BANKING PRACTICES

(16NMEBB2)

<u>SECTION – A (2 MARKS)</u>

1.What are the meaning of Banking?

The Indian Banking Regulation Act of 1949 defines Banking as "Accepting for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise and with drawable by cheque, draft, order or otherwise."

Banking refers to performing several activities such as collection of cheques, drafts and bills, remittance of funds, acceptance of safe custody deposits which are known as subsidiary services.

2. What do you mean by Bank ?

"Bank is a financial institution which accepts deposits from public for the purpose of lending or investments and provides various utility services to the customers as well as to the public."

3.Definition of Banker:

Let us discuss the term banker' first. In general, bank or banker means a financial institution that accepts deposits and lends money to the needy people. It deals in money.

The Banking Regulations Act (B R Act) 1949 does not define the term banker' but defines the banking is:

As per **Sec.5 (b**) of the B R Act Banking' means accepting, for the purpose of lending or investment, of deposits of money from the public repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise."

4.Definition of Customer.

The term customer of a bank is not defined by law. Ordinarily, a person who has an account in a bank is considered its customer. Banking experts and legal judgment in the past, however, used to qualify this statement by laying emphasis on the period for which such account had actually been maintained with the bank.

According to Sir John Paget's79 view to constitute a customer there must be some recognizable course or habit of dealing in the nature of regular banking business."

5.What is Overdraft ?

Overdraft is a type of facility offered by bank to the Current account holders. Under this facility current a/c holder is allowed to withdraw over and above of his deposits in his account. It is a temporary arrangement to the current account holders.

6.What is mean by Endorsement?

Endorsement means the signature of the maker/ drawer or a holder of a negotiable instrument, either with or without any writing, for the purpose of negotiation. The endorsement is done by the payee or endorsee, as the case may be by signing on the instrument customarily on its back & where the space is insufficient on a slip of paper annexed thereto called “Allonge”.

7.Who is Minor?

Minors are considered one type of customer in a bank. A person who is not 18 years of age is considered a minor and therefore is a special type of banking customer.

A minor has to have a parent or guardian to help them open a bank account. A minor can borrow money, but most often need a co-signer such as a guardian or parent. A minor is most banks cannot be appointed as trustee of any account.

8.Who is Agents?

A banker may open an account in the name of a person who is acting as an agent of another person. The account should be considered as the personal account of an agent, and the banker has no authority to question his power to deal with the funds in the account unless it becomes obvious that he is being guilty of breach of trust. However, if a person is authorised to only act on behalf of the principal, the banker should see that he is properly authorised to do the acts which he claims to do. If he has been appointed by a power of attorney, the banker should carefully pursue the letter-ofattorney to confirm the powers conferred by the document on the agent. In receiving notice of the principal’s death, insanity or bankruptcy, the banker must suspend all operations on the account.

9.What are the meaning of Cheques?

A cheque is a special type of bill of exchange. A 'cheque, is a bill of exchange drawn on a specified banker, expressed to be payable only on demand (Sec.6). Although a cheque is a bill of exchange, yet is have two additional characteristics, namely:

(i) A cheque is always drawn on a specified banker with whom the drawer has deposited the money;

(ii) It is always payable on demand.

Thus all cheques are bills of exchange but all bills of exchange are not cheques.

10.What is Crossed Cheque?

You might have observed, two transverse parallel lines at the top left corner of some cheques, which may or may not have the words – & Co., A/c payee or Non-Negotiable. Such cheques are regarded as crossed cheques. The amount on such cheques is credited to the account of the payee.

11.What is Stale Cheque?

A cheque bears a date and is valid up to three months of the stated date. If a cheque is presented before the bank, after the expiry of the reasonable period, i.e. three months after the date, then it is called stale cheque.

12.What is Post-Dated Cheque?

When a cheque is drawn containing a future date, it is called post-dated cheque. In such cases, money will not be payable by the bank before that date.

13.What is Ante-dated Cheque?

A cheque containing a prior date, is called an ante-dated cheque. Bank honours cheques until three months to the date mentioned.

14.Write a short note on 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.

15.What is MICR?

MICR code is a code printed on cheques using MICR **(Magnetic Ink Character Recognition technology)**. This enables identification of the cheques and which in turns means faster processing.

16.What is Tele Banking ?

Tele banking is one of the popular technological developments in banking system. Tele banking refers to telephone banking under which a number of banking services or facilities offered by bank to the customers by using telephone.

17.What is Internet Banking?

Online banking (or Internet banking or E-banking) is a facility that allows customers of a financial institution to conduct financial transactions on a secured website operated by the institution. To access a financial institution's online banking facility, a customer must register with the institution for the service, and set up some password for customer verification. Online banking can be used to check balances, transfer money, shop onlline, pay bills etc.

