**ENATHI RAJAPPA ARTS AND SCIENCE COLLEGE,**

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**CLASS: B.COM I YEAR (16CCCM4)**

**SUBJECT: BANKING THEORY LAW AND PRACTICES**

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## MEANING

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

**1. Meaning of banking?**

Banking is a service industry the main objectives of bank is to provide service to the customers and the secondary objectives is to earn profit.

**2. Definition of banking?**

Banking can be defined as the business activity of accepting and safeguarding money owned by other individuals and entities, and then lending out this money in order to earn a profit.    However, with the passage of time, the activities covered by banking business have widened and now various other services are also offered by banks.  The banking services these days include issuance of debit and credit cards, providing safe custody of valuable items, lockers, ATM services and online transfer of funds across the country / world.

**3. What is bankers lien?**

A banker's lien is a legal right arise in many common law jurisdictions of a bank to exercise a lien over any property in the custody of the bank as security for the indebtedness of the customer to the bank.

**4. What is letter of credit?**

A letter of credit is a document that guarantees the buyer’s payment to the sellers. It is Issued by a bank and ensures the timely and full payment to the seller. If the buyer is unable to make such a payment, the bank covers the full or the remaining amount on behalf of the buyer. A letter of credit is issued against a pledge of securities or cash. Banks typically collect a fee, ie, a percentage of the size/amount of the letter of credit.

**5. What is lien?**

A lien is a legal right granted by the owner of property, by a law or otherwise acquired by a creditor. A lien serves to guarantee an underlying obligation, such as the repayment of a loan. If the underlying obligation is not satisfied, the creditor may be able to seize the asset that is the subject of the lien.

**6. Define customer?**

A customer is on whom deals with bank and banking business. A customer is one whom has opened an account with a bank and has transaction with banker in the nature of banking business, which is depositing money and withdraw by cheques, drafts etc.

**7.What is general lien?**

A general lien is a right to retain the property of another on account of a general balance due from the owner. Bankers have general lien on all securities left with them by their customers. A banker's lien is a special form of general lien, for it includes a right of sale after reasonable notice.

**8. What is particular lien?**

A particular lien is available only against the particular property in respect of which the bailee has expended labour and skill. A bailee is entitled to a particular lien only (Sec. 179).

**9. What is bankers lien?**

A banker's lien is a legal right arise in many common law jurisdictions of a bank to exercise a lien over any property in the custody of the bank as security for the in debtedness of the customer to the bank.

**10. What is foreign bill?**

The definition of a foreign bill of exchange is a payment drawn up in one country that is payable in another country. An example of a foreign bill of exchange is an agreement drawn up between two countries for trading purposes.

**11.What is banker rignt of set off?**

The contract implies that the borrower promised to repay the money borrowed by him. Right of set off is the right of the bank to combine the two accounts of the same person where one account which is in credit balance and the other account is in debit balance in order to cover a loan default.

**12.What is merchant banking?**

A merchant bank is a company that conducts underwriting, loan services, financial advising, and fundraising services for large corporations and high net worth individuals. ... They do not provide regular banking services like checking accounts and do not take deposits.

**13. What is off shore banking?**

Offshore banking refers to the deposit of funds by a company or individual in a bank that is located outside their national residence. Although the term implies that these banks are located on islands, many offshore banks are, in fact, found in onshore locations, such as Panama, Luxembourg and Switzerland.

**14. 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.”

**15.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.

**16.Give the meaning of Savings bank account.**

Savings Bank account is kind of demand deposit Bank account opened with the object of saving the money out of the earnings of the people. Usually, this type of account is opened by students, salaried people, agriculturists, lower and middle income groups.

**17.Give the meaning of Fixed deposit account.**

Fixed deposit account is a type of term deposit bank account opened with the object of investing money on bank deposits at higher rate of interest. Usually, this type of account is opened by wealthy people and small investors who want safety for their investments.

**18.Give the meaning of Recurring deposit account.**

Recurring deposit a/c is a type of term deposit bank account in which deposits are made every month regularly and withdrawn at the end of some period. In this account, account holder deposits fixed amount every month and withdrew entire amount in lump sum at the end of certain period.

**20.Write a short note on Cash Credit.**

In this type of credit scheme, banks advance loans to its customers on the basis of bonds, inventories and other approved securities. Under this scheme, banks enter into an agreement with its customers to which money can be withdrawn many times during a year. Under this set up banks open accounts of their customers and deposit the loan money. With this type of loan, credit is created.

**21.What is Discounting of Bills of Exchange?**

This is the most prevalent and important method of advancing loans to the traders for short-term purposes. Under this system, banks advance loans to the traders and business firms by discounting their bills. While discounting a bill, the Bank buys the bill (i.e. Bill of Exchange or Promissory Note) before it is due and credits the value of the bill after a discount charge to the customer's account. get loans on the basis of their bills of exchange before the time of their maturity.

**22.Definition of Negotiable Instrument:**

The term "negotiable instrument" means a document transferable from one person to another. However the Act has not defined the term. It merely says that "A .negotiable instrument" means a promissory note, bill of exchange or cheque payab1e either to order or to bearer. [Section 13(1)]

**23.What is Bank Draft / Demand Draft?**

A bill of exchange is also sometimes spoken of as a draft. It is called as a bank draft when a bill of exchange drawn by one bank on another bank, or by itself on its own branch, and is a negotiable instrument. It is very much like the cheque with three points of distinction between the two. A bank draft can be drawn only by a bank on another bank, usually its own branch. It cannot so easily be countermanded. It cannot be made payable to bearer.

