**ANNAI WOMEN’S COLLEGE,**

**KARUR**

***Banking Theory Law & Practice***

***(16CCCCM4)***

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 BANKING THEORY LAW AND PRACTICE

##  Objectives: To impart knowledge on the theory and practice of Banking and to understand the process of Banking activities. (Theory only)

## Unit I: Definition of the term banker and customer – General relationship – special relationship – main functions and subsidiary services rendered by banker – agency services and general utility services.

## Unit II: Operations of Bank Accounts – Fixed Deposits – Fixed Deposit Receipt and it’s implications – Savings Bank accounts – Current accounts – Recurring Deposit accounts- New Deposit savings schemes introduced by Banks – Super Savings Package – Cash Certificate, Annuity Deposit – Reinvestment plans – Perennial Premium plan – Non Resident (External) accounts Scheme.

## Unit III: Types of Customers – Account holders – Procedure for opening and closing of accounts of Customers- particulars of individuals including Minor, illiterate persons- Married women – Lunatics – Drunkards – Joint Stock Companies – Non- Trading Associations – Registered and Unregistered Clubs – Societies, Attorney - Executive and administration – Charitable institutions – trustees – Liquidators – Receivers – Local authorities – steps to be taken by banker in the event of death, Lunacy, Bankruptcy – winding up Garnishee Order.

## Unit IV: Paying and collecting bankers – rights, responsibilities and duties of paying and collecting banker – precautions to be taken in payment and collection of cheques – protection provided to them – nature of protection and conditions to get protection – payment in due course – recovery of money paid at mistake.

## Unit V: Pass book and Issue of duplicate pass book – cheques - Definition of a cheque – requisites of a cheque – drawing of a cheque - types of cheque – alteration – marking – crossing – different forms of crossing and their significance – Endorsement loss of cheques in transit – legal effect. Modern Banking, Banking practice – e banking – Internet banking – Mobile banking – ATMS- Cash Machine – EFT (Electronic Fund Transfer) – RTGs, NEFT, MICR.

## UNIT - I

## Banking Theory Law & Practice

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.

**ORIGIN AND DEVELOPMENT OF BANK**

It is interesting to trace the origin of the word ‘bank’ in the modern sense, to the German word **‘Banck’** which means, Heap or Mound or Joint stock fund. From this, the Italian word **“Banco”** meaning heap of money was meaning heap of money was coined.

 Some people have the opinion that the word “ Bank” is derived from the French words “ Bancus” or “Banque” which means a bench. Thus, the origin of the word bank can be traced as follows:

* Banck-German ( Joint Stock Fund )
* Banco-Italian ( Heap of Money )
* Bancus- French ( Bench/ Chest a place where valuables are kept)
* Bank – English ( Common meaning prevalent today, i.e., as an institutions accepting money as deposit for lending)

Banking made its first appearance as a public enterprise in the year 1157 in Italy with the establishment of Bank of Venice.the bank of Barcelona was started in 1401. The bank of Genoa in 1407 and the Bank of Amaterdam in 1609. The lombards who migrated to Europe and England from Italy were responsible for the development for the development of modern banking.

**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.

**BANKING REGULATION ACT-1949**

**ORIGIN OF THE ACT**

Unfortunately, in India, there was no separate legislation for banking till 1949 and so bank were brought under the control of Indian companies act. Though the central banking enquiry committees recommended the need for a separate legislation it was not given due consideration then. However, subsequent development like Mushroom growth of bank with inadequate capital, dishonest management, speculative investment, appointment of incompetent director for long period with his salaries, poor liquidity of funds etc. necessitated the passing of a separate Act for banking companies.

According, a bill was introduced in March 1948 and was passed in the parliament in February 1949. This Act was originally called the Banking Companies Act 1949 and now it is renamed as the Banking Regulation Act 1949. The important provisions of the Act have been discussed under the following heads

**DEFINITION OF BANKING**

The business of banking has been defined in section 5 (b) of the Act as follows “Accepting for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise and withdraw able by cheques, draft and order or otherwise”

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**CUSTOMER:**

A **customer** is a person who has some sortof account, either deposit or currentaccount, with the banker.

**Legal relationship between banker and customer:**

• The relationship between a banker and his customer is essentially contractual like Debtor (banker) and creditor (customer).

• This relationship is sometimes reversed. This happens when the banker lends money to the customer.

• The relationship also partakes many aspects of agent and principal.

**Special features or legal relationship**

• Obligation to honour cheques.

• Obligation to keep proper record of transactions.

• Obligation to abide by the express instruction of the customer.

• Obligation not to disclose the state of his customer’s account or affairs.

• Right of general lien

.• Right to charge incidental charges and interest on money lent.

• Right to set-off.

• Right of appropriation.

**POWERS OF RESERVE BANK OF INDIA UNDER THE BANKING REGULATION ACT.)**

The Reserve Bank of India exercises control over all commercial bank from their birth to death. All powers have been centralized in the hands of the Reserve Bank of India with a view to regulating the banking system in the national interest and to prevent bank failures. Some of the main powers have been summarized follows:

* **Power to Issue Directors:** Under section 35 of the Act, the Reserve Bank of India has the power to issue directions as it deems fit to the banking companies in general or to any bank in particular and the bank concerned shall be bound to comply with such direction.
* **Power to Control Management:** As per section 38AA of the Act, the Reserve Bank of India may in the public interest of depositors, remove from office any chairman/ director/ employee after giving them a reasonable opportunity of being heard.
* **Power to advice banks:** Under section 36 of the Act, the Reserve Bank of India may caution or prohibit or give general advice to a bank in particular or to all banks in general against entering into a particular transaction or class of transaction.
* **Power to assist in proposals for amalgamation:** The Reserve Bank of India may assist a banking company in proposals for the amalgamation on its request. No court shall sanction a scheme of agreement for amalgamation unless the scheme is certified by the Reserve Bank of India.
* **Power to appoint Liquidator:** In regard to the winding up of a banking company, the Reserve Bank of India has the power to make an application to the High Court for the appointment of Reserve Bank of India, the State Bank of India or any other bank notified by the Central Government as the official liquidator that bank.
* **Power to give advice to the Central Government**: Above all, the Reserve Bank of India has been authorized to give to the central government in respect of any amendments to the present Act or rules framed there under from time to time

**IMPORTANCE OF BANKING IN ECONOMIC DEVELOPMENT.**

In the process of economic development the significance or contribution of banking system can be summarized as follows.

**1 Capital Formation**

 The capital formation depends upon savings of various categories of people / organization. Bank offer facilities for savings and thus, encourage the habits of thrift and industry among people. They mobilize the idle and dormant capital of a commodity and make it available for productive purposes.

**2. Creation of Money**

 Banks have become significant by their power to creation of money. Bank money forms a large part of the total quantity of money supply and represents a cheap, efficient and economical means of payment. Banks are described as factories of credit. It results in the economic progress of the country.

**3. Strengthen the link between the Organized and Un organizes sectors**

 Indian money market consists of organized and un organized sectors. Bothe of them are to be linked for the economic well being of the country, As the nervous system of the economy, the banks link the organized and unorganized sectors for the overall economic development.

**4. Provision of long term loans**

 Industrial development which is the rock-basis for the economy depends upon the long term loans. Banks provide medium and long –term loans for the industries.

**5. Development of Entrepreneurs**

 Banks have special drives and specific schemes for the development of entrepreneurship. They foster their strength and health. This helps the nation as a whole in various ways including the increase in productivity etc.

**6. Regulation of the flow of national savings**

 Banks regulates the flow of national savings into various productive channels, while lending money, they discriminate between a genuine trader and a speculator and they discourage the speculator. Thus, banks ensure the diversion of national savings into the productive purposes.

**7. Comprehensive Infrastructure Facilities**

 Banks can develop comprehensive infrastructure facilities in the country. It includes the social, educational, fiscal and other aspects whose development is essential for the economic progress of a nation.

**8. Maintain Balance of Trade**

 Through properly devised banking system the country can promote exports through easy and timely credit facilities to exporters, quickly obtaining money from foreign buyers of goods, etc. This may help maintain the balance of trade at favorable position.

**9. Sectoral Priorities**

 The mobilized resources can be used for the development of backward areas or a particular sector. This can be effectively done with the efficient banking system. For example, encouraging the flow of credit to small scale industries, artisans and farmers under priority sector.

**10. Effective Implementation of Monetary Policy**

The effective implementation of monetary policy can be done only through properly organized banking system of the country.

**When may a banker dishonour a customer’s cheque:**

• Where the banker does not have sufficient funds to the credit of the customer.

• Where the funds to the credit of the customer are not applicable to the payment of the cheque. (when the money held in trust)

• Where the cheque is ambigious or doubtful.

• Where the cheque is mutilated (imperfect).

• Where the cheque is irregular or materially altered.

• Where the cheque is not duly presented.

• Where the cheque is post dated.

• Where the cheque has become stale. (six months from the date of issue).

• Where the cheque is presented at a other branch.

• Where an account is in joint names of a few persons, but they have not all signed the cheque.

• Where the cheque is for an amount in excess of the balance.

**Types of banks**

Functional classification

**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. Features of Commercial banks are;

* They accepts deposits on various accounts.
* Lend funds to organisations, trade, commerce, industry, small business, agriculture etc by way of loans, overdrafts and cash credits.
* They are the manufacturers of money.
* The perform many subsidiary services to the customer.
* They perform many innovative services to the customers.

**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. Features of Industrial Banks are:

* Participate in management.
* Advise industries in making right investment
* Advise govt. on matters relating to 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, Co- operative 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. Features of savings banks are;

⮚Mobilise small and scattered savings

⮚Promote habit of thrift & savings

⮚Keep only small portion in hand and invest major part in govt. securities

⮚They do not lend to general public.

**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),

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| --- | --- |
| Federal Reserve System(USA) etc are the examples | Of Central Banks. The main functions of a |
| Central Bank are; |   |
| ⮚Monopoly of currency issue |   |
| ⮚Acts as banker to the govt. |   |

⮚Serves as bankers’ bank

⮚Act as controller of credit

⮚Custodian of nation’s gold and foreign exchange reserve.



1)**Accepting of Deposits**: A bank accepts deposits from the public. People can deposit their cash balances in either of the following accounts to their convenience:-

**a.Fixed or Time Deposit Account**: Cash is deposited in this account for a fixed period. The depositor gets receipts for the amount deposited. It is called Fixed Deposit Receipt. The receipt indicates the name of the depositor, amount of deposit, rate of interest and the period of deposit. This receipt is not transferable. If the depositor stands in need of the amount before the expiry of fixed period, he can withdraw the same after paying the discount to the bank.