18.What is Mobile Banking?

Mobile banking is a system that allows customers of a financial institution to conduct a number of financial transactions through a mobile device such as a mobile phone or personal digital assistant. It allows the customers to bank anytime anywhere through their mobile phone. Customers can access their banking information and make transactions on Savings Accounts, Demat Accounts, Loan Accounts and Credit Cards at absolutely no cost.

19.What is Narrow Banking?

The committee has defined the working those banks as Narrow Banking, which invest their money in risk involving assets and the balance of its demand deposits is in safe liquid assets. The committee has recommended those banks to adopt the concept of narrow banking whose non-performing assets have increased greatly, so that they can re-establish themselves.

20.Write the short note on Electronic Fund Transfer:- (EFT):

EFT is a scheme introduce by RBI as per the recommendations of SHARE Committee. EFT is a system by which money can be transfer from one a/c to another a/c at any time from any where electronically.

21.What is Real Time Gross Settlement System(RTGS):

It can be defined as the continuous (real-time) settlement of funds transfers individually on an order by order basis . 'Real Time' means the processing of instructions at the time they are received rather than at some later time. It is the fastest possible money transfer system in the country.

22.What is ATM services?

Automated Teller Machine (ATM) is an electronic telecommunications device that enables the clients of banks to perform financial transactions by using a plastic card. Automated Teller Machines are established by banks to enable its customers to have anytime money. It is used to withdraw money, check balance, transfer funds, get mini statement, make payments etc. It is available at 24 hours a day and 7 days a week.

SECTION – B (5 MARKS)

23.State the Characteristics of Banker/Banking:

1. Banker deals with others' money
2. Banks repay deposits either on demand or after the expiry of specified period
3. They utilize deposits for lending/investment
4. They perform subsidiary services and innovative functions
5. Banking should be dominant part of business of bank
6. A bank should hold itself out as a bank

24.What are the Importance of banks?

Bankers play very important role in the economic development of the nation. The health of the economy is closely related to the growth and soundness of its banking system. Although banks create no new wealth but their fund collection, lending and related activities facilitate the process of production, distribution, exchange and consumption of wealth. In this way, they become very effective partners in the process of economic development.

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 help trade, commerce, industry and agriculture by meeting their financial requirements
8. Banking connect 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.

25.Describe the General Utility Services of Commercial Banks.

In addition to agency services, modern banks performs many general utility services for the community. Following are the important general utility services offered by Commercial Banks

Locker facility: Bank provide locker facility to their customers. The customers can keep their valuables such as gold, silver, important documents, securities etc. in these lockers for safe custody.

Issue travellers' cheques: Banks issue traveller's cheques to help their customers to travel without the fear of theft or loss of money. It enable tourists to get fund in all places they visit without carrying actual cash with them.

Issue Letter of Credits: Banks issue letter of credit for importers certifying their credit worthiness. It is a letter issued by importer's banker in favour of exporter informing him that issuing banker undertakes to accept the bills drawn in respect of exports made to the importer specified therein. Act as referee: Banks act as referees and supply information about the financial standing of their customers on enquiries made by other businessmen.

Collect information: Banks collect information about other businessmen through the fellow bankers and supply information to their customers.

Collection of statistics: Banks collect statistics for giving important information about industry, trade and commerce, money and banking. They also publish journals and bulletins containing research articles on economic and financial matters.

Underwriting securities: Banks underwrite securities issued by government, public or private bodies.

Merchant banking: Some bank provide merchant banking services such as capital to companies, advice on corporate matters, underwriting etc.

26.What are the salient features of Indian Banking System?

1. Laws governing establishment of banks: Companies Act, 1956; Banking Regulation Act, 1949; Reserve Bank of India Act, 1934; Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970; Central or State Co-operative Acts.
2. Ownership: Public Sector Banks and Private Sector Banks.
3. Capital Requirement: Scheduled Bank: Rs. 5.00 Lakhs; Nationalized Banks: Rs. 1500 Crore.
4. Capital Adequacy Norms: 8%
5. Mixed Banking.
6. Increased credit to private sector.
7. Control over the banks.
8. Maintenance of CRR.
9. Maintenance of SLR.
10. Reserve Bank's Monopoly of Note Issue.

27.Bring out the kinds of Endorsement.

There are five kinds of Endorsement:

1. **Blank endorsement:**

If the endorser signs his name only, the endorsement is said to be in blank and it becomes payable to bearer,

2. Special or Full endorsement: An endorsement "in full" or a special endorsement is one where the endorser not only puts his signature on the instrument but also writes the name of a person to whom or to whose order the payment is to be made.

