the beneficiary.
- ❖ If the customer deposits securities or valuables with the banker for safe custody,
- ❖ Banker becomes a trustee of his customer.
- ❖ The customer is the beneficiary so the ownership remains with the customer.

III. BANKERS' OBLIGATION

(Under section 31 of Negotiable Instruments Act 1881)

- Banks have an obligation to honor chequesdrawn on it if the customer has sufficient funds.
- The obligation is extinguished by a garnisheeorder from the court.
- If a cheque is dishonored without justification, banks are liable to compensate the customer for injury to his credit.
- The bank is obliged to return dishonoredcheque to the customer.
- Banker is bound to act according to the directions given by the customer.
- Banks are liable for thefts or embezzlement by employees committed during the course of bank's business.
- Banks are obliged to provide service to its customers (even if the customer has not paid dues).
- Banks are obliged to maintain secrecy of client accounts.

The banker may give information:

- When he is statutorily required to do so.
- Where disclosure is under compulsion of law.
- With express or implied consent of the customer.
- To other banks. This is known as common courtesy between banks.
- In this case apart from making general statements no specific information are given.
- If it is in the bank's interest.
- If the disclosure is in public/national interest.
- There is a duty to the public to disclose.
- Only facts that are evident are revealed, avoiding opinions.

CUSTOMERS' OBLIGATIONS

- Repay amounts drawn from bank.
- Pay bank charges.
- Take due care in drawing cheques.
- Inform bank without delay if he/she discovers that another person has faked his/her signature.

- If he/she does not do so, he/she is stopped in future from claiming cheques as fake if the bank paid them in good faith and without negligence.

BANKER'S RIGHTS

- Combine Accounts
- A banker can combine one or more accounts kept by a customer.
- However, a banker cannot combine a customer's personal account with a joint account.
- The right to combine two or more accounts is not applicable to contingent or future debts.
    - **Banker's lien**
    - **Right of set off**
    - **Right of appropriation**
    - **Right to charge interest**
    - **Code of Bank's Commitment to Customers**
    - **Termination of Relationship**

Banker's lien

- The banker's lien gives him the right to sell to realize his dues in case of default.
- The right can be exercised on the customer's property only and not on joint accounts the debtor has.
- The banker's right of lien extends over goods and securities handed over to the banker.
- The Banker can draw upon them to liquidate a general balance due from the customer.

Right of set off

- This enables the banker to set off a debt owed to them by a customer before the latter recovers a debt due to him from the bank.

There is an automatic right of set-off on:

- Death of the customer.
- When a customer becomes insolvent.
- Garnishee order issued on the customer's account by court.
- But, the accounts must be in the same name and in the same right.

Right of appropriation

- If customers have more than one a/c or loan, the customer can direct the banker against which debt the payment should be appropriated.
- If the customer does not advise the bank, the bank can exercise the right and apply it in payment of any debt.

- The banker can even apply it against time barred debts.
- However, once an appropriation has been made it cannot be reversed.

Right to charge interest

- As a creditor the banker has the implied right to charge interest on the advances granted to the customer.
- Bankers normally charge interest monthly now-a-days.
- **Right to charge service charges**
- Banks charge customers if their balance is below a stipulated amount, for the usage of ATM (Automated Teller Machines) and withdrawals.
- Banks are required to display details of the various service charges on their website and at their offices / branches.
- Bank should advise customers at least a month before it proposes to change its rates.
- Banks charge lower charges for individuals, senior citizens, pensioners, rural customers and special customers as compared to companies and institutions.

Code of Bank's Commitment toCustomers

- The Banking Codes and standard Board of India (BCSBI) is an independent watch dog to monitor and ensure the adherence of Banking Codes and Standards by the banks.
- This is a voluntary code, which sets minimum standards of banking practices for banks to follow while dealing with customers.

Termination of Relationship

- The banker customer relationship terminates on:
- Voluntary termination;
- Death of the customer;
- Bankruptcy of the customer;
- Liquidation of the company;
- Insanity of the customer;
- Garnishee order.