**b.Savings Account:** This type of deposit suits to those who just want to keep their small savings in a bank and might need to withdraw them occasionally. Banks provide a certain rate of interest on the minimum balance kept by the depositor during the month.

**c.Current Account:** This type of account is kept by the businessman who are required to withdraw money every new and then. Banks do not pay any interest on this account. Any sum or any number of withdrawals can be presented by such an account holder.

**2)Advancing of Loans:**The bank advances money in any one of the following ways.

**a. Overdraft Facilities:** Customers of good trading are allowed to overdraw from their current account. But they have to pay interest on extra amount they have withdrawn. Overdrafts are allowed to provide temporary accommodation since the extra amount withdrawn is payable within a short period.

**b.Money at Call:** It is the money lent for a very short period varying from 1 to 14 days. Such advances are usually made to other banks and financial institutions only. Money at call ensures liquidity. In the Interbank market it enables bank to make adjustment according to their liquidity requirements.

**c.Loans:** Loans are granted by the banks on securities which can be easily disposed off in the market. When the bank has satisfied itself regarding the soundness of the party, a loan is advanced.

**d.Cash Credit:** The Debtor is allowed to withdraw a certain amount on a given security. The debtor withdraws the amount within this limit, interest is charged by the bank on the amount actually withdrawn.

**e.Discounting Bill of Exchange :** It is another method of making advances by the banks. Under this method, bank give advance to their clients on the basis of their bills of exchange before the maturity of such bills.

**f. Investment in Government Securities:**Purchasing of government securities by the banks Banks prefer to buy government securities as these are considered to be the safest investment.

**3)Credit Creation:**One of the main functions of banks these days is to create credit. Banks create credit by giving more loans than their cash reserves. Banks are able to create credit because the demand deposits i.e. a claim against the bank is accepted by the public in settlement of their debts. In this process the bank creates money. For this reason Prof. Sayers has called bank “the manufactures of money.”

**4)Cheque system of Payment of Funds :**A cheque, a negotiable instrument, which in fact is a bill of exchange, drawn upon a banker, is the most popular credit instrument used by the client to make payments. Cheque system is the main credit instrument in the banking world. Although a cheque is not a legal tender money, they serves as a medium of exchange in a limited way as it is a negotiable instrument.

**SECONDARY FUNCTIONS:**

Besides the above primary functions, banks also perform many secondary functions such as agency functions, general utility and social functions.

**A)Agency Functions**

Banks act as agents to their customers in different ways :-

**i)Collection and Payment of Credit and Other Instruments:**The Commercial banks collect and pay cheques, bills of exchange, promissory notes, rent, interest etc. On behalf of their customers and also makepayments of income tax, fees, insurance premium etc. on behalf of the customers

**ii)Purchase and Sale of Securities :** The modern commercial banks also undertake the purchase and sale of various securities like shares, stocks, bonds units and debentures etc. On behalf of the customers, banks do not give any advice regarding the suitability or otherwise of a security but simply perform the functions of a broker.

**iii)Trustee and Executor :** Banks also acts as trustees and executors of the property of their customers on their advice. Sometimes banks also undertake income tax services on behalf of the customers.

**iv)Remittance of Funds :** The Commercial banks remit funds on behalf of clients from one place to another through cheques, drafts, mail transfers etc.

**v)Representation and Correspondence :**Sometimes commercial banks acts as representatives or correspondents of the clients especially in handling various applications. For instance, passports and travel tickets, booking of vehicles, plots etc.

**vi)Billion Trading :** In many countries, the commercial banks trade is billions like gold and silver. In Oct 1997, 8 banks including SBI, IOB, Canara Bank and Allahabad Bank have been allowed import of gold which has been put under open general licensed category.

**vii)Purchase and Sale of Foreign Exchange : Banks buy and**

sell foreign exchange, promoting international trade. This function is mainly discharged by Foreign Exchange Banks.

**viii)Letter of References :** Banks also give information about economic position of their customers to domestic and foreign traders and vice versa.

**B) GENERAL UTILITY SERVICES**

In addition to agency services, banks render many more utility services to the public. These services are :-

**i)Locker Facilities :** Banks provide locker facilities to their customers. People can keep their valuables or important documents in these lockers. Their annual rent is very nominal.

**ii)Issuing letters of credit :** Bankers in a way by issuing letters of credit certify the credit worthiness of the customers. Letters of credit are very popular in foreign trade.

**iii)Acting as Underwriters :** Banks also underwrite the securities issued by the Government and Corporate bodies for a commission. The name of bank as an underwriter encouraged investors to have faith in the security.

**iv)Help in Transportation of Goods:** Big businessmen or industrialists after consigning goods to their retailers send the Railway Receipt (Consignment Note) to the bank.

**v)Issuing of gift cheques:** Certain banks issue gift cheques of various denominations, e.g. Some Indian banks issue gift cheques of the denominations of Rs. 21, 31, 51 and 101 etc. They are generally issued free of charge.

**vi)Dealing in Foreign Exchange:** Major branches of commercial banks also transact business of foreign exchange. Commercial banks are the main authorized dealers of foreign exchange in India.

**vii)Merchant banking Services:** Commercial banks also render merchant banking services to the customers. They help in availing loans from non- banking financial institutions.

**RELATIONSHIP BETWEEN A BANKER AND CUSTOMERS**

 **RELATIONSHIP**

**SPECIAL RELATIONSHIP**

* **Obligation to honour cheques**
* **Banker’s lien**
* **Duty to maintain secrecy of his customer account**
* **Right to claim incidental charges**
* **Right to charge compound interest**
* **Exemption from the law limitation Act**

 **GENERAL RELATIONSHIP**

* Trustee and Beneficiary
* Principal and Agent
* Debtor and Creditor Lessor and Lessee
* Assigner and Assignee
* Bailor and Bailee

**I.GENERAL RELATIONSHIP**

**1.Relationship of Debtor and Creditor**

 Banker accepts deposits of money from his customers for the purpose of lending and investment and repays it on demand as per the terms of the contract of deposit. In fact, deposit accepted by the bank is technically money loaned out to the bank from the depositors. Therefore, the general relationship between a depositor and the banker is a relation of the debtor and the creditor. The depositors are creditors and the bank is the debtor. However, the relationship between the banker and customer is directly opposite when the bank lends money to its customer. The bank becomes the creditor and the customer becomes the debtor.

**2.Relationship of Trustee and Beneficiary**

When a banker accepts items like securities or documents for safe custody or maintains escrow accounts of the customers,   the relation between the banker and customer is a Trustee and the Beneficiary (Trustier). The bank is the Trustee and the customer is the beneficiary.

 (Escrow is a separate type of bank account generally opened for various business deals like acquisition, transfer of shares and debentures of a company, where money deposited in banks will be released only under fulfillment of certain conditions of a contract).

**3.Relationship of Lessor and Lessee**

 Similarly, when a customer hires a safe deposit locker from the bank, the relation between the bank and the customer is lessor and lessee. The bank is the lessor (licensor) and the hirer of safe deposit locker is the lessee (licensee/tenant).

**4.Relationship of Principal and Agent**

When a bank collects cheques, bills and other instruments for customers, the relation between the bank and customer is that of Principal and Agent. The bank also makes regular payments of insurance premium rent etc. as per standing instruction received from the customer. In the above cases also the relation between the bank and the customer is of Principal and agent. The bank act as the agent and customer the principal.

**5.Relationship of Assigner and Assignee**

An assignor is a person who transfers his security rights to a lender as collateral to the money borrowed by him. The transfer of   Life Insurance Policies, National Saving Certificates, Supply bills etc. in the name of the bank is examples of assignment.  The bank on whose name security rights are transferred by the assignor is called as assignee. On full payment of dues to the assignee, the assignor can get the security re-assigned in his name.

**6.Relationship of Bailor and Bailee**

Bailment refers to delivery of goods by one person to another for some purpose under a condition that the goods to be returned to depositor when the purpose is accomplished or otherwise disposed of according to the directions of the person while delivering the goods (Sec 148 of contract act). The person delivering the goods is known as bailor and the person to whom goods are delivered is called bailee.

**II.SPECIAL RELATIONSHIP**

**1.Statutory Obligation to honour cheques:**

The drawee of a cheques having sufficient funds of the drawer in his hands, property applicable to the payment of such cheques, must pay the cheques when duly required so to do and in default of such payment must compensate the drawer for any loss or damage caused by such default.

**2.Banker’s lien:** The relationship existing between a banker and his customer is that a banker can exercise the right of lien on all goods and securities entrusted to him as a banker.

* **Right to Retain the Goods:** A lien is the right of a person to retain the goods in his possession until the debt due to him has been settled.
* **Kinds of Lien:** Lien is of two kinds-particular lien and general lien. A particular lien is so called because it confers a right to retain the good in connection with which a particular debt arose. In other words, a particular lien applies to one transaction or certain transaction lien.

General lien, on the other hand, give a right to a person to retain the goods not only in respect of a particular debt but also in respect of the general balance due from the owner of the goods to the person exercising the right of lien.

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**3. Duty to maintain secrecy of his customer account:** A banker is expected to maintain secrecy of his customers account. The word secrecy is like a Damocles Sword hanging on the head of the banker and every employee of a bank has to take an oath of secrecy regarding the customers’ accounts. The banker should not disclose his customer’s financial position and the nature and the details of his accounts.

**4. Right to claim incidental charges:** Another special features of the relationship that exists between a banker and a customer is that the banker may claim incidental charges on unremurerative accounts. This practice is much more is vogue in England. In India in order to encourage people to open more account such charges are not levied. However, of late banks in India resort to this practice of claiming incidental charges on an increasing scale.

**5. Right to charge compond interest:** As per general law, levying of compound interest is strictly prohibited. But, a banker is given a special privilege of charging compound interest. Usually banker charge interest on the money lent at the end of every quarter. The same practice of crediting the customer’s account with interest at the end of every half year is followed.

**6. Exemption from the law limitation Act:** As per the provisions of this law, a debt will become a bad one after the expiry of three years from the date of the debt. But, according to Articles 22 of the Law of limitation Act 1963 for banking debt, the period of three years will be calculated from the date on which on express demand is made for the repayment of the debt.