3. Conditional endorsement: In conditional endorsement the endorser puts his signature under such a writing which makes the transfer of title subject to fulfillment of some conditions of the happening of some events.

4. Restrictive endorsement: An endorsement is called restrictive when the endorser restricts or prohibits further negotiation.

5. Partial endorsement: In Partial endorsement only a part of the amount of the bill is transferred or the amount of the bill is transferred to two or more endorsees severally. This does not separate as a negotiation of the instrument. The law lays down that an endorsement must relate to the whole instrument. However, where the amount has been partly paid, a note to that affect may be endorsed on the instrument which may then be negotiated for the balance. This is not done in case of cheques or banker's drafts.

28.Explain the Crossing of Cheques:

- Cheques are of two types, open cheques and crossed cheques. Open cheques are those which are paid over the counter of the bank. In other words, they need not be put through a bank account. Open cheques are liable to great risk in the course of circulation.
- They may be either lost or stolen and the finder or thief can get it encased at the bank unless the drawer has in the meantime countermanded payment. With a view to avoiding such risks, and protect the owner of cheque, a system of crossing was introduced.
- Crossing is a direction to the banker not to pay the cheque across the counter but to pay to a bank only or to particular bank in an account with the bank.
- Thus crossing provides a protection and safeguard to the owner of the cheque as by securing payment through a banker; it can easily be detected to whose use the money is received.
- Crossing does not, however, affect the negotiability or transferability of a cheque. But where the words 'not negotiable' are added, the cheque is not negotiable. The practice of crossing is confined to cheques only and cannot be extended to any other instrument.

29.Explain the Circumstances 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:

1. 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.

2. 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'.

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

4. 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.

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

6. 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.

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

8. 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.

30.What are the Types of Dishonour of Cheque?

Dishonour of cheque can be divided into two categories :

1. 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.

2. 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.

on demand. Consequently, all cheques are bills of exchange but all bills are not cheques.

31.Details about the Automated Teller Machine:

An ATM is a computerized Tele-communication device which provides the customers the access to financial transactions in public places without human inter-mention. It enables the customers to perform several banking operations such as withdrawals of cash, request of mini statement etc. The advantages of ATM are:

1. **ATM** provides 24 hours service: ATMs provide service round the clock. The customer can withdraw cash up to a certain a limit during any time of the day or night.

2. **ATM** gives convenience to bank's customers : ATMs provide convenience to the customers. Now a- days, ATMs are located at convenient places, such as at the air ports, railway stations, etc. and not necessarily at the Bank's premises.

3. **ATM** reduces the workload of bank's staff.: ATMs reduce the work pressure on bank's staff and avoids queues in bank premises.

4. **ATM** provide service without any error: ATMs provide service without error. The customer can obtain exact amount. There is no human error as far as ATMs are concerned.

5. **ATM** is very beneficial for travellers: ATMs are of great help to travellers. They need not carry large amount of cash with them.

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

7. **ATM** provides privacy in banking transactions: Most of all, ATMs provide privacy in banking transactions of the customer.

SECTION – C (10 MARKS)

32.Describe the Evolution and Growth of Banking in India.

- India has a long history of financial intermediation. The first bank in India to be set up on modern lines was in 1770 by a British Agency House.
- The earliest but short-lived attempt to establish a central bank was in 1773. India was also a forerunner in terms of development of financial markets. In the beginning of 18th century, British East India Company launched a few commercial banks. Bank of Hindustan(1770) was the first Indian bank established in India.

- Later on, the East India Company started three presidency banks, Bank of Bengal(1806), Bank of Bombay(1840) and Bank of Madras(1843) These bank were given the right to issue notes in their respective regions.
- Allahabad bank was established in 1865 and Alliance Bank in 1875. The first bank of limited liability managed by Indians was Oudh Commercial Bank founded in 1881.
- Subsequently, the Punjab National Bank was established in 1894. In the Beginning of the 20th century, Swadeshi movement encouraged Indian entrepreneurs to start many new banks in India.
- Another landmark in the history of Indian banking was the formation of Imperial bank of India in 1921 by amalgamating 3 presidency banks It is the Imperial Bank which performed some central banking functions in India. A number of banks failed during the first half of the 20th Century.
- Itaffected the people's belief and faith in Banks.

33.Comment on the Functions of Commercial Banks – Explain.

Functions of a Commercial Bank can be classified into three.

1. Principal/ Primary/ Fundamental functions
2. Subsidiary/ Secondary/ Supplementary functions
3. Innovative functions.

Principal functions

Commercial banks perform many functions. They satisfy the financial needs of the sectors such as agriculture, industry, trade, communication, so they play very significant role in a process of economic social needs. The functions performed by banks, since recently, are becoming customer-centred and are widening their functions. Generally, the functions of commercial banks are divided into two categories; primary functions and the secondary functions. Two 'acid test' functions of commercial banks are Accepting deposits and Lending loans. These functions along with credit creation, promotion of cheque system and investment in Government securities form basic functions of commercial banks. The secondary functions of commercial banks include agency services, general utility services and innovative services.