The procedure to be followed for opening savings bank account and current account in a bank:

There are two kinds of deposits that can be opened with commercial banks in India. They are demand deposits and term deposits. Savings deposits and current deposits are known as demand deposits. Fixed deposits, recurring deposits and reinvestment fixed deposits are known as term deposits since these deposits are opened for a fixed period. The following is the procedure for opening a savings deposit with a commercial bank in India:

Following are the main formalities of opening saving or current account:

1. Application:-

Account opening form is filled by the customer. It is a formal request to the bank to allow him to open and operate the account.

2. Introduction:-

Before opening an account a bank introduction of the customer from a responsible person or any account holder

3. Specimen Signature:-

When banker is satisfied about the identity of the customer than he obtains the specimen signature on the card.

4. Initial Deposit:-

The current account can be opened with a minimum 1000 Rs. and Profit and Loss account with a minimum Rs. 10000.

5. Issuance of Cheque Book:-

The banker gives a cheque books pay in slip book and pass book.

6. Pass Book Entries:-

The banker should prepare the pass book very carefully. The customer should also check the entries carefully. He should keep proper record while drawing the cheque.

UNIT - III

Cheques - Definition of a Cheque – Characteristics of Cheques – Marking – Honor and Dishonor of Cheques

INTRODUCTION

Previous unit dealt with cash management services provided by banks to its corporate customers.

In this unit you will study all types of negotiable instruments and their various aspects. "**Negotiable instruments** are written orders or unconditional promises to pay a fixed sum of money on demand or at a certain time."

Bills of exchange, Cheque, promissory notes, drafts, and certificates of deposit are all examples of negotiable instruments. Negotiable instruments may be transferred from one person to another, who is known as a "**holder in due course**". This transfer is also known as negotiation of the instrument and upon transfer, the holder in due course obtains full legal title to the instrument. The transferred by delivery or by endorsement and delivery.

I. DEFINE CHEQUE

The Negotiable Instruments Act, 1881 defines a cheque as: "A bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand."

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.

II. CHARACTERISTIC / NATURE OF A CHEQUE

A cheque possesses the following characteristic:

1. **Cheque is an instrument in writing:** Oral orders are not considered as cheques. ***Caution*** A cheque must be in writing.
2. **Cheque contains an unconditional order:** Every cheque contains an unconditional order issued by the customer to his bank. A cheque containing conditional orders is considered invalid and is dishonoured by the bank.

3. **Cheque is drawn by a customer on his bank:** A cheque is always drawn on a specific bank mentioned in that. Cheque book facility is made available only to account holder who is supposed to maintain certain minimum balance in the account.
4. **Cheque must be signed by customer:** A cheque must be signed by customer, i.e. the account holder. Unsigned cheques or cheques signed by persons other than customers are not regarded as cheque.
5. **Cheque must be payable on demand:** A cheque when presented for payment must be paid on demand. If cheque is made payable after the expiry of certain period of times then it will not be a cheque.
6. **Cheque must mention exact amount to be paid:** Cheque must only be for money. The Notes amount to be paid by the banker must be certain and written in words as well as figures.
7. **Payee must be certain to whom payment is made:** The payee of the cheque should be certain whom the payment of a cheque is to be made i.e. either real person or artificial person like Joint Stock Company. The name of the payee must be written on the cheque or it can be made payable to bearer.
8. **Cheque must be duly dated by customer of bank:** A date must be duly mentioned by the customer of bank. A cheque is valid for a period of six months from the date of issue.
9. **Cheque has three parties:**
   - Drawer: A drawer is a person, who draws a cheque.
   - Drawee: A drawee is a bank on whom a cheque is drawn.
   - Payee: A payee is a person in whose favour a cheque is drawn.

III. PARTS OF A CHEQUE

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.

Definition of Cheque

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.