**24.What is Exchange Banks?**

Exchange banks deal in foreign exchange and specialise in financing foreign trade. They facilitate international payments through the sale, purchase of bills of exchange, and thus play an important role in promoting foreign trade.

**25.What is Public Sector Banks?**

These arc owned and controlled by the government. In India, the nationalized banks and the regional rural banks come under these categories.

**26.What is Private Sector Banks?**

These banks are owned by the private individuals or corporations and not by the government or co-operative societies.

**27.What is Cooperative Banks?**

Cooperative banks are operated on the cooperative lines. In India, cooperative credit institutions are organized under the cooperative societies law and play an important role in meeting financial needs in the rural areas.

**28.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 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”.

**29.What are the Payment of interest?**

The rate of interest payable by the banks on deposits maintained in savings accounts is prescribed by the RBI. Interest is computed at quarterly or longer rests of period.

**30.What are the Rate of interest**?

Higher rates of interest are offered on fixed deposits as the depositor parts with liquidity for a certain period. The longer the period, the higher will be the rate of interest.

**31.What is Overdue deposits:**

If the receipt is not encashed on the date of maturity, the interest ceases to run from that date. The banks allow interest as per RBI directives, if it is renewed.

**32.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.

**33.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.

**34.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.

**35.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.

**36.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.

**37.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.

**38.What is Meaning of Collecting Banker?**

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

**39.Definition of Holder.**

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

**40.What are the Value of Holder?**

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

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

**41.What is Holder in Due Course?**

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

**42.What is Bank rate policy?**

Bank rate is the lending rate of central bank. It is the official minimum rate at which central bank of a country rediscounts the eligible bills of exchange of the commercial banks and other financial institutions or grants short term loans to them. By increasing bank rate, RBI can make bank credit costlier

**43.Who is Liquidator?**

Person appointed by the shareholders or unsecured creditors, or on a court order., to manage the winding up of a firm by selling off its assets.

**44.What is Pass book?**

A passbook or bankbook is a paper book used to record bank, or building society transactions on a deposit account.

The Post Office Savings Bank introduced passbooks to rural 19th century Britain Traditionally, a passbook is used for accounts with a low transaction volume, such as a savings account. A bank teller or postmaster would write by hand, the date and amount of the transaction and the updated balance and enter his or her initials.

**45.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.

**46.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.

**47.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.

**48.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.

**49.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.

**50.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.

**51.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.

**52.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.

**53. 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.

**54.Give the meaning of Current account.**

An account which can be operated any number of times on a working day without any restriction on the number and amount of withdrawals is known as a current account. As the banker is under a responsibility to repay these deposits on demand, they are called deemed deposits.

Current accounts suit the requirements of joint stock companies, public authorities, corporations, etc. whose banking transactions happen to be numerous per day. Cheque facility is available for the investor.

**BANK**

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

**FEATURES OF BANKING**

**1. Dealing in Money**

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

**2. Deposits must be Withdrawals**

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

**3. Dealing with Credit**

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

**4. Commercial in Nature**

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

**5. Nature of Agent**

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

**What are the features of Current Account?**

* It is generally opened by trading & industrial concerns.
* It is opened not for profit or savings but for convenience in payments
* Introduction is necessary to open the account.
* Any number of transactions permitted in the account.
* Withdrawals are generally allowed by cheque
* Deposit is repayable on demand
* No interest is allowed but incidental charges claimed.
* Minimum balance requirement varies from bank to bank.

**What are the features of Saving Bank (SB) account?**

* It is generally opened by middle/low income group who save a part of their income for future needs
* Introduction is necessary to open the account if cheque facility is allowed.
* There are some restrictions on number of withdrawals.
* Fair interest (less than FD) is offered on the deposits of this account.

**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.

**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.

**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.

**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.

**95.Briefly Classification of Negotiable Instruments.**

The negotiable instruments may be classified as under:

**(1)Bearer Instruments**

A promissory note, bill of exchange or cheque is payable to bearer when (i) it is expressed to be so

payable, or (ii) the only or last endorsement on the instrument is an endorsement in blank, A person who

is a holder of a bearer instrument can obtain the payment of the instrument.

**(2)Order Instruments**

A promissory note, bill of exchange or cheque is payable to order (i) which is expressed to be so payable; or (ii) which is expressed to be payable to a particular person, and does not contain any words prohibiting transfer or indicating an intention that it shall not be transferable.

**(3) Inland Instruments (Section 11)**

A promissory note, bill of exchange or cheque drawn or made in India, and made payable, or drawn upon any person, resident in India shall be deemed to be an inland instrument. Since a promissory note is not drawn on any person, an inland promissory note is one which is made payable in India. Subject to this exception, an inland instrument is one which is either:

a. drawn and made payable in India, or

b. drawn in India upon some persons resident therein, even though it is made payable in a foreign country.

**(4) Foreign Instruments**

An instrument which is not an inland instrument, is deemed to be a foreign instrument. The essentials of a foreign instrument include that:

(i) it must be drawn outside India and made payable outside or inside India; or (ii) it must be drawn in India and made payable outside India and drawn on a person resident outside India.

**(5) Demand Instruments (Section 19)**

A promissory note or a bill of exchange in which no time for payment is specified is an instrument payable on demand.

**(6) Time Instruments**

Time instruments are those which are payable at sometime in the future. Therefore, a promissory

note or a bill of exchange payable after a fixed period, or after sight, or on specified day, or on the happening of an event which is certain to happen, is known as a time instrument.