1. Receiving deposits

Most important function of a commercial bank is to accept deposit from those who can save but cannot profitably utilise this savings themselves. By making deposits in bank, savers can earn something in the form of interest and avoid the danger of theft. To attract savings from all sorts of customers, banks maintain different types of accounts such as current account, Savings bank account, Fixed Deposit account, Recurring deposit account and Derivative Deposit account.

2. Lending of funds

The second important function of commercial banks is to advance loans to its customers. Banks charge interest from the borrowers and this is the main source of their income. Modern banks give mostly secured loans for productive purposes. Commercial banks lend money to the needy people in the form of Cash credits, Term loans, Overdrafts (OD), Discounting of bills, Money at call or short notice etc.

(i) Cash Credit **(ii) Term loans** **(iii) Over-Drafts**

(iv) Discounting of Bills of Exchange **(v) Money at Call and Short notice**

3. Investment of funds in securities

Banks invest a considerable amount of their funds in government and industrial securities. In India, commercial banks are required by statute to invest a good portion of their funds in government and other approved securities. The banks invest their funds in three types of securities Government securities, other approved securities and other securities. Government securities include both, central and state governments, such as treasury bills, national savings certificate etc. Other securities include securities of state associated bodies like electricity boards, housing boards, debentures of Land Development Banks, units of UTI, shares of Regional Rural banks etc.

4**. Credit Creation**

When a bank advances a loan, it does not lend cash but opens an account in the borrower's name and credits the amount of loan to this account. Thus a loan creates an equal amount of deposit. Creation of such deposit is called credit creation. Banks have the ability to create credit many times more than their actual deposit. (The process of credit creation is explained in the last part of the module in detail)

5. **Promoting cheque system**

Banks also render a very useful medium of exchange in the form of cheques. Through a cheque, the depositor directs the banker to make payment to the payee. In the modern business transactions by cheques have become much more convenient method of settling debts than the use of cash. Through promoting cheque system, the banks ensure the exchange of accounted cash. At present, CTS (Cheque Truncation System) cheques are used by Indian Banks to ensure speedy settlement of transactions in between banks. In contrast to the declining importance of cheques, the use of electronic payment instruments at the retail level has been growing rapidly.

Subsidiary functions

1.Agency services :

Banks act as an agent on behalf of the individual or organisations. Banks, as an agent can work for people, businesses, and other banks, providing a variety of services depending on the nature of the agreement they make with their clients

2. General Utility Services : In addition to agency services, modern banks performs many general utility services for the community. Following are the important general utility services offered by Commercial Banks:

- Locker facility
- Issue travellers' cheques
- Issue Letter of Credits

- Collect information
- Collection of statistics
- Underwriting securities
- Merchant banking

Innovative Functions

The adoption of Information and Communication technology enable banks to provide many innovative services to the customers such as;

1. ATM services
2. Debit card and credit card facility
3. Tele-banking
4. Internet Banking
5. Bancassurance
6. Mobile Banking
7. Electronic Clearing Services
8. Electronic Fund Transfer/National Electronic Fund Transfer(NEFT)
9. Real Time Gross Settlement System(RTGS)

34.What are the Role of commercial banks in a developing Economy?

A well developed banking system is necessary pre-condition for economic development of any economy. Apart from providing resources for growth of industrialisation, banks also influence direction in which these resources are utilised. In underdeveloped and developing nations banking facilities are limited to few developed cities and their activities are focussed on trade & commerce paying little attention to industry & agriculture.

Commercial banks contribute to a country's economic development in the following ways.

1.Capital formation

Most important determinant of economic development is capital formation. It has 3 distinctive stages

- Generation of savings
- Mobilisation of savings
- Canalisation of saving

Banks promote capital formation in all these stages. They promote habit of savings by offering attractive rate of return for savers. Banks are maintaining different types of accounts to mobilise savings aiming different types of customers. They make widespread arrangements to collect savings by opening branches even in remote villages. Moreover, banks offer their resources for productive activities only.

2. Encouragement to entrepreneurial innovations

Entrepreneurs in developing economies, generally hesitate to invest & undertake innovations due to lack of fund. Bank loan facilities enable them to introduce innovative ideas and increase productive capacity of the economy.