The four parts of a cheque are:

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

IV. <u>DIFFERENT TYPES OF CHEQUES</u>

a) **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.

b) Definition of Cheque

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 four parties in Cheque Transaction – Drawer, Drawee, Payee and amount

1. Drawee: The party directed to pay the amount of a draft or check.

2. Drawer: The party who draws the draft upon another party for payment.

3. Payee: The person to whom a cheque, money order, etc., is made out.

4. Amount: The amount that is to be paid.

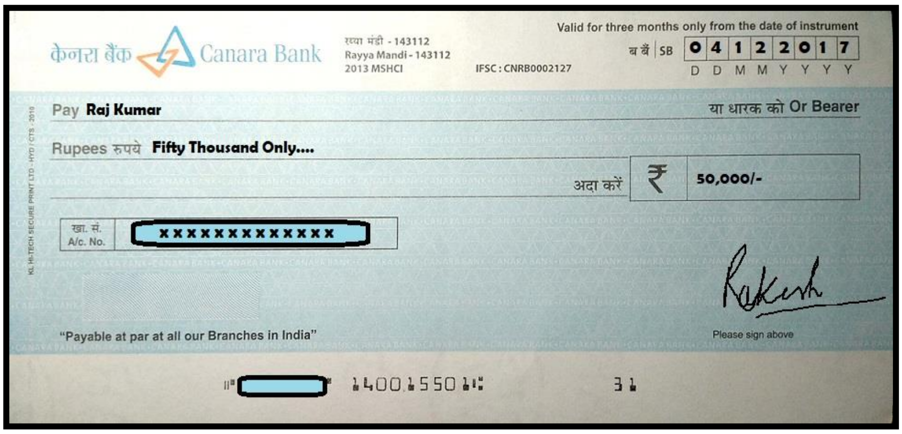
Different types of cheque

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

a) Open / Bearer Cheque



Open Cheque or Bearer Cheque

1. **Bearer -** This type of Cheques is risky in nature for drawer. When the word “Bearer” on the cheque is not crossed or cancelled, the cheque is called a bearer cheque.

2. **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**.**

b) Order Cheque:

When the word “bearer” appearing on the face of a cheque is cancelled and in its place the word “or order” is written on the face of the cheque, it is called an ordercheque.
Such a cheque is payable to the person specified in that as the payee, or to anyone else to whom it is endorsed.

c) Uncrossed/Open Cheque:

A cheque is called an “open cheque” when it is not crossed. It is also known as an “uncrossed cheque”.

The payment of such a cheque can be obtained at the counter of the bank. It can be an order cheque or a bearer one.

d) Crossed Cheque:

Crossing of cheque means drawing two parallel lines on the face of the cheque with or without additional words like “& CO.” or “Account Payee” or “Not Negotiable”. A crossed cheque can only be credited to the payee’s account.

e) Anti-dated Cheque: (Earlier date)

If a cheque is presented to the bank after the date that is mentioned on it, it is called as “anti-dated cheque”. Such a cheque is valid up to 6 months from the date of the cheque.

f) Post-dated Cheque: (Later Date)

If a cheque bears a date which is yet to come, then it is known as post-dated cheque. A post dated cheque cannot be honored earlier than the date on the cheque.

g) Stale Cheque: (Old Cheque)

If a cheque is presented for payment after three months from the date of the cheque it is called stale cheque. A stale cheque is not honored by the bank.

h) Mutilated Cheque (Tattered 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

Definitions

- 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

What is marking of cheque?

A check marked 'good for payment', sometimes by **means** of a special stamp, and guaranteed by the bank on which it is drawn. The issuer of the check is thereby acknowledged to have sufficient funds to cover the payment.

Marking of cheques in 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.

• A material alteration was defined as "an alteration, which alters the business effect of the instrument if used for any business purpose.

Ex

- Date;
- The time of payment;
- The place of payment;
- The sum payable;
- The number of parties;
- The relationship between parties;
- Legal character of the instrument;
- Opening a crossed cheque;
- Converting an order cheque into a bearer cheque.

• It is immaterial as to who makes the alteration. 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 the instrument, 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

- Filling blanks of the instrument;
- Conversion of blank endorsement into endorsement in full;
- Crossing of cheques;
- 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;
- Cancelling the word bearer and making the cheque payable to order; and
- Alteration made with the consent of the parties.

V. DISHONOR OF CHEQUES:

Define Dishonor of cheques

Dishonour Section 92 of the Negotiable Instruments Act states that:
"A promissory note, bill of exchange or cheque is said to be dishonoured by non-payment when the maker of the note and acceptor of the bill makes default in payment."