## GENERAL UTILITY SERVICES OF COMMERCIAL BANKS

1. RBI allows certain branches to **undertake foreign exchange transactions**. They are called authorized dealers. The bank purchases and sells foreign currency at the rate prescribed by RBI.

2. The bank **enables foreign trade by issuing letter of credit** on behalf of the importer. It is a letter of guarantee and that enables the importer to purchase goods.

[**Letter of credi**t](https://accountlearning.com/letter-of-credit-meaning-parties-to-lc/) has been in existence for many years. It is in fact the most important single document in the international trade. Simply stated, a letter of credit is an undertaking by a banker in the importer’s country to pay or to arrange to pay specified merchandise, provided that the exporter satisfies certain stipulated conditions.

 A letter of credit is a written undertaking given by a bank to the seller of the goods at the request of the importer of the goods, to meet the [bill of exchange](https://accountlearning.com/bills-of-exchange-types-and-classification/) drawn by the seller in accordance with the terms of the undertaking providing the documents of title to goods prescribed by the buyer are tendered on presentment of the bill of exchange for payment.

3. In the case of foreign trade or domestic trade, **bankers accept bills on behalf of customers** and make payment on the due date on these bills. Later on, they collect from the customers.

**UNIT-2**

**OPENING BANK ACCOUNT:**

**FIXED DEPOSIT ACCOUNT**

 The account which is opened for a particular fixed period (time) by depositing particular amount (money) is known as Fixed (Term) Deposit Account. The term 'fixed deposit' means that the deposit is fixed and is repayable only after a specific period is over.

 Under fixed deposit account, money is deposited for a fixed period say six months, one year, five years or even ten years. The money deposited in this account cannot be withdrawn before the expiry of period. The rate of interest paid for fixed deposit vary (changes) according to amount, period and from bank to bank.

**NATURE OR FEATURES OF FIXED DEPOSIT ACCOUNT**

* The main purpose of fixed deposit account is to enable the individuals to earn a higher rate of interest on their surplus funds (extra money).
* The amount can be deposited only once. For further such deposits, separate accounts need to be opened.
* The period of fixed deposits range between 15 days to 10 years.
* A high interest rate is paid on fixed deposits. The rate of interest may vary as per amount, period and from bank to bank.

**ADVANTAGES OF FIXED DEPOSIT ACCOUNT**

* Fixed deposit encourages savings habit for a longer period of time..
* Fixed deposit account enables the depositor to earn a high interest rate.
* The depositor can get loan facility from the bank.
* On maturity the amount can be used to make purchases of assets.
* The bank can get the funds for a longer period of time.
* The bank can lend such funds for short term loans to businessmen.

**SAVING BANK ACCOUNT**

The 'saving account' is generally opened in bank by salaried persons or by the persons who have a fixed regular income. This facility is also given to students, senior citizens, pensioners, and so on. Saving accounts are opened to encourage the people to save money and collect their savings. In India, saving account can be opened by depositing र100.

**NATURE AND FEATURES OF SAVING ACCOUNT**

* The main objective of saving account is to promote savings.
* There is no restriction on the number and amount of deposits.
* Withdrawals are allowed subject to certain restrictions.
* The money can be withdrawn either by cheque or withdrawal slip of the respective bank.
* The rate of interest payable is very nominal on saving accounts. At present it is between 4% to 6% p.a in India.
* Saving account is of continuing nature. There is no maximum period of holding.
* A minimum amount has to be kept on saving account to keep it functioning.
* No loan facility is provided against saving account.
* Electronic clearing System (ECS) or E-Banking are available to pay electricity bill, telephone bill and other routine household expenses.

Generally, equated monthly installments (EMI) for housing loan, personal loan, car loan, etc., are paid (routed) through saving bank account.

**ADVANTAGES OF SAVING ACCOUNT**

* Saving account encourages savings habit among salary earners and others who have fixed income.
* It enables the depositor to earn income by way of saving bank interest.
* Saving account helps the depositor to make payment by way of issuing cheques.
* It shows income of a salaried and other person earned during the year.
* Saving account passbook acts as an identity and residential proof of the account holder.
* It provides a facility such as Electronic fund transfer (EFT) to other people's accounts.
* It helps to do online shopping via facility like internet banking.
* It aids to keep records of all online transactions carried on by the account holder.
* It provides immediate funds as and when required through ATM.
* The bank offers number of services to the saving account holders.

**CURRENT BANK ACCOUNT**

Current bank account is opened by businessmen who have a higher number of regular transactions with the bank. It includes deposits, withdrawals, and contra transactions. It is also known as Demand Deposit Account. Current account can be opened in co-operative bank and commercial bank. In current account, amount can be deposited and withdrawn at any time without giving any notice. In India, current account can be opened by depositing Rs.5000 (approx. US $ 100) to Rs. 25,000 (approx. US $ 500).

**NATUURE OR FEATURES OF CURRENT BANK ACCOUNT**

* Current bank accounts are operated to run a business.
* It is a non-interest bearing bank account.
* It needs a higher minimum balance to be maintained as compared to the savings account.
* Penalty is charged if minimum balance is not maintained in the current account.
* It charges interest on the short-term funds borrowed from the bank.
* It is of a continuing nature as there is no fixed period to hold a current account.
* It does not promote saving habits with its account holders.
* Banker requires KYC (Know your Customers) norms to be completed before opening a current account.
* The main objective of current bank account is to enable the businessmen to conduct their business transactions smoothly.
* There is no restriction on the number and amount of deposits.

**ADVANTAGE OF CURRENT BANK ACCOUNT**

* Current account is mainly opened for businessmen such as proprietors, partnership firms, public and private companies, trust, association of persons, etc.
* It enables businessmen to carry out their business transactions properly and promptly.
* The businessmen can withdraw from their current accounts without any limit, subject to banking cash transaction tax, if any levied by the government.
* Home branch is that location where one opens his bank account. There are no restrictions on deposits made in the current account opened in a home branch of a bank. However, the current account holder can deposit the cash from any other branch of a bank other than the home branch by paying a nominal charge as applicable.
* It helps businessmen to make a direct payment to their creditors by issuing cheques, demand-drafts or pay-orders, etc.
* It enables a bank to collect money on behalf of its customers and credits the same in their customers' current accounts.

**RECURRING DEPOSIT ACCOUNT**

 Recurring deposit account is generally opened for a purpose to be served at a future date. Generally opened to finance pre-planned future purposes like, wedding expenses of daughter, purchase of costly items like land, luxury car, refrigerator or air conditioner, etc.

 Recurring deposit account is opened by those who want to save regularly for a certain period of time and earn a higher interest rate.

**NATURE OR FEATURES OF RECURRING DEPOSIT ACCOUNT**

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

**ADVANTAGE OF RECURRING DEPOSIT ACCOUNT**

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

**Non-Resident (External) (NRE) Accounts**

The Non-Resident (External) Rupee Account NR(E)RA scheme, also known as the NRE scheme, was introduced in 1970. Any NRI can open an NRE account with funds remitted to India through a bank abroad. This is a repairable account and transfer from another NRE account or FCNR(B) account is also permitted. A NRE rupee account may be opened as current, savings or term deposit. Local payments can be freely made from NRE accounts. Since this account is maintained in Rupees, the depositor is exposed to exchange risk. NRIs / PIOs have the option to credit the current income to their Non-Resident (External) Rupee accounts, provided the authorized dealer is satisfied that the credit represents current income of the non-resident account holders and income tax thereon has been deducted / provided for.

**New deposit saving schemes by bank:**

Saving Schemes are launched by the Government of India or public sector financial institutions or Banks. They vary in their interest rates, investment horizons and tax treatments. A saving scheme financially prepares us for unforeseen personal and medical emergencies. It helps you meet your personal aspirations and that of your family’s like - additional educational course to supplement your existing qualifications, child’s higher education and marriage, etc.

**Types of saving schemes in India:**

* National saving scheme(NSS)
* National saving certificate(NSC)

### Public Provident Fund (PPF)

The Public Provident Fund scheme is one of the most popular and safest investment options that is available in the country. Under Section 80C of the Income Tax Act, contributions made towards the scheme as well as the interest that is generated from the contributions are also taxes exempt.

The scheme can be opened at post offices and banks, and the duration of the scheme is 15 years. Individuals are allowed to increase the duration of the scheme by a further 5 years.

### Employees’ Provident Fund (EPF)

The Employees’ Provident Fund Organisation launched the EPF scheme with the main aim of helping employees save money for their retirement. It is mandatory for organisations with more than 20 employees to contribute towards the EPF scheme. The employee and employer each contribute 12% of the employee’s Dearness Allowance (DA) and basic salary towards the scheme.

### National Pension System (NPS)

The NPS was launched by the Central Government with the main aim of providing individuals a regular income after their retirement. Employees can avail the benefits of the scheme by paying a small amount of premium.

Employees will receive a lump sum amount at the time of their retirement as well as a certain percentage will be paid back as pension on a monthly basis after their retirement.

### Sukanya Samriddhi Yojana Account (SSY)

The Sukanya Samriddhi Yojana (SSY) scheme was launched by Prime Minister Narendra Modi to help secure the future of a girl child. The current rate of interest offered by the scheme is 8.5% and an SSY account can be opened at post offices or banks.

The minimum and maximum deposit that can be made in a year towards the scheme is Rs.1,000 and Rs.1.5 lakh, respectively. The account holder must make contributions towards the scheme for duration of 14 years and the maturity period of the scheme is 21 years.

### Atal Pension Yojana (APY)

The main aim of the scheme is to help individuals who are below the poverty line. The scheme also benefits people who work in the unorganised sector and require financial support from the government. Individuals pay a very low premium towards the scheme and receive a pension after their retirement. However, it is mandatory that individuals have an active savings account in order to avail benefits from the scheme.

### Voluntary Provident Fund (VPF)

Employees can opt for the VPF scheme on a voluntary basis. Under the VPF scheme, employees are allowed to contribute their entire basic salary towards the scheme, unlike the EPF scheme, where only 12% of the basic salary can be contributed.

### Kisan Vikas Patra (KVP)

The Kisan Vikas Patra certificate scheme is offered by post offices in India. The rate of interest that is offered by the scheme at the moment is 7.7% and it is compounded on an annual basis. The minimum contribution that must be towards the scheme is Rs.1,000 and there is no maximum limit. Over the course of 112 months, the amount invested towards the scheme doubles.