3. Monetisation of economy

Monetisation means allow money to play an active role in the economy. Banks, which are creators and distributors of money, help the monetisation in two ways;

- They monetise debt i.e., buy debts (securities) which are not as acceptable as money and convert them to demand deposits which are acceptable as money.
- By spreading branches in rural areas they convert non-monetised sectors of the economy to monetised sectors.

4. Influencing economic activity

They can directly influence the economic activity & pace of economic development through its influence on

- The rate of interest (reduction in rates make investment more profitable and stimulates economic activity)
- Availability of credit. (Through Credit creation banks helps in increasing supply of purchasing power)

5. Implementation of monetary policy

Well developed banking system is necessary for effective implementation of monetary policy. Control and regulation of credit is not possible without active co-operation of banks.

6. Promotion of trade and industry

Economic progress of industrialised countries in last 2 centuries is mainly due to expansion in trade & industrialisation which could not have been made possible without development of a good banking system. Use of cheques, drafts and BoE as a medium of exchange has revolutionalised the internal and international trade which in turn accelerated the pace of industrialisation.

7. Encouraging right type of industries

In a planned economy it is necessary that banks should formulate their loan policies in accordance with the broad objectives and strategy of industrialisation as adopted in the plan.

8. Regional development

Banks can play role in achieving balanced development in different regions of the economy. They can transfer surplus funds from developed region to less developed regions, where there is shortage of funds.

9. Development of agricultural & other neglected sectors

Under developed economies primarily agricultural economies and majority of the population live in rural areas. So far banks were paying more attention to trade and commerce and have almost neglected agriculture and industry. Banks must diversify their activities not only to extend credit to trade, but also to provide medium and long term loans to industry and agriculture.

35.Explain the Relationship between Banker and Customer.

1. Relationship of Debtor and Creditor

When a customer opens an account with a bank and if the account has a credit balance, then the relationship is that of debtor (banker / bank) and creditor (customer).

In case of savings / fixed deposit / current account (with credit balance), the banker is the debtor, and the customer is the creditor. This is because the banker owes money to the customer. The customer has the right to demand back his money whenever he wants it from the banker, and the banker must repay the balance to the customer.

In case of loan / advance accounts, banker is the creditor, and the customer is the debtor because the customer owes money to the banker. The banker can demand the repayment of loan / advance on the due date, and the customer has to repay the debt.

A customer remains a creditor until there is credit balance in his account with the banker. A customer (creditor) does not get any charge over the assets of the banker (debtor). The customer's status is that of an unsecured creditor of the banker.

2. Relationship of Pledger and Pledgee

The relationship between customer and banker can be that of Pledger and Pledgee. This happens when customer pledges (promises) certain assets or security with the bank in order to get a loan. In this case, the customer becomes the Pledger, and the bank becomes the Pledgee. Under this agreement, the assets or security will remain with the bank until a customer repays the loan.

3. Relationship of Licensor and Licensee

The relationship between banker and customer can be that of a Licensor and Licensee. This happens when the banker gives a sale deposit locker to the customer. So, the banker will become the Licensor, and the customer will become the Licensee.

4. Relationship of Bailor and Bailee

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

1. **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.

2. **Bailor** is the party that delivers property to another.

3. **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 bailor, and the bank became the bailee.

5. Relationship of Hypothecator and Hypothecatee

The relationship between customer and banker can be that of Hypothecator and Hypothecatee. This happens when the customer hypothecates (pledges) certain movable or non-movable property or assets with the banker in order to get a loan. In this case, the customer became the Hypothecator, and the Banker became the Hypothecatee.

6. Relationship of Trustee and Beneficiary

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.

7. Relationship of Agent and Principal

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

- 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.

8. Relationship of Advisor and Client

When a customer invests in securities, the banker acts as an advisor. The advice can be given officially or unofficially. While giving advice the banker has to take maximum care and caution. Here, the banker is an Advisor, and the customer is a Client.

9. Other Relationships

Other miscellaneous banker-customer relationships are as follows:

- Obligation to honour cheques,
- Secrecy of customer's account,
- Banker's right to claim incidental charges,
- Law of limitation on bank deposits.

36.What are the termination of relationship between Banker and Customer?

Generally, the relationship of banker and customer is commenced by the customer signing the banker's standard form of contract as it relates to the operating of the client's account. This agreement should set out the provisions which govern the operation as well as the termination of the contract and which, when signed by the customer, becomes a contractually binding agreement.

Even if there is no express term in relation to termination in the contract, it is accepted that there is an implied term in every banking contract that the contract can be terminated. A customer bank relationship can be terminated in the following ways:

1. Notice by a banker

A banker may like to close the account of his customer for the number of valid reasons; but this cannot be done without giving reasonable notice to the customer so that he may make such arrangements as are necessary to protect his reputation The length of such notice will defend largely on the character of the account and the circumstances of the case. In prosperity limited V Lloyds Bank Limited (1923).