Who is drawer in Cheque?

A drawer is a person who draws a cheque in favour of someone. The bank of the drawer is the drawee and the person in whose favour the cheque is drawn is called a payee.

Reasons to Dishonour of Cheque:

Below are few specific reasons of dishonour of cheque, you must be well familiar with all of them.

1. **Drawer's Countermined**

   When the drawers instruct the bank to stop payment of a cheque, he must refuse (means say no, to stop the payment, reject) its payment. This is a most common reason to dishonour of cheque.
2. **Drawer's Death**

   Bank must stop the payment of a cheque of a notice of the drawer's death is received. Another, valid reason to dishonour of cheque and bank may refuse to make payment.
3. **Insolvency of Customer**

   On receiving the notice of insolvency or bankruptcy, the bank must refuse to pay cheque. Also, one more reason to dishonour of cheque.
4. **Garnishes Order**

   If the order of the court is received attaching the account of the customer, the bank should stop honoring his cheques.

5. Dishonour of cheque may occur generally due to the following reasons to.

a. Insufficient balance in depositor’s account.
b. When the date is not entered.
c. When the drawer has closed his account.
d. Amount in words and figures differs.
e. Signatures of the drawer’s differ.
f. When a cheque is mutilated or spoiled.
g. Post-dated or stale cheque.
h. When alterations are not signed by drawer.
i. Payee’s endorsement required.
j. Refer to drawer.
k. When the cheque is anti-dated.
l. No advice is received.
m. Bank directs to present again.

UNIT – IV

Crossing of Cheques – significance –Endorsement –Types

What is 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.

Who can cross a cheque?

Three parties can cross a cheque, they are;

- **Drawer -** The drawer can cross the cheque generally or specially.
- **Holder -** If the drawer has not crossed the cheque, the holder can cross it generally or specially.
- **Banker -** Where a cheque is crossed specially, the collecting banker may cross it again to another banker as it is an agent for collection, this is called double special crossing.

Types of Crossing of Cheques

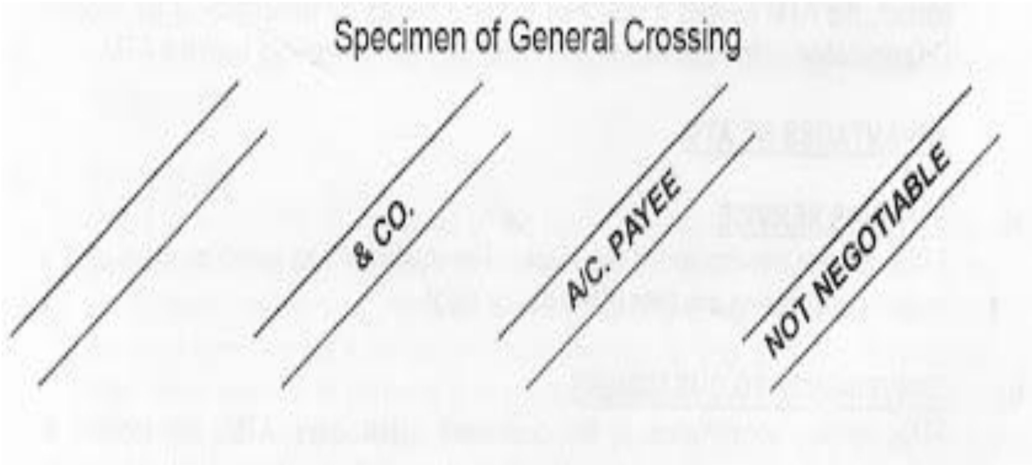
There are two main types of check crossing.