### Senior Citizens Savings Scheme (SCSS)

The SCSS was launched with the aim of helping individuals who are 60 years and above. Individuals who are between the ages of 55 years and 60 years and have chosen for Voluntary Retirement Scheme (VRS) can also avail the benefits of the SCSS.The duration of the SCSS is 5 years and the rate of interest under the scheme is 8.7% p.a. Individuals must invest a minimum of Rs.1,000 towards the scheme and the maximum investment that can be made is Rs.15 lakh.

### National Savings Certificate (NSC)

The NSC scheme is one of the most popular schemes in India. Since the scheme is backed by the Indian Government, guaranteed returns and tax benefits are provided. The duration of the scheme is 5 years and individuals can invest in the scheme at post offices.

### Post Office Savings Scheme

The various savings schemes that are offered by India Post are very popular as the risks are very minimal and most of the schemes provide guaranteed returns.

* National Savings Time Deposit Account
* Senior Citizens Savings Scheme Account
* National Savings Certificate Account
* Sukanya Samriddhi Account
* National Savings Recurring Deposit Account
* National Savings Monthly Income Account
* Public Provident Fund Account
* Kisan Vikas Patra Account

**Advantages of Savings Schemes**

The main advantages of investing in savings schemes are mentioned below:

* **Long-term benefits:** Individuals can achieve their long-term goals such as retirement plans, children’s education, and children’s marriage by investing in savings schemes.
* **Various savings schemes:** The number of savings scheme currently available is large. The benefits vary according to the scheme and the sector. For example, the Pradhan Mantri Jan Dhan Yojana is designed to help people who are below poverty line and the Sukanya Samriddhi Yojana helps a girl child financially.
* **Hassle-free:**The maintenance and investment towards the schemes are very simple and most of the contributions made towards the schemes can be done online.
* **Security and safety:** The contributions that are made towards the schemes are minimal on risk as well as safe and secure since the schemes are launched by the Indian Government.

**Cash certificate:**

Cash certificates are **a type of deposit that is purchased for a certain amount**. The account holder purchases the cash certificate for a certain amount, but needs to make payments toward this amount only as long as the term of the certificate lasts. Typically, the account holder builds up to the full amount of the certificate.

**Annuity deposit:**

To enable the depositor to pay one-time lump sum amount and to receive the same in Equated Monthly Instalments (EMIs), comprising a part of the principal amount as well as interest on the reducing principal amount, compounded at quarterly rests and discounted to the monthly value.

**Features:**

* To enable the customer to deposit one time lump sum amount and receive re-payment of the same in monthly annuity instalment comprising part of the principal amount plus interest.
* Period of deposit from 36/60/84 or 120 months
* Available at all branches (except specialized credit intensive branches) all over India.
* Amount Based on minimum monthly annuity Rs 1000/- for the relevant period.
* In no case Minimum Amount of deposit should be below Rs. 25,000/-
* Maximum deposit amount No Limit
* Rate of interest as applicable to Term Deposits.
* The interest rate payable to SBI Staff and SBI pensioners will be 1.00% above the applicable rate.

**Reinvestment plan:**

A Reinvestment Deposit Plan basically allows you to reinvest the interest earned on your deposit.

**Apply for a Reinvestment Deposit Plan:**

If you would like to retain your deposits and accumulate it with interest, you can apply for a Reinvestment Deposit Plan. You could use these deposits to meet any expenditure in the future... children's education, marriage etc. The minimum deposit amount is Rs. 1,000/-. Initially deposits should be made only in multiples of Rs. 100/-.

**Features of a Reinvestment Deposit Plan**

* The interest on your deposit also earns interest.
* You can avail loans of upto 90% on the principal and also on the interest accrued.
* You can close your deposit prematurely without any difficulty.

**UNIT-3**

**TYPES OF CUSTOMERS:**

When a banker opens an account in the name of a customer, there arises a contract between two. This contract will be a valid one only when both the parities are competent to enter into contract. Different kinds of customers need different treatment at the hands of the banker. A few special types of customers and their treatments have been discussed below.

**Account holders:**

Individuals or entity which is authorized to perform transactions on behalf of an account, such as a bank account. Authorization is provided through signatures placed on file with the bank or company managing the account.

**Account of individuals:**

Individuals generally open transaction account like savings accounts or current accounts.

**Joint accounts:**

Accounts are allowed to be opened in two or more names(individuals).

**Accounts of sole proprietorship:**

The sole proprietorship concerns do not enjoy any legal status. Hence they are treated like individuals by the banks.

**Accounts of partnership firms:**

A partnership account is allowed to be opened by the banks on production of trade license and other documents evidencing the partnership business.

**Procedure for opening account:**

1. Introductory reference of an acceptable person or an existing account holder with the branch.
2. Acceptable proof of his / her identity and residential address. It may be one of: [Aadhaar Card](https://www.lopol.org/article/procedure-to-download-e-aadhaar-letter-online-from-uidai-website) / photo identity card such as [Passport](https://www.lopol.org/article/indian-passport-fee-structure-fresh-new-and-renewal-re-issue), [Ration card](https://www.lopol.org/article/nfsa-ration-card-categories-antyodaya-aay-priority-phh-non-priority-nphh-state-priority), PAN card, Driving license, Election identity card etc.
3. Recent photographs (2 to 3 varies from bank to bank, branch to branch).
4. An initial deposit amount not less than the minimum amount decided by the bank (amount varies from bank to bank ranging from 0 to Rs 10,000/ or even more).
5. The bank keeps attested photo copies of all the documents along with the account opening form.

**Procedure for closing account:**

1. Fill up account closure form
* Account holder’s name
* Account number
* mobile number of the account holder
* option to receive the account balance amount by(1) cash (2) cheque/draft(3) balance transfer to any other bank account.

2). Return your debit card, cheque book and pass book

3. submit your address and identity proof document.

**Minors:**

Under the Indian law, a minor is a person who has not completed 18 years of age. The period of minority is extended to 21 years in case of guardian of this person or property is appointed by a court of law before he completes the age of 18years.According to Indian Contract Act, a minor is recognized as a highly incompetent party to enter into legal contracts and any contract entered into with a minor is not only invalid but voidable at the option of the minor.

**The conditions for opening and maintaining accounts in the names of the minors are:**

1. The minor should have attained the age of discretion, i.e., he must be about 14years of age. He must be capable of understanding what he does.
2. The minor should be able to read and write.
3. The minor should be properly introduced. The account opening form should be signed by the minor in the presence of a bank officer who should be able to identify the minor. The date of birth of the minor should be recorded in the account opening form.
4. Banks usually stipulate limits up to which deposits in such accounts can be accepted.
5. Amount tendered by the minor should as far as possible be in cash.
6. In case of time deposits, the amount should be paid in cash on maturity. Prepayment cannot be allowed. Periodical payment of interest on deposits may be made to the minor.

**Legal Provisions Regarding Guardianship of a Minor:**

1. **Natural Guardian:**

According to Section 6 of the Hindu Minority and Guardianship Act, 1956, in case of a minor boy or an unmarried girl, his/her father and after him the mother shall be the natural guardian.

**(b)Testamentary Guardian:**

A Hindu father, who is entitle to act as the natural guardian of his minor legitimate children may, by will, appoint a guardian for any of them in respect of the minor’s person or property.

**(c)Guardian Appointed by Court:**

A guardian may be appointed by the court under the Guardians and Wards Act, 1890, but the court shall not be authorized to appoint or declare a guardian of the person of a minor, if his father is alive and is not, in the opinion of the court, unfit to be guardian of the person of the minor.

 **Illiterate Persons:**

A person is said to be illiterate when he does not know to read and write. No current account should be opened in the name of an illiterate person. However, a savings bank account may be opened in the name of such a person. On the account opening form the bank should obtain his thumb mark in the presence of two persons known to the bank and the depositor. Withdrawal from the account by the account holder should be permitted after proper identification every time. The person who identifies the drawer must be known to the bank and he should preferably not be a member of the bank’s staff.

 **Married Women**

A banker may open an account in the name of a married women. Like any other customer she has the power to operate her account herself and the bonafide dealing with the account connect be questioned. But, there was a time when married women were allowed to open account only after getting the consent of their husband. Moreover, all her properties become the properties of her husband on her marriage. She was not allowed to hold property in her own name. So, the position of a married women was far from satisfactory in those days.

**Lunatics**

A lunatic is a person of unsound mind. He cannot form a rational judgment on matters. Hence, he has no capacity to enter into a contract. According to Sec.12 of the Indian Contract Act, 1872, persons of unsound mind are disqualified from entering into a valid contract. In England the contract with a lunatic is voidable, whereas it is void in India. Obviously, such contracts have inherent defects in India.

**Drunkard**

A drunkard is disqualified from entering into a contract, when he is incapable of understanding the implications the implicating of the contract due to the effect of the liquour. In India, the contact by a drunkard is void, whereas it is voidable under the English law. So, in India, it cannot be ratified by him later when he is sober.

**joint stock company**

A joint stock company is an artificial person created by law. It has a separate existence different from that of the member who constitute it. It has a common seal. It can sue other and be sued. From birth to death, it is governed by law. As it is an artificial creation, it cannot act by itself. It has to act only through human agents. Because of the above features, it requires a special treatments in the hands of the banks.

1. Memorandum of Association
2. (b) Articles of Association
3. (c) Certificate of Incorporation
4. (d)Certificate to Commence Business

**Clubs:**

Account of a proprietary club can be opened like an individual account. However, clubs that are collectively owned by several members and are not registered under Societies Registration Act, 1860, or under any other Act, are treated like an unregistered firm. While opening and conducting the account of such clubs, the following requirements are to be met:

* Certified copy of the rules of the club is to be submitted.
* Resolution of the managing committee or general body, appointing the bank as their banker and specifying the mode of operation of the account has to be submitted,
* The person operating the club account should not credit the cheques drawn favouring the club, to his personal account.

**Societies and Associations**

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

* Copy of the bylaws
* Copy of resolution passed by the managing committee regarding opening and conduct of account
* Certificate of registration in original
* A list of the Managing Committee members
* Copies of resolutions for electing them as Committee members duly certified by the Chairman.
* Bank keeps a copy of all the above-mentioned documents for its record.

**Attorney:**

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-of- attorney 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.

**Trustees:**

According to the Indian Trusts Act, 1882, “a trust is an obligation annexed to the ownership of property and arising out of a confidence reposed in an accepted by the owner, or declared and accepted by him, for the benefit of another, or of another and the owner.” A trust is usually formed by means of document called the “Trust Deed.”