2. Obstinacy of the Customer

When the customer does not close his account even after the expiry of reasonable notice giving to him, the banker may close his account by returning to him the entire credit balance in his account and asking him to return the unused cheques held by him.

3. Winding up

A winding up order terminates the bank-customer relationship and any ancillary agreement dependent on that relationship. In the case of National Westminster Bank Ltd Vs Halesowen Presswork and assemblies Ltd (1972) A.C 785. It was held that the banker- customer relationship terminated with the ending of the agreement and the company winding up. It confirmed that the banker has, in absence of agreement express or implied to the contrary, a long established common law right to combine accounts of a customer that this right is not strictly lien and that it can be exercised without notice to the customer, again unless the contract provides otherwise. Therefore the decision reached established that an agreement ancillary to the bank –customer relationship is terminated when the relationship is ended by a winding up order

4. Mental disorder

The principle established in Young V. Toynbee (1910) states that the mental disorder and Insanity of a customer automatically terminates the banker‘s authority to act as the customer‘s agent. Since the banker-customer relationship comes to its end, in such a situation it is usually considered that the banker‘s authority to pay his customer‘s cheques is revoked by notice of insanity.

5. Insolvency

Insolvency is civil death‘ Therefore, the insolvent customer loses his rights; and his affairs are transferred to Official Assignee, Receiver or Liquidator. As soon as the banker receive the notice of insolvency of his customer or a petition field for adjudging a customer insolvent, his authority to pay cheques or to accept or honor bills or to take any other action on behalf of his insolvent customer comes to an ends.

6. Order of court

A court of law may serve a banker with the order in garnishee proceeding in execution of a decree, prohibiting him from the honouring a customer‘s cheques. The order may be absolute when it refers to the entire amount of the customer in the banker‘s, hand or it may be partial as relating to a specific sum only. The must act accordance to the terms of the order served on him, and his relationship with customer automatically comes to an end accordingly.

37.Examine the special types of Customer.

The special types of customers of a bank are;

1. Minor
2. Married women
3. Drunkard
4. Lunatics
5. Partnership firm
6. Joint stock companies
7. Illiterate person

1. Minor

Minors are considered one type of customer in a bank. A person who is not 18 years of age is considered a minor and therefore is a special type of banking customer. A minor has to have a parent or guardian to help them open a bank account. A minor can borrow money, but most often need a co-signer such as a guardian or parent. A minor is most banks cannot be appointed as trustee of any account.

2. Married Women

Married women can enter into contract and bind her personal (separate) estate. A banker may therefore, open an account in the name of a married women.

3. Drunkard

A drunkard is a person who is so toxicities to be incapable of understanding the nature and effect of a contract upon his interest. A contract enter to a drunkard person is void. It is advisable for banker do not allow a drunkard to start a account in his name.

4. Lunatics

A person of unsound mind cannot make a valid contract. So, the bakers should not open an account in the name of a person of unsound mind. But a customer may become lunatic after opening an account with the bank.

5. Partnership firm

A firm‘s account should always be opened in the name of the firm and not in the name(s) of the individual partner(s) because a partner does not have (implied) authority to open a bank account on behalf of the firm in his own name.

6. Joint stock company

A joint stock company is an artificial person and it has a separate legal entity. So a bank account may be opened on its own name. A joint stock company may either be a private limited company or a public limited company.

7. Illiterate person

An illiterate person means a person who cannot sign his name. While opening of an account of such a person is unavoidable, the baker should obtain.

1. Left thumb impression on the account opening form and specimen signature card in the presence of an authorized bank official.

2. Details of identification marks should be noted in the account opening form and specimen signature card.

3. At least two copies of photograph duly attested by any account holder/authorized bank official.

38.Explain the Types of banks.

1. Commercial banks/Deposit banks

Banks accept deposits from public and lend them mainly for commercial purposes for comparatively shorter periods are called Commercial Banks. They provide services to the general public, organisations and to the corporate community. They are oldest banking institution in the organised sector. Commercial banks make their profits by taking small, short-term, relatively liquid deposits and transforming these into larger, longer maturity loans. This process of asset transformation generates net income for the commercial bank. Many commercial banks do investment banking business although the latter is not considered the main business area. The commercial banking system consists of scheduled banks (registered in the second schedule of RBI) and non scheduled banks.

2. Industrial banks/Investment banks

Industrial banks are those banks which provide fixed capital to industries. They are also called investment banks, as they invest their funds in subscribing to the shares and debentures of industrial concerns. They are seen in countries like US, Canada, Japan, Finland, and Germany. In India industrial banks are not found. Instead, special industrial finance corporations like IFC and SFC have been set up to cater to the needs of industries.