- ✓ **General crossing**
- ✓ **Special crossing**
    - **Restrictive crossing**
    - Not - negotiable crossing
    - Account payee crossing

1. General Crossing

- **A general crossing consists of two parallel lines drawn transversely the front side of the cheque *with or without the word "& CO".***
- **The effect of this cross leads the said cheque may not be cashed at the counter of the bank, but must be paid into bank accounts for collection.**

Specimen of General Crossing



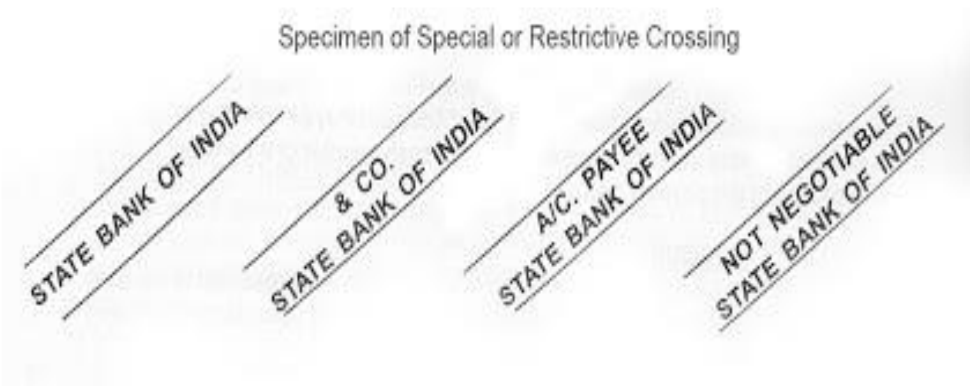
2. Special Crossing

- **A special crossing consists of the name of particular bank written across the face of the cheque.**
- **The effect of these types of crossing is that, it will be collected by the particular bank only.**

3. Restrictive Crossing

- **The act provides only two types of crossing mentioned as general and special crossing.**
- **Banking usage had developed yet another type of crossing called as "Restrictive Crossing".**
- **This type of crossing includes the word like "A/C Payee" "A/C John only" between equivalent outline.**

Specimen of Special or Restrictive Crossing



4. Not - negotiable crossing

- In this type of crossing, the cheque must contain the words 'not negotiable'.
- The cheque must be crossed generally or specially.
- The effect of this crossing is that the cheque nevertheless remains negotiable (transferrable) and the title of the transferred shall not be better than title of transferor.

Specimen of Not - negotiable

5. Account payee crossing

- This is also called restrictive crossing.
- The cheque must contain the words 'account payee' or 'account payee only'.
- The cheque must be crossed generally or specially.
- The effect of this type of crossing is that the cheque does not remain negotiable anymore.

Right and Objectives of Crossing

Following parties have the right to cross a cheque;

1. **Drawer of the Cheque can cross the cheque at the time of writing the cheque. This crossing can be general, special or restricted.**
2. **Holder of the cheque, can cross the cheque in his possession, if it is already not crossed by the drawer for any reason.**
3. **Collecting bank crosses the cheque deposited with it, for receiving the amount of said cheque named therein or any uncrossed cheque is deposited by a customer in his account for collection. It is necessary to cross all the cheques before depositing.**

ENDORSEMENT

INTRODUCTION:

Endorsement and delivery is a mode of negotiating a negotiable instrument like cheque. A negotiable instrument like cheque payable to order (i.e., payable to specified person or his order) can be negotiated only by endorsement and delivery. So, it is necessary to have some idea about endorsement.

Meaning of Endorsement:

The term “Endorsement” or “indorsement” is derived from the Latin term “in dorsum” this means “on the back”. So, endorsement means signing one’s name on the back of a negotiable instrument, say, a cheque, with a view to transferring the interest, right, property or title in the instrument to another person.

Parties to be involved in crossed cheques:

There are two parties:

1) Endorser: The person who endorses the instrument (i.e., the person who signs his name on the back of the instrument for the purpose of transferring its property to another) is called the “endorser”.

2) Endorsee: The person to whom the instrument is endorsed is called the “endorsee”

Essentials for Endorsement

The following are the essentials for a valid endorsement;

1. The endorsement must be on the reverse side.
2. It must be signed by the endorser in exact spelling as appearing on the face of the instruments.
3. The endorsement should be written with Ink. Endorsements in pencil are usually not accepted.
4. The endorsement must be of the whole amount of the instrument.

5. If the names of the payees are exceeding from two, it must be keep in mind that the endorsement always be in the similar class.