**Banker should take the following precautions:**

1. The banker should thoroughly examine the trust deed appointing the applicants as the trustees.
2. A trust deed which states the powers and functions of trustees must be obtained by the banker.
3. In case of two or more trustees, the banker should ask for clear instructions regarding the person or persons who shall operate the account.
4. In case of death or retirement of one or more trustees, banker must see the provision of the trust deed.
5. The banker should not allow the transfer of funds from trust account to the personal account of trustee.

**Local Authorities**

Municipal Corporation, Panchayat Boards are local authorities created by specific Acts of the state legislature. Their constitution, functions, powers, etc. are governed by those Acts. Bankers should ensure that accounts of such bodies are opened and conducted strictly as per the provisions of the relevant Act and regulations framed there under. The precautions applicable for company or trust accounts are also applicable in the case of these accounts, in order to guard against ultra vires acts by the officers of the local authority operating the account.

**Steps to be taken by banker in the event of death, lunacy, bankruptcy:**

**Death of customer:**

 On receiving notice or information of the death of a customer, the bank stops all debit transactions in the account. However, credits to the account can be permitted. The balance in the account is given to the legal representative of the deceased after obtaining the letters of administration, or succession certificate, or indemnity bond as per the prescribed procedure, and only then, the account is closed.

 **Bankruptcy of customer:**

 An individual customer may be declared bankrupt, or a company may be wound up under the provisions of law. In such an event, no drawings would be permitted in the account of the individual/company. The balance is given to the Receiver or Liquidator or the Official Assignee and the account is closed thereafter.

**Insanity of the customer:**

 A lunatic/person of unsound mind is not competent to contract under Section 11 of the Indian Contract Act, 1872. Since banker-customer relationship is contractual, the bank will not honour cheques and can close the account after receiving notice about the insanity of the customer and receiving a confirmation about it through medical reports.

**Garnishee Order:**

* + Garnishee order refers to the order issued by a court attaching the funds of the judgment debtor (i.e., the customer) in the hands of  a third party (i.e., the banker.)
	+ The term ‘garnishee’ refers to the person who has been served with the order.
	+ This Garnishee proceeding comprise of two steps. As a first step ‘Garnishee Order Nisi’ will be issued.
	+ ’Nisi’ means ‘unless’. In other words , this order gives an opportunity to the banker to prove that this order could not be enforced.
	+ If the banker does not make any counterclaim, this order becomes an absolute.
	+ This ‘Garnishee Order absolute’ actually attaches the account of the customer.
	+ If it attaches the whole amount of a customer’s account, then, the banker must dishonor the cheque drawn by that customer.
	+ He can honor his cheques to the extent of the amount that is not garnished.
	+ Hence, the banker should go through the terms of the order very carefully.

 **UNIT-IV**

**Banker**

 A banker is one who does banking business. Section 5(b) of the Banking Regulation Act, 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 withdrawable by cheque, draft or otherwise." This definition emphasises two points: (1) that the primary function of a banker consists of accepting of deposits for the purpose of lending or investing the same; (2) that the amount deposited is repayable to the depositor on demand or according to the agreement. The demand for repayment can be made through a cheque, draft or otherwise, and not merely by verbal order.

**Customer**

The term "customer" is neither defined in Indian nor in English statutes. The general opinion is that a customer is one who has an account with the bank or who utilises the services of the bank.

**The special features of the legal relationship between the banker and the customer may be termed as the obligations and rights of the banker. These are:**

1. Obligation to honour cheques of the customers.
2. Obligation to collect cheques and drafts on behalf of the customers.
3. Obligation to keep proper record of transactions with the customer.
4. Obligation to comply with the express standing instructions of the customer.
5. Obligation not to disclose the state of customer's account to anyone else.
6. Obligation to give reasonable notice to the customer, if the banker wishes to close the account.
7. Right of lien over any goods and securities bailed to him for a general balance of account.
8. Right of set off and right of appropriation.
9. Right to claim incidental charges and interest as per rules and regulations of the bank as communicated to the customer at the time of opening the account.

**Liability of a Banker**

By opening a current account of a customer, the banker becomes liable to his debtor to the extent of the amount so received in the said account and undertakes to honour the cheques drawn by the customer so long as he holds sufficient funds to the customer's credit. If a banker, without justification, fails to honour t1is customer's cheques, he is liable to compensate the drawer for any loss or damage suffered by him. But the payee or holder of the cheque has no cause of action against the banker as the obligation to honour a cheques is only towards the drawer.

 The banker must also maintain proper and accurate accounts of credits and debits. He must honour a cheque presented in due course. But in the following circumstances, he must refuse to honour a cheque and in some others he may do so.

**When Banker must Refuse Payment**

In the following cases the authority of the banker to honour customer's cheque comes to an end, he must refuse to honour cheques issued by the customer:

1. When a customer countermands payment Le., where or when a customer, after issuing a cheque issues instructions not to honour it, the banker must not pay it.
2. When the banker receives notice of customer's death.
3. When customer has been adjudged an insolvent.
4. When the banker receives notice of customer's insanity.
5. When an order (e.g., Garnishee Order) of the Court, prohibits payment.
6. When the customer has given notice of assignment of the credit balance of his account.
7. When the holder's title is defective and the banker comes to know of it.
8. When the customer has given notice for closing his account.

**When Banker may Refuse Payment**

 In the following cases the banker may refuse to pay a customer's cheque:

1. When the cheque is post-dated.
2. When the banker has not sufficient funds of the drawer with him and there is no communication between the bank and the customer to honour the cheque.
3. When the cheque is of doubtful legality.
4. When the cheque is not duly presented, e.g., it is presented after banking hours.
5. When the cheque on the face of it is irregular, ambiguous or otherwise materially altered.
6. When the cheque is presented at a branch where the customer has no account.
7. When some persons have joint account and the cheque is not signed jointly by all or by the survivors of them.
8. When the cheque has been allowed to become stale, Le., it has not been presented within six months of the date mentioned on it.

**Protection of Paying Banker (Sections 10, 85 and 128)**

Section 85 lays down that where a cheque payable to order purports to be endorsed by or on behalf - of the payee the banker is discharged by payment in due course. He can debit the account of the customer with the amount even though the endorsement turns out subsequently to have been forged, or the agent of the payee without authority endorsed it on behalf of the payee. It would be seen that the payee includes endorsee. This protection is granted because a banker cannot be expected to know the signatures of all the persons in the world. He is only bound to know the signatures of his own customers.

**Payment in due Course (Section 10)**

 Any person liable to make payment under a negotiable instrument, must make the payment of the amount due thereunder in due course in order to obtain a valid discharge against the holder.

A payment in due course means a payment in accordance with the apparent tenor of the instrument, in good faith and without negligence to any person in possession thereof. .

**A payment will be a payment in due course if:**

* it is in accordance with the apparent tenor of the instrument, i.e. according to what appears on the face of the instrument to be the intention of the parties;
* it is made in good faith and without negligence, and under circumstances which do not afford a ground for believing that the person to whom it is made is not entitled to receive the amount;
* it is made to the person in possession of the instrument who is entitled as holder to receive payment;
* payment is made under circumstances which do not afford a reasonable ground believing that he is not entitled to receive payment of the amount mentioned in the instrument; and
* payment is made in money and money only. Under Sections 10 and 128, a paying banker making payment in due course is protected.

**COLLECTING BANKER**

A collecting banker is one who collects the cheques and other negotiable instruments deposited by his customers and places the amount to the credit of the customers’ accounts.

**DEFINITION OF COLLECTING BANKER**

Sir John Paget, defined collecting banker as “The collection of cheques whether crossed or uncrossed is one of the functions of the banker. Here the role of the banker is referred as the collecting banker”.

**Duties and Responsibilities of a Collecting Banker**

**1.carefulness in the Collection of Cheques**:

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

2. **Serving Notice of Dishonour**:

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

3. **Agent for Collection**:

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

4**. Payment of Interest to the Customer**:

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

5. **Collection of Bills of Exchange**:

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

 **Holder Definition**

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

**Holder for Value**

Holder for value is a holder to whom an instrument is issued or transferred in exchange for something of value as a promise of performance or a negotiable instrument. Example: A banker becomes a holder for value when: The value of cheque is paid before collection of the cheque.

**Holder in Due Course**

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

**PROTECTION OF A COLLECTING BANKER**

Negotiable Instrument Act, section 131, says “A banker who has in good faith and without negligence received payment for a customer of a cheque crossed generally or specially to himself shall not, in case the title to the cheque proves defective, incur any liability to the true owner of the cheque by reason only of having received such payment”.

It is clear that the collecting banker can claim protection and does not incur liability when certain conditions are fulfilled like,

1. The bank behaves like an agent and not as a holder of value.

2. On behalf of customers collection of cheques are made.

3. Before cheques are deposited for collection it must be crossed.

4. The banker should receive payment in good faith and without negligence.

1**. Good Faith and Without Negligence**

Statutory protection is available to a collecting banker when he receives payment in good faith and without negligence. The phrase in “good faith” means honestly and without notice or interest of dishonesty or fraud and does necessarily require carefulness. Negligence means failure to exercise reasonable care. The banker should have exercised reasonable care and deligence.

 2. **Collection for a Customer**

Statutory protection is available to a collecting banker if he collects on behalf of his customer only. If he collects for a stranger or noncustomer, he does not get such protection. A bank cannot get protection when he collects a cheque as holder for value

3**. Acts as an Agent**

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

4. **Crossed Cheques**

Statutory protection is available only in case of crossed cheques. It is not available in case uncrossed or open cheques because there is no need to collect them through a banker. Cheques, therefore, must be crossed prior to their presentment to the collecting banker for clearance.

**PAYING BANKER**

The term ‘Paying banker’ refers to the position and duties of the drawee bank with regard to the payment of cheques drawn on it by its customer. The funds of the customer in the bank account is payable on demand by honouring the cheques which are drawn by the customer and presented by the legitimate holder. This obligation of the bank is reckoned as a leading constituent of the implied contract existing between the banker and the customer.

**DEFINITION OF PAYING BANKER**

According to Section 31 of the Negotiable Instrument Act paying banker is defined as “The drawee of a cheque having sufficient funds of the drawer in his hands, properly applicable to the payment of such cheque must pay the cheque when duly required to do so, and in default of such payment, must compensate the drawer for any loss or damage caused by such default.