3. Agricultural banks

Agricultural banks are banks which provide finance to agriculture and allied sectors. It is found in almost all the countries. They are organised generally on co-operative basis. In India, Cooperative banks are registered under the Co-operative Societies Act, 1912. They generally give credit facilities to small farmers, salaried employees, small-scale industries, etc. Co-operative Banks are available in rural as well as in urban areas. Agricultural banks are of two types;

Agricultural co-operative banks: They provide short term finance to farmers for purchasing fertilizers, pesticides and seeds and for the payment of wages.

Land Development Banks: They provide long term finance for making permanent improvement on land. They assist to purchase machinery, equipments, installation of pump sets, construction of irrigation works etc.

4. Exchange banks

Exchange banks finances foreign exchange business (export, import business) of a country. Special exchange banks are found only in some countries. The main functions of exchange banks are remitting money from one country to another country, discounting of foreign bills, buying and selling gold and silver, helping import and export trade etc.

5. Savings bank

Savings banks are those banks which specialise in the mobilisation of small savings of the middle and low income group. In India, saving bank activities are done by commercial banks and post offices.

6. Central / National banks

It is the highest banking & monetary institution in a country. It is the leader of all other banks. Since it is occupying a central position, it's known as Central Bank. It is operating under state's control and is not a profit motive organisation. Reserve Bank of India (India), Bank of Canada (Canada), Federal Reserve System(USA) etc are the examples of Central Banks.

39.Explain the various types of Cheque.

Types of Cheque

1. **Open Cheque**:
   Otherwise called as uncrossed cheque, it is one on which cash is payable at the counter of the bank or it is transferred to the bank account of the person whose name is written on the cheque. It is negotiable, i.e. it is transferable in nature.
2. **Bearer Cheque**:
   Bearer cheque refers to the cheque which can be encashed by the person whose name is written on the cheque or anyone who presents the cheque before the bank for payment. It is negotiable in nature, which can be transferred by simply delivering it and so endorsement is not needed. No identification of the presenter or holder is required in case of a bearer cheque.
3. **Order Cheque**:
   As the name suggests, it is the cheque which becomes payable to the person or organization whose name is specified on the cheque or to his order. To convert a bearer cheque into an order cheque, the word 'or bearer' is stricken off from the cheque. Endorsement of the cheque to the third party is done by simply signing on the cheque.
4. **Crossed Cheque**:
   You might have observed, two transverse parallel lines at the top left corner of some cheques, which may or may not have the words – & Co., A/c payee or Non-Negotiable. Such cheques are regarded as crossed cheques. The amount on such cheques is credited to the account of the payee.
5. **Self Cheque**:
   When a person wants to withdraw money from his own account, by writing 'self' at the name of the payee, is called self-cheque. Do not cross the cheque or cancel the words 'or bearer' from the cheque. These cheques should not be crossed, as well as the words 'or bearer' should not be stricken off from the cheque, so that any person as your representative can receive the amount on your behalf.

6. **Blank Cheque**:

   A cheque which is only signed, but the name of the payee and date is not indicated, is called a blank cheque. Such cheques can be made account payee, and the maximum limit of withdrawal can be mentioned.

7. **Stale Cheque**:

   A cheque bears a date and is valid up to three months of the stated date. If a cheque is presented before the bank, after the expiry of the reasonable period, i.e. three months after the date, then it is called stale cheque.

8. **Post-Dated Cheque**:

   When a cheque is drawn containing a future date, it is called post-dated cheque. In such cases, money will not be payable by the bank before that date.

9. **Ante-dated Cheque**:

   A cheque containing a prior date, is called an ante-dated cheque. Bank honours cheques until three months to the date mentioned.

10. **Banker's Cheque**:

    Otherwise called a pay order, it is a non-negotiable instrument, which is issued by the bank on behalf of the customer, which is payable in the same city.

11. **Cancelled Cheque**:

    Due to any kind of mistakes while writing the cheque, it is cancelled, and so it is called cancelled cheque.

12. **Mutilated Cheque**:

    A cheque which is torn, damaged, crushed or washed, is called a mutilated cheque. Such cheques are honoured only when certain details are visible, after confirming with the drawer.

13. **Traveler's Cheque**:

    A cheque issued by a bank for a fee, containing a fixed amount. These cheques are enchased or used to make payment in a foreign country, after endorsement by the signature of the holder.

14. **Gift Cheque**:

    Cheques that are used for the purpose of gifts and prizes, usually very large in size, are called Gift Cheques. Banks charge a fee for issuing such cheques.

40.Describe the various types of Crossing Cheques.