Kinds / various types of Endorsements:

Types of Endorsements, when we are studying about negotiable instruments, we need to study about the various types of endorsements as per The Negotiable Instruments Act. So, let us have a look on the type of endorsements: An endorsement may be

(a) Blank or General c,

(b) Special or Full Endorsement,

(c) Restrictive Endorsement,

(d) Partial Endorsement, and

(e) Conditional or Qualified Endorsement.

Blank or General:

An endorsement is to be blank or general where the endorser simply writes his signature on the back of the instrument, and the instrument so endorsed becomes payable to bearer, even though originally it was payable to order.

Thus, where bill is payable to "Sohan or order", and he writes on its back **"Sohan"**, it is an endorsement in blank by Sohan and the property in the bill can pass by mere delivery, as long as the endorsement continues to be a blank

Special or Full:

If the endorser signs his name and adds a direction to pay the amount mentioned in the instrument to, or to the order of a specified person, the endorsement is said to be special or in full.

A bill made payable to Sohan or Sohan or order, and endorsed "pay to the order of Sohan" would be specially endorsed and Sohan endorses it further. A blank endorsement can be turned into a special one by the addition of an order making the bill payable to the transferee.

Restrictive:

An endorsement is restrictive which prohibits or restricts the further negotiation of an instrument.

Examples of restrictive endorsement: "Pay A only" or "Pay A for my use" or "Pay A on account of B" or "Pay A or order for collection".

Partial:

An endorsement partial is one which purports to transfer to the endorsee, a part only of the amount payable on the instrument.

A partial endorsement does not operate as negotiation of the instrument. A holds a bill for Rs. 1,000 and endorses it as "Pay B or order Rs. 500". The endorsement is partial and invalid.

Conditional or qualified:

An endorsement is conditional or qualified which limits the liability of the endorser. An endorser may limit his liability in any of the following ways:

(i) By sans recourse endorsement, that is, by making it clear that he does not incur the liability of an endorser to the endorsee or subsequent holders and they should not look to him in case of dishonour of instrument. The endorser excludes his liability by adding the words "sans recourse" or "without recourse", e.g., "pay A or order same recourse".

(ii) By making his liability depending upon happening of a specified event which may never happen, e.g., the holder of a bill may endorse it thus: "Pay A or order on his marrying B". In such a case, the endorser will not be liable until A marries B.

UNIT – V

Recent trends in banking services – Modern services of Banks – ATM, Credit Card, Debit Card, Green Card

1. RECENT TRENDS IN BANKING

1. Automatic Teller Machine (ATM):-

Automatic Teller Machine is the most popular devise in India, whichenables the customers to withdraw their money 24 hours a day 7 days a week. It is a device that allowscustomer who has an ATM card to perform routine banking transactions without interacting with humanteller. In addition to cashwithdrawal, ATMs can be used forpayment of utility bills, fundstransfer between accounts, depositof cheques and cash into accounts,balance enquiry etc.

2) Tele Banking: -

Tele Bankingfacilitates the customer to do entirenon-cash related banking ontelephone. Under this devise Automatic Voice Recorder is used for simpler queries and transactions. Forcomplicated queries and transactions, manned phone terminals are used.

3) Electronic Clearing Service (ECS):-

Electronic Clearing Service is retail payment systems that can beused to make bulk payments/receipts of a similar nature especially where each individual payment is ofa repetitive nature and of relatively smaller amount. This facility is meant for companies and governmentdepartments to make/receive large volumes of payments rather than for funds transfers by individuals.

4) Electronic Funds Transfer (EFT):-

Electronic Funds Transfer (EFT) is a system where by anyone whowants to make payment to another person/company etc. can approach his bank and make cash payment orgive instructions/authorization to transfer funds directly from his own account to the bank account of thereceiver/beneficiary. Complete details such as the receiver's name, bank account number, account type(savings or current account), bank name, city, branch name etc. should be furnished to the bank at the timeof requesting for such transfers so that the amount reaches the beneficiaries' account correctly and faster.RBI is the service provider of EFT.