**Precautions to be taken by paying banker**

**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 overwriting 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.

**DUTIES AND RESPONSIBILITIES OF PAYING BANKER**

1. According to sect.31, if the drawee of a cheque has sufficient funds of the drawer in his hand which could be used properly to pay the cheque, he must pay the cheque whenever required to do so. Failure to do so would render him liable to compensate the drawer for any less or damage caused to him by such non-payment of the cheque, so drawn.

2. As per the direction issued by the customer the paying banker is expected to pay the cheque to the genuine payee as per the direction issued by the customer.

3. The payment is made only during banking hours.

4. The banker should honour the cheque which is drawn against the account maintained at the branch of the bank where the cheque is presented.

5. The banker should not make payment of crossed cheque at the counter i.e. crossed cheques must be paid only through a banker if cheques are crossed generally or through the specified banker in case of special crossing.

**Statutory Protection for Paying Banker**

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

1. **Protection regarding the order cheque**

In case of an order cheque, Section 85(1) of the NI Act provides statutory protection to the paying banker as follows, where a cheque payable to order purports to be endorsed by or on behalf of the payee, the drawee is discharged by payment in due course.

1. **Protection in case of bearer cheques**

Section 85 (2) of the Negotiable Instruments Act, 1881 states, “Whereas a cheque is originally expressed to be payable to bearer, the drawee is discharged by payment in due course to the bearer thereof, notwithstanding any endorsement whether in full or in blank appearing thereon, notwithstanding that any such endorsement purports to restrict or exclude further negotiation.”

1. **Protection in case of crossed cheques**

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

1. **Protection in case of draft**

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

**Order Cheque**

The statutory protection has been extended to an order cheque. Example of an order cheque is ‘pay to X or order’. When such a cheque is paid by the banker, he is entitled to get protection. Endorsee is a must for an order cheque and so protection is mainly extended to a cheque.

**Endorsed by Payee or His Order**

Such a cheque requires an endorsement by its payee. So, it must be properly endorsed by him or any person authorised by him to obtain payment. Protection cannot be claimed if such a cheque is not endorsed by a payee or any third party.

**Dishonour of Cheque**

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

**Circumstances or reasons for dishonour of Cheques**

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

**Insufficiency of funds**:

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

**Notice of the Customer’s Death**:

The banker should not make payments on cheques presented after the death of the customer. He should return the cheque with the remark ‘Drawer Deceased’.

**Notice of the Customer’s Insolvency**:

A banker should refuse payment on the cheques soon after the customer is adjudicated as insolvent.

**Receipt of the Garnishee Order**:

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

**Presentation of a post dated cheque**:

The banker may refuse the cheque when the cheque is presented before the valid date.

**Stale Cheques**:

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

**Material Alterations**:

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

**Drawer’s Signature**:

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

**Types of Dishonour**

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

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.

**UNIT-5**

**PASS BOOK:**

Pass Book is a book issued by Bank to an accountholder. It is almost a copy of the account of the customer in the books of bank. The bank keeps the customer informed of the entries made in his account through Pass Book. It is the customer’s duty to check the entries and immediately inform the bank of any error that he may have noticed.

**USAGE:**

### Credits and deposits

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

### Debits and withdrawals

Withdrawals normally required the account holder to visit the branch where the account was held, where a debit slip or withdrawal slip would be prepared and signed. If the account holder was not known to the teller, the signature on the slip and the authorities would be checked against the signature card at the branch, before money was paid out. In the 1980s, banks adopted the black light signature system for passbooks, which enabled withdrawals to be made from passbooks at a branch other than the one where an account was opened, unless prior arrangements were made to transfer the signature card to the other branch.

**CHEQUE**

**CHEQUE**

 A cheque is an order on the bank to pay a certain sum of money to the payee mentioned in the cheque. Every person opening a current account with a bank will get a cheque book, free of cost from the Bank. It contains a number of cheque leaves which can be used by the customer to draw money. A cheque is a negotiable instrument instructing a financial institution to pay a specific amount of a specific currency from a specified demand account held in the maker/ depositor’s name with that institution.

**DEFINITION OF CHEQUE**

 Section 6 of the Negotiable Instrument Act defines “a cheque is a bill of exchange drawn on as specified banker and not expressed to be payable otherwise than on demand and it includes the electronic image of a truncated cheque and a cheque in the electronic form.”

**FEATURES OF A CHEQUE**

1. Cheque is always drawn on a specific banker
2. A cheque is an unconditional order
3. A cheque is payable on demand
4. The cheque is must bear the signature of drawer ( depositor)
5. The payment order must be for a specific sum of money
6. The payment order may either be in favor of self or the person mentioned therein or the person in whose favor the endorsement is made or the bearer.

**EXPLAIN THE KINDS/TYPES OF CHEQUE**

 Cheques can be grouped under three heads. They are.

**1. Bearer Cheque**: The bearer Cheque is payable to a certain person or to the bearer.

**2. An order Cheque**: This Cheque is payable to the person on whose favour it is drawn or subsequent endorsee. Hence, the banker seeks identification of the person receiving payment.

1. **Crossed Cheque**: It is a Cheque which is payable only through a collecting banker and not directly at the counter of the bank.
2. **Stale cheque:** After an expiry of six months the cheque becomes out dated cheque or stale cheque. A stale- cheque may also be accepted by banker, if customer gives consent for that cheque. This acceptance should be for a length of three years period because law of limitation operates for it.
3. **Anti-dated cheque:** While drawing cheque, a drawer gives the date in that cheque prior to the date on which it is drawn. It is called ante-dated cheque. Banker can accept such cheque if it does not exceed 6 months period.
4. **Mutilated Cheque:** A cheque which is cut into many pieces is called mutilated cheque. The drawee bank should see in honouring a cheque, whether it is mutilated, canceled or torn. If the cheque is torn into two or many pieces it should be return with the remark mutilated cheque’. If he is satisfied that the mutilated cheque gets the original shape of the instrument, he may accept the cheque”.

**3. Post dated cheque:** Drawer of a cheque gives the date in the cheque later or after the date on which it is drawn. It is known as post-dated cheque. The banker must accept the post-dated cheque only after the ostensible date given the cheque.

**USES OF CHEQUE**

* It is the safest means of making a payment and eliminates the risk of carrying cash.
* It is also highly suitable method for receiving payment.
* With the help of cheques, the necessity of demanding acknowledgements from the payees for having received the amount is avoided.
* Since transactions are recorded with the help of cheques in paying banker’s book, they are the legal proof.
* If any wrong payments are made, that could be countermanded by the drawer through intimation to the banker.
* Crossing of cheques prevents possibilities of wrong payments being made under forgery.
* Cheques are used to substitute money in settlement of mutual debts through endorsements and delivery.
* It saves the usage of other forms of money viz, coins and currency notes.
* The habit of using cheque encourages banking habit and this way it plays an important role in economic development of the country.

Usage of cheques enables the effective implementation of the monetary and fiscal policies

**CROSSING OF CHEQUES**

 **CROSSING OF CHEQUES**

Crossing of cheque means two parallel transverse lines with or without any words are drawn on the left hand top corner of the cheque. Crossing carries a direction by a customer to the paying banker instructing to pay the money generally to a banker or a particular banker as the case may be. Crossed negotiable instrument is not payable to the holder at the counter. Crossing may be written, stamped, printed or perforated.

**TYPES OF CROSSING**

Crossing of a cheque can be classified in to three viz,

**1. General Crossing**

**S**ection 123 of the Negotiable Instrument Act 1881, defines general crossing as where a cheque bears across its face an addition of the words “and Company” or any abbreviation thereof, between two parallel transverse lines, or of two parallel transverse lines simply, either with or without the words “not negotiable” that addition shall be deemed a crossing and the cheque shall be deemed to be crossed generally.

**Importance of General Crossing**

 Even though the payee of the cheque is a well acquainted person to the paying banker, the paying banker should make payment through another banker only. If the payee is not having a bank account, then he could encash the cheque only through someone who is having a bank account. If in case a crossed cheque is stolen and has been collected for a person who is not entitled to the money. This is easily traced. Thus by crossing the cheque we ensure their safety and prevent payment to the wrong person.

**2. Special Crossing**

 Section 124 of the Negotiable Instruments Act 1981 defines special crossing as “Where a Cheque bears across its face an addition of the name of a banker, either with or without the words “Not Negotiable”, that addition shall be deemed a crossing, and the cheque shall be deemed to be cossed specially and to be crossed to that banker”.

 **Importance of Special Crossing**

 Specially crossed cheques give additional protection to the drawer of the cheque as it is a direction given to the paying bankers asking him to pay the amount to that banker whose name is mentioned in the crossing. It is done when the drawer knows completely that the payee has an account in a particular bank and by Special Crossing, he is assured double Safety.

Restrictive Crossing is a direction to the collecting banker that the proceeds collected are to be credited only to the account payee mentioned in the cheque. If the Collecting banker allows the proceeds to be credited to some other account, the banker is held liable for this wrong conversion of the funds. This does not affect the paying banker in anyway, because he has to just see that the cheque is presented for payment by any bank in the case of general Crossing and by the Specific bank in case of Special Crossing. The paying banker is under no responsibility or duty to verity that the cheque is in fact being collected for the person named as the payee.



**Double Crossing**

If a Cheque is bearing two separate special crossings, it is said to be doubly crossed. Section 127 of the Negotiable Instruments Act 1881- payment of cheque Crossed Specially more than once, “Where a cheque is crossed Specially to more than one banker, except when crossed to an agent for the purpose of collection, the banker on whom it is drawn shall refuse payment thereof”

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**PRE-REQUISITES/ ESSENTIALS/ OF CROSSING A CHEQUE**

 1. The instrument is in writing.

 2. It is drawn on the branch where the customer is maintaining his account.

 3. The amount in the cheque should be specific.

 4. A cheque is payable either to order or bearer.

 5. Signature is an important aspect in a cheque.

 6. Date on cheque, represents when the cheque is issued.

7. The number appearing on the cheque at the bottom indicates the cheque number and code number of the bank.

**ENDORSEMENT**

 **MEANING**

 Endorsement means the signature, instructions etc, placed on the reverse of a Negotiable instrument for the purpose of assigning the interest therein to another. If the available space on the back side has been completely covered, then a piece of paper is pasted to the instrument and subsequent endorsements are made on that paper. The paper that is pasted is called as “Allonge”.