1. General Crossing:

In a general crossing, simply two parallel transverse lines, with or without the words 'not negotiable' in between, may be drawn. Such a cheque is crossed generally. The effect of general crossing is that the payment of the cheque will not be made at the counter, it can be collected only through a banker.

2. Special Crossing:

In a special crossing, the name of a banker with or without the words 'not negotiable' is written on the cheque. Such a cheque is crossed specially to that banker. It should be noted that two transverse parallel lines are necessary for a general crossing, whereas for a special crossing, no such lines are necessary.
The effect to special crossing is that the paying banker will be the amount of the cheque only through the bank named in the cheque.

3. Restrictive crossing:

Besides the two statutory types of crossing discussed above, there is one more type of crossing namely, restrictive crossing. This type of crossing has been recognised by usage and custom of the trade. In a restrictive crossing the words 'Account Payee' or Account Payee Only' are added to the general or special crossing. The effect of restrictive crossing is that the payment of the cheque will be made by the bank to the collecting banker only for the account payee named. If the collecting banker collects the amount for any other person, he will be liable for wrongful conversion of funds. It should be noted that the duty of the paying banker is only to ensure that the payment is made through the named bank, if there is any. He is not liable, in case the collecting banker collects the cheque for any other person than the account payee. In that case collecting banker will be liable to the true owner.

4. Not negotiable Crossing (Sec. 130):

A person taking is cheque crossed generally or specially, bearing in either case the words 'not negotiable' shall not be able to give a better title to the holder than that of the transferor. The effect of a not negotiable crossing is that the cheque can be transferred but the transferee will not acquire a better title to the cheque. Thus a cheque is deprived of its essential feature of negotiability. The objects of "not negotiable" crossing is to protect the drawer against loss or theft in the course of transit.

41.What are the Precautions to be taken by paying banker while making payment of Cheques?

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

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.

42.Describe the emerging trends in Banking.

In 1990's Indian banking sector saw a great emphasis on the replacement of technolog y with the new innovations. Banks began to use these new technologies to provide better and quick services to the customers at a great speed. Some of the innovations techniques introduced in Indian banking sector in post reform era are as follows:

E-Banking

E-banking involves information technology based banking. Under this I.T system, the banking services are delivered by way of a Computer-Controlled System. This system does involve direct interface with the customers. The customers do not have to visit the bank's premises.

Advantages of E-Banking

- The operating cost per unit services is lower for the banks.
- It offers convenience to customers as they are not required to go to the bank's premises. There is very low incidence of errors.
- The customer can obtain funds at any time from ATM machines.
- The credit cards and debit cards enables the Customers to obtain discounts from retail outlets.
- The customer can easily transfer the funds from one place to another place electronically.

Popular services covered under E-Banking

1. Automated Teller Machine
2. Electronic Transfer of Funds
3. Tele-Banking
4. Mobile Banking
5. Home Banking
6. Internet Banking
7. Demate Banking
8. Credit Cards
9. Debit Card
10. Smart Card
12. Social Banking
13. No frills Account
14. Off-shore Banking

43.Briefly explain recent developments in Banking.

Recent developments in Banking (Technological development)

a) Core Banking b) Electronic Fund Transfer c) Tele Banking

d) Anywhere Banking e) Mobile Banking.

a) Core Banking :-

Core banking is one of the technological developments in banking system. Core banking is type of banking in which a person, who opens a bank a/c in a branch of a bank, will become a customer not only of that branch, but he becomes a customer of all branches of that bank and can conduct banking transactions anywhere and at anytime. Thus he can deposit and withdraw cash from any where with the branches of same bank.

b) Electronic Fund Transfer:- (EFT):

EFT is a scheme introduce by RBI as per the recommendations of SHARE Committee. EFT is a system by which money can be transfer from one a/c to another a/c at any time from any where electronically. The use of pay-in-slips, cheques and drafts are converted into electronic form and there by amount can easily be either debited or credited to the customer a/c within no time.

c) Tele Banking:

Tele banking is one of the popular technological developments in banking systems. Tele-banking refers to telephone banking under which a number of banking services or facilities offered by bank to the customers by using telephone.

d) Anywhere Banking :

It is one of the banking facilities extended under core banking system. Under this facility, a bank customer can operate his a/c from any branches of the bank at any place and at any time. It is considered as 24x7 services. In this system customer can operate his a/c from any branches of the bank in one city (inter-city) between different cities (intra-city). It includes Tele-banking, Mobile banking, ATM, etc.

e) Mobile Banking:

Mobile banking is a latest development in banking service. Mobile banking is a type of banking facility under which a customer can conduct banking transactions with his bank by using his mobile phone. Mobile banking works through SMS (Short Messaging Service) technology. Mobile banking works through a set of text messages appears on the mobile phone screen.