5**) Real Time Gross Settlement (RTGS):-**

Real Time Gross Settlement system, introduced in India sinceMarch 2004, is a system through which electronics instructions can be given by banks to transfer fundsfrom their account to the account of another bank. The RTGS system is maintained and operated by the RBIand provides a means of efficient and faster funds transfer among banks facilitating their financialoperations. As the name suggests, funds transfer between banks takes place on a

'Real Time' basis.Therefore, money can reach the beneficiary instantaneously and the beneficiary's bank has the responsibilityto credit the beneficiary's account within two hours.

6) Point of Sale Terminal: -

Point of Sale Terminal is a computer terminal that is linked online to thecomputerized customer information files in a bank and magnetically encoded plastic transaction card thatidentifies the customer to the computer. During a transaction, the customer's account is debited and theretailer's account is credited by the computer for the amount of purchase.

MODERN SERVICES OF BANKS

<u>Introduction to ATM (Automated Teller Machine)</u>

Machine at a bank branch or other location which enables a customer to perform basic banking activities (checking ones balance, withdrawing or transferring funds) even when the bank is closed. This machine also allow to checking their account at any time and without the need for a human teller.

Suppose you're short on cash, so you walk over to the automated teller machine (ATM), insert your card into the card reader, respond to the prompts on the screen, and within a minute you walk away with your money and a receipt in a few minutes. Now days it is widely used in all fields such as defense and many others.

HISTORY

- Alex Robertson has been credited with developing and building the first automatic teller machine in USA.
- The first ATM called Bankograph was installed in Barkley bank in north London on 27th June 1967.
- After that it was later countries like Japan , Sweden , U.K credited in developing first cash machine.

Meaning of ATM CARD

- It is a plastic ATM card with a magnetic strip.
- It contains a unique card number and identity information.
- It is also known as cash cards, bank card, client card, key card.

- This card issued by bank.

Features of Automated Teller Machine:

- Transfer funds between linked bank accounts
- Receive account balance
- Prints recent transactions list
- Change your pin
- Deposit your cash
- Prepaid mobile recharge
- Bill payments
- Cash withdrawal
- Perform a range of feature in your foreign language.

Advantages of Automated Teller Machine:

- The ATM provides 24X7 hours service
- The ATM provides privacy in banking communications
- The ATMs reduce the work load banks staff
- The ATM may give customer new currency notes
- The ATMs are convenient to banks customers
- The ATM is very beneficial for travellers
- The ATM provide services without any error

Automated Teller Machine

The ATM is a device used by the bank customers to process account transactions. The customer inserts into the ATM, a plastic card i.e. encoded with information on a magnetic strip.

Advantages of ATM -Automated Teller Machine

- The Automated Teller Machine (ATM) is seen everywhere.
- This machine has brought innovations in the Banking sector all over the world.

- The advent of the ATM has made the concept of round the clock banking a reality. The ATM has been helpful to both the bankers and the customers.
- The long crowd of customers in the banking hall of a branch waiting for their turn to collect cash is disappearing.
- The branch business timings have lost significance to the customers after the introduction of ATM.
- The strip contains an identification code that is transmitted to the bank's central computer by modem.
- Every cardholder should be given a PIN (personal identification number) that he should enter and after verifying the same with the records, ATM would allow operations.

Internet Banking

- At the basic level, interknit banking can mean the setting u of a web-page by a bank to give information about its products and services.
- At an advance level, it involves provision of facilities such as accessing accounts, fund transfer, and buying financial products or services online.
- This is called ―Transactional Online Banking.

Advantages of Internet Banking

- Anywhere and anytime banking as services are provided round the clock.
- Worldwide connectivity as it transcends geographical boundaries.
- Easy access to recent and historical data.
- Direct customer control of international movement of funds.
- Greater processing speed and accuracy.

Debit card meaning:

Debit card is issued by a bank to allow its customers to purchase goods and services, whose payment is made directly through the customer's account linked to the card.

Credit card meaning:

Credit card is issued by a bank or any financial institution to allow the holder of the card to purchase goods and services on credit. The payment is made by the bank on the customer's behalf.