**Allonge:**

If the space is available on the back has been completely covered, piece of paper monetary be attached to the instrument and subsequent endorsements may be made on that paper. The paper so attached is known as “Allonge”.

**DEFINITION OF AN ENDORSEMENT**

 Section 15 of the Negotiable Instruments Act, 1881, defines it as, “when the maker or holder of a negotiable instrument signs the same, then as such maker, for the purpose of negotiation, on the back or face thereof or on a slip of paper annexed thereto or so signed for the same purpose a stamped paper intended to be completed as a negotiable instrument, he is said to endorse the same, and is called the endorser.”

**PRE-REQUISITES/ESSENTIALS/ OBJECTS OF ENDORSEMENT**

* At the time of endorsement the endorser has a good title to the instrument.
* The instrument is a genuine one.
* All prior endorsements are genuine and regular.
* The instrument will be duty paid at maturity.

**FEATURES OF ENDORSEMENT**

1. There is no proper procedure to be followed.
2. Endorsement may be either on the face of the instrument or on backside of it or in a separate sheet.
3. It needs the signature of holder or his agent.
4. The payee or the holder must signs in their exact names.
5. Endorsement should be by pen only.
6. An illiterate also can endorse by thumb impression.
7. Endorsement should be for full value.
8. The endorsement will be completed by delivery.
9. In case of signing on behalf of the holder or as an agent, it should make clear by adding the words for or on behalf of.
10. It can be endorsed any number of times.

**TYPES/KINDS/OF ENDORSEMENT**

 It is following types, namely

1. **General or Blank Endorsement:**

 According toSection 16 of the N.I Act defines it as,” If the endorser signs his name only, the endorsement is said to be in “Blank.”

 An instrument endorsed in blank is payable to the bearer even though it was originally payable to order.

 Ex: A cheque is payable to D.David or order. If it is simply signed by David on the back, it constitutes a blank endorsement.

1. **Special or Full Endorsement:**

 According toSection 16 of the N.I Act lays down that ” If the endorser adds his signature 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 “in full”. The endorser may not add the words “or order” and may use some other words to convey his intention. In fact endorsement, it is only the endorsee who can negotiate the instrument by endorsement.

1. **Partial Endorsement:**

 Sec.56 of the Negotiable Instrument Act prohibits endorsement for a part of the value of the instrument. For example, if the payee of a bill for Rs.1000/-dorses it in favour of X for Rs.500/- and Y for the remaining Rs.500/- since the endorsement is partial, it is invalid, and no right of action will arise. But where amount of the instrument has been partly paid, a note to that effect may be endorsed on the instruments, which say to be negotiated for the balance.

1. **Restrictive Endorsement:**

 In this case, the endorser prohibits further negotiations of the instrument by means of specific words.Example: Pay to S. Ramaswami only K. Ramesh Now S. Ramaswami cannot endorse further.

1. **Conditional Endorsement:**

 Section 52 of the N.I. Act permits the use of any stipulation in an endorsement, which limits or negatives the liabilities of the endorser.

 **Example:-**  Pay to A. John after attaining majority S. David.

 This is theoretical and meaningless in the case of cheques, as a cheque is an unconditional order to pay on demand.

**DISHONOURING OF CHEQUES.**

The following circumstance also makes the banker in dishonouring the cheques.

**1) When the Drawer countermands payment**

The Drawer of a cheque can cancel or withdraw at any time before its payment is made. The banker should obey the countermand order issued by the drawer without enquiring any reason thereof. Some points are considered in this regard.

* 1. It should be in writing i.e. oral instruction not to be accepted.
	2. The written instruction should have all information like date of cheque, number of the cheque, the amount, payee’s name, whether crossed or not etc.
	3. The drawer of the cheque should sign the order stopping payment without fail.
	4. The banker is liable to the drawer if the pays the cheque by oversight after the receipt of the countermand order.
	5. The stop payment order remains effective until it is reworked by the drawer subsequently.

**2) Drawer’s Death:** When the banker comes to know officially about a customer’s death, the account becomes in operative. Hence, no cheque on that account could be honoured.

**3) Customer’s Insolvency**: When the customer becomes insolvent, the whole property of the insolvent person vests in the court. Hence the banker should stop payment from customer’s account.

1. **When the customer becomes insane:** The banker should not honour cheques of his customer on receipt of information about the customer becoming absolutely insane.

1. **Notice of Assignment of credit balance:** The credit balance can be transferred by the customer to another person. In this case, on the receipt of notice the banker must stop payment of the cheque drawn by the assignor, as he ceases to be the owner of such funds.
2. **Defective title of the party:** If the banker knows any defective title in the cheque, he could refuse payment to such a cheque.
3. **Insanity of the customer:** If the banker receives notice of the insanity of a customer, he should note the fact and should stop honouring cheque drawn on his account.

**8) Usual Answers her dishonouring cheques:** Normally, the drawee banker attaches a slip to dishonoured cheques and marks the number of the appropriate answer. When refusing payment, he must not enter into any discussion with the payee; instead the appropriate reason must be stamped on the cheque as the answer.

**E-BANKING**

Online banking, also known as internet banking, e-banking or virtual banking, is an electronic payment system that enables customers of a bank or other financial institution to conduct a range of financial transactions through the financial institution's website. The online banking system will typically connect to or be part of the core banking system operated by a bank and is in contrast to branch banking which was the traditional way customers accessed banking services.

**DIFFERENT BETWEEN TRADITIONAL BANKING AND E-BANKING.**

|  |  |  |
| --- | --- | --- |
| **S. No** | **Traditional banking** | **E-banking** |
| **1** | A customer has to visit the branch of his bank in person to perform the basic banking operation. | A customer can perform the basic banking operations by sitting at office or at home through personal computer. |
| **2** | Traditional banking is an art. | E-banking is a science as it is knowledge based. |
| **3** | For doing the banking transactions a bank building is essential. | For doing the banking transactions a bank building is not essential. Because it is not confined to any branch. |
| **4** | Banking operations can be conducted only during specific time . | Banking operations can be conducted round the clock. |
| **5** | It is expensive. | It is inexpensive. |
| **6** | Technical knowledge is not essential. | Technical knowledge is essential. |

**BENEFITS OF E-BANKING**

* **Round the clock Banking:**E-Banking enables performing of basic banking transactions by customers round the clock globally worldwide banking services are made possible for 24hrs and 7days a week.
* **Low cost Banking:**The cost of transactions through internet banking is much lesser than any other traditional way of banking.
* **Quality Banking:**It provides chances for improved quality and enlarged ranges of services being made available to their customer.
* **Speed Banking:**E-Banking increases the customer convenience to a greater extent and better customer retention maintained.
* **Service Banking:**It creates strong infrastructure for the banks to offer many field like E-commerce etc, under E-Banking instant credit, one day credit, immediate payment of utility bills, instant transfer of funds etc, would be made possible.
* **Banking with higher profitability:** The quick response to customer requirements under E-Banking increased customer satisfaction and lead to higher profits.
* **Anywhere/any time Banking:** Customers can executive banking transactions from their office or from home through laptop. They can get drafts.

**E-BANKING TRANSACTIONS**

Following banking transactions are handled through E-banking:

* Account enquiry
* Fund transfer
* Payment for Electricity, Water, Telephone bills, Insurance premium, etc.
* Online payment
* Request for insurance of cheque book, draft etc.
* Access to information about latest deposit schemes and advances
* Access to rates of interest and other services changes
* Railway pass
* Credit card customers
* Investing through internet banking
* Shopping at your fingertips
* Recharging your prepaid phone.

**Features of E-Banking**

* A bank customer can perform non-transactional tasks through online banking, including –
* Viewing account balances
* Viewing recent transactions
* Downloading bank statements, for example in PDF format
* Viewing images of paid cheques
* Ordering cheque books
* Download periodic account statements
* Downloading applications for M-banking, E-banking etc.
* Bank customers can transact banking tasks through online banking, including –
* Funds transfers between the customer's linked accounts
* Paying third parties, including bill payments (see, e.g., BPAY) and third party fund transfers (see, e.g., FAST)
* Investment purchase or sale
* Loan applications and transactions, such as repayments of enrollments
* Credit card applications
* Register utility billers and make bill payments
* Financial institution administration
* Management of multiple users having varying levels of authority
* Transaction approval process

**Advantages of E-Banking**

* Permanent access to the bank
* Lower transaction costs / general cost reductions
* Access anywhere

**Security aspects of E-Banking**

Security of a customer's financial information is very important, without which online banking could not operate. Similarly the reputational risks to the banks themselves are important.

**Basically there are two different security methods in use for online banking:**

The PIN/TAN system where the PIN represents a password, used for the login and TANs representing one-time passwords to authenticate transactions. TANs can be distributed in different ways, the most popular one is to send a list of TANs to the online banking user by postal letter. Another way of using TANs is to generate them by need using a security token.

Another way to provide TANs to an online banking user is to send the TAN of the current bank transaction to the user's (GSM) mobile phone via SMS. The SMS text usually quotes the transaction amount and details, the TAN is only valid for a short period of time. Especially in Germany, Austria and the Netherlands many banks have adopted this "SMS TAN" service.

**MODELS FOR E-BANKING**

To implement the e-banking effectively, following models have been suggested.

* Complete centralized solution
* Cluster approach
* High tech bank with in bank

**Complete centralized solution (CCS)**

Under this model, e-banking activities can be implemented uniformly and effectively. It is an ideal branch network model. The bank has to provide web server and the requisite software is connected to the main server. Once the required hardware and software are set in, the customers can access the web server for their basic banking operations.

**Cluster approach**

Under this model, computerized branches of banks of each city are connected with Regional Processor located at each such city which is then connected through reliable media to a centralized high end server. In a cluster approach, computerization of branches is essential. Various branches may be connected through Regional Cluster.

**High Tech Bank within Bank**

Under this method, all the branches of a bank need not be computerized. Under this method, each bank is divided into two groups.

* High tech bank
* Traditional bank

High Tech Bank provides e-banking facilities. Traditional Bank offers traditional services through other branches. This approach helps the bank to act as a balanced role to the mass customers.

# INTERNET BANKING

# MEANING

#  Internet banking refers online banking from anywhere. It offers ‘anywhere, anytime’ banking access to one’s account and also the public information updated by the bank on its website.