Difference between Credit Card and Debit Card

BASIS FOR COMPARISON	CREDIT CARD	DEBIT CARD
Meaning	Credit card is issued by a bank or any financial institution to allow the holder of the card to purchase goods and services on credit. The payment is made by the bank on the customer's behalf.	Debit card is issued by a bank to allow its customers to purchase goods and services, whose payment is made directly through the customer's account linked to the card.
Implies	Pay later	Pay now
Bank Account	The bank account is not prerequisite for issuing a credit card.	The bank account is a must for issuing a debit card.
Limit	The maximum limit of withdrawing money is determined according to the credit rating of the holder.	The maximum limit of withdrawing money will be less than the money lying in the saving bank account.
Bill	The holder of the card has to pay the credit card bill within 30 days of every month.	There is no such bill, the amount is directly deducted from the customer's account.
Interest	Interest is charged when payment is not made to the bank within a specified time period.	No interest is charged.

What are Advantages of Debit Card? Or Benefits

The following points discuss important benefits or advantages of debit card.

Advantages of using payment debit and credit cards for purchases

Advantages of using company credit, debit, charge or pre-paid cards to make purchases include:

- **Convenience** - cards are quicker and might be cheaper to use than cheques. They're useful for everyday expenses and can be used over the phone and internet.
- **Credit** - credit or charge cards can offer an interest-free period of varying lengths, dependent on which card issuer you use.
- **Most cards are globally recognised** - using cards for foreign travel purchases may give you better exchange rates.
- **Ability to monitor expenditure** - you can specify which employees receive cards and set different credit limits for each card.

- **Fast access to cash** - cash can be withdrawn from ATMs. However, card issuers may levy a commission and - if given on credit - interest is payable from the day the cash is withdrawn.
- **Reduction in administration** - with a company credit or charge card, you pay one bill each month, no matter how many purchases you make. Itemised monthly statements can help with your accounting and administrative procedures.

Disadvantages of using payment debit and credit cards for purchases

Even though you can usually set maximum spending limits on employees' cards, be aware that you're giving your employees the opportunity to spend company money unchecked.

As with personal payment cards, you are also open to the possibility of two further major drawbacks.

- **Card fraud** - if the card details are discovered or revealed, you may find fraudulent purchases appearing on your statement. If this is due to an employee's negligence, your business will be liable for the payments. Financial Fraud Action UK provides guidance on preventing card fraud.
- **Debt -** with the convenience of a plastic card and the time lapse between purchase and payment, it can be tempting to overextend yourself and build up debts for the business. Remember, if you make purchases with a credit card and don't pay off the bill in full, you'll incur interest charges.

Smart cards

Smart card is a little plastic card. It is just like a credit card but it contains a micro-processor and a storage unit. This card is developed with latest technology and it is an innovation that overcomes all limitations. They are more expensive. The stored data is not exposed to physical damage.

These cards can store at least 100 times more data than magnetic strip cards. They are more popular in Europe. They are categorized in two kinds; memory smart cards and intelligent smart cards. Memory card contains less information and processing capabilities they are used to record a monetary or unit value for a specific amount. Intelligent cards contain more information and process a wider variety of information components than a memory smart card.

This card also has greater processing capabilities for programmed decision making for various applications. The electronic purse is used to refer to monetary value, that is loaded on to the smart cards microprocessor and that can be used by consumer for purchase.

The merchants, who are accepting the cards, must have a smart card reader. The smart card technology may be used in either an online or offline mode as with magnetic strip cards. Offline card technology can be used in underdeveloped countries. The functioning of offline smart cards as presented below:

Step 1: Smart card holder inserts card into machine and downloads money from bank as to microprocessor on the card.

Step 2: The consumer pays for merchandise/ service by inserting smart card into merchant's smart card reader.

Step 3: The merchant's smart card reader records the transaction.

Step 4: At the end of the day, the merchant inserts a smart card to receive download of the day's sales.

Step 5: Take to bank for credit for day's sale for cash.

Smart cards used in place of cash have the advantage of providing an electronic record for purchases and the ability to printout transaction data which can serve as receipts.

Green Card meaning

Green Card is a scheme introduced by the Government of Odisha with effect from 1983 to popularize permanent method of family planning for two children or fewer. Parents and children under **Green Card** Scheme are eligible for certain benefits all districts of the State.