Online Banking (OLB) is an electronic payment system that enables customers of a financial institution to conduct financial transactions on a website operated by the institution, such as a retail bank, virtual bank, credit union or building society. Online banking is also referred as Internet banking, e-banking, virtual banking and by other terms.

# FEATURES OF INTERNET BANKING

Online banking facilities offered by various financial institutions have many features and capabilities in common, but also have some that are application specific.

The common features fall broadly into several categories:

* A bank customer can perform non-transactional tasks through online banking, including:
* Viewing account balances
* Viewing recent transactions
* Downloading bank statements, for example in PDF format
* Viewing images of paid Cheques
* Ordering cheque books
* Download periodic account statements
* Downloading applications for M-banking, E-banking etc.
* Bank customers can transact banking tasks through online banking, including:
* Funds transfers between the customer's linked accounts
* Paying third parties, including bill payments (see, e.g., BPAY) and third party fund transfers (see, e.g., FAST)
* Investment purchase or sale
* Loan applications and transactions, such as repayments of enrollments
* Credit card applications
* Register utility billers and make bill payments
* Financial institution administration
* Management of multiple users having varying levels of authority
* Transaction approval process

# **SERVICES / FUNCTIONS OF INTERNET BANKING**

**1. Pay a bill:** Electronic bill payment service allows a depositor to send money from his or her online account to a creditor or merchant, for example to a public utility or a department store.

**2. Schedule payments in advance:** Most banks offer customers the ability to schedule a payment on a specified date. Once the amount is entered and the payee is checked off, the funds are automatically deducted from your online bank account. It is especially useful if you always forget due dates.

**3. Transfer funds:** With online banking, you can make money transfers between your own accounts, or send money to a third party account. All you need is recipient/payee information and enough funds in your account. Quite often, the operations are performed in real time.

**4. Manage all your accounts in one place:** Online banking is a great time saver because it provides an opportunity to handle several bank accounts (checking, savings, CDs, IRAs, etc.) from one site. Most new accounts you open will be automatically added to online banking.

**5. Apply for a loan or credit card:** Having an account online, you can apply for a credit card or a loan (a car loan, a student loan, a mortgage, a home equity loan, etc.) from the same bank. If you have a good credit score and long relationship history with your bank, your application is likely to be approved.

**6. Order traveler's checks:** You can order Express Traveler’s Cheques online. The bank will typically charge your online account for the amount of the cheque you bought and an express delivery fee.

**7. Order a cheque book:** Save yourself at least one trip to the bank by ordering cheque book online. You will need to visit your bank once when you get a confirmation message that your cheque book is ready for collection.

**8. View up-to-the-minute account statements and balance:** There is no need to wait for the bank statement to arrive in the snail post to check account balances. You can view all transactions and withdrawals every day just by logging in to your online account.

**9. View automatically updated spending report:** All your purchases are sorted into familiar categories automatically - no receipts to save, no expenses to enter. It is easy to see where your money goes.

**10.Track your payment history:** Online banking gives you an opportunity to search your payments by transaction type, date, description or amount.

# MOBILE BANKING

# MEANING OF MOBILE BANKING

#  Mobile banking refers to control of banking operations on mobile phones. It means banking operations that are done through mobile phone while a person is on the move. The main reason why mobile banking scores over internet banking is that it enables “anywhere banking”.

# FEATURES OF MOBILE BANKING

# 1. Mobile customers: Only those customers who use mobile phones can avail mobile banking services.

# 2. Mobile Commerce: Mobile banking is a part of mobile commerce under which business and trade are carried on through mobile online.

# 3. Technology based: Mobile banking is based on technology developments. Mobile baking makes use of the internet for transmission, transaction and delivery of banking services.

# 4. Types of services: Mobile banking offers the entire internet based banking services such as online account opening, account verification, funds transfer etc.

# 5. Eligibility: Only those branches which offers internet banking facility are eligible to provide mobile banking services.

# 6. Application: To avail mobile banking facilities a customer has to make an application from to register internet banking. Customers who register internet banking have to register their names for mobile banking.

**SERVICES GIVEN BY THE MOBILE BANKING**

#  Under the gamut of mobile banking the following services are available:

#  SMS BANKING SERVICES

#  SMS stands for Short Messaging Services. The services enable the mobile banking customers to access SMS server through their mobile phone. SMS server provides message inputs (query or request) form mobile phone to personal server of the internet banking company. These are then processed and the output is sent back to the customer’s mobile phone through SMS server. For SMS banking, one need not connect to internet.

# The customer can avail the following services under the SMS banking: Making balance inquiry, Making query of the last five transactions, sending mail to the banks relationship officer, Changing SMS password, Opting out of SMS

**Automated Teller Machine (ATM):**

ATM is designed to perform the most important function of bank. It is operated by plastic card with its special features. The plastic card is replacing cheque, personal attendance of the customer, banking hours restrictions and paper based verification. There are debit cards. ATMs used as spring board for Electronic Fund Transfer. ATM itself can provide information about customers account and also receive instructions from customers - ATM cardholders.

**FEATURES OF ATM**

**1. Cash withdrawal**:The customer can withdraw up to Rs.25.000 per day from his account

**2. Balance enquiry**: The customer can know his ledger balance and the available balance.

**3. Mini-statement**: The customer can get a printout of his last transactions and the current balance.

**4. Deposit cash/cheques**: He can deposit either cash or cheques.

**5. Fund transfer**: Transferring funds from one account to another account is possible

**6. PIN change**: Personal identification number of ATM or debit card can be changed

7**. Payment:** This is the latest feature of ATMs. This functionality can be used for payment of bills, making donation to temples, trusts; buying internet packs anytime recharges for prepaid Mobile phones etc.

**8. Charges:** Charge is not levied on customers for transacting any ATM

**9. Any where money**: Customers can withdraw or deposit money without any service charges in any place.

**10. Anytime money**: It works 24 hours a day, 7 days a week

**ADVANTAGE/ BENEFITS OF ATM**

**1. ATM Provides 24 hours Service: ATM** provides services round the clock. The customer cash withdraw cash up to a certain a limit during any time of the day or night.

**2. ATM gives convenience to banks customer:** Now a day’s ATM are located convenient places such as at the airports, railways station etc and not necessarily at the bank premises.

**3. ATM reduces the workload of banks staff:** ATM reduces the work pressure on banks’ staff and avoids queues in bank premises.

**4. ATM provides services without any error**: ATM provides services without error. The customer can obtain exact amount. There is no human error as far as ATM’s are concerned.

**5. ATM is very beneficial for travelers**: ATM is of great help to travelers. They need not carry large amount of cash with them. They can withdraw cash from any city or state, across the country and even from outside the country with the help of ATM.

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

**Cards/Debit Cards:**

The Credit Card holder is empowered to spend wherever and whenever he wants with his Credit Card within the limits fixed by his bank. Credit Card is a post paid card. Debit Card, on the other hand, is a prepaid card with some stored value. Every time a person uses this card, the Internet Banking house gets money transferred to its account from the bank of the buyer. The buyers account is debited with the exact amount of purchases. An individual has to open an account with the issuing bank which gives debit card with a Personal Identification Number (PIN).

**Smart Card:**

Banks are adding chips to their current magnetic stripe cards to enhance security and offer new service, called Smart Cards. Smart Cards allow thousands of times of information storable on magnetic stripe cards. In addition, these cards are highly secure, more reliable and perform multiple functions.

**Tele Banking:**

Undertaking a host of banking related services including financial transactions from the convenience of customers chosen place anywhere across the GLOBE and any time of date and night has now been made possible by introducing on-line Telebanking services.

**Following facilities offered:**

* Automatic balance voice out for the default account.
* Balance inquiry and transaction inquiry All Inquiry of all term deposit account Statement of account by Fax, e-mail or ordinary mail.
* Cheque book request
* Stop payment which is on-line and instantaneous
* Transfer of funds with CBS which is automatic and instantaneous
* Utility Bill Payments

**E-Cheque:**

An e-Cheque is the electronic version or representation of paper cheque. The Information and Legal Framework on the E-Cheque is the same as that of the paper cheque’s. It can now be used in place of paper cheques to do any and all remote transactions. An E-cheque work the same way a cheque does, the cheque writer "writes" the e-Cheque using one of many types of electronic devices and "gives" the e-Cheque to the payee electronically. The payee "deposits" the Electronic Cheque receives credit, and the payee's bank "clears" the e-Cheque to the paying bank. The paying bank validates the e-Cheque and then "charges" the check writer's account for the check.

**Electronic Clearing Service (ECS)**

ECS is an electronic mode of payment / receipt for transactions that are repetitive and periodic in nature. ECS is used by institutions for making bulk payment of amounts towards distribution of dividend, interest, salary, pension, etc., or for bulk collection of amounts towards telephone / electricity / water dues, cess / tax collections, loan instalment repayments, periodic investments in mutual funds, insurance premium etc.

**Electronic Fund Transfer (EFT)**

An electronic funds transfer (EFT) is a transaction that takes place over a computerized network, either among accounts at the same bank or to different accounts at separate financial institutions EFTs include direct-debit transactions, wire transfers, direct deposits, ATM withdrawals and online bill pay services. Transactions are processed through the Automated Clearing House (ACH) network, the secure transfer system of the Federal Reserve that connects all U.S. banks, credit unions and other financial institutions.

**STEPS INVOLVED IN ELECTRONIC FUND TRANSFER SYSTEM**

The electronic funds transfer system involves the following steps:

**1. Making application**

 The first step in sending money through an electronic mode is that the remitter has to fill in the EFT application form. Details of the beneficiary are to be furnished in the application. By this, the remitter authorizes the branch remit a specified amount to be specified beneficiary by raising a debit to the remitters account.

**2. Data preparation**

 The next step in the process of EFT mechanism is that the remitting branch makes a schedule and sends the duplicate of the EFT application form to the service branch. This is the done for EFT data preparation. The branch that is equipped with a computer system carried out the task of data preparation as per the specified format.

**3. Data transmission**

 The service branch prepares the EFT data file. This is done by using a software package supplied by RBI remitting center. The files is then transmitted simultaneously to the local office of RBI and the local RBI National Clearing Cell (NCC) by 3.30pm.

**4. Debiting remitting banks**

 The files of information transmitted by the service branches are consolidated at the RBI remitting center. The files of transactions are sorted by city-wise. The center then prepares vouchers for debiting the remitting banks on Day-1 itself. City-wise files are transmitted to the RBI offices at the respective destination centers.

**5. Crediting receiving banks**

 The destination centers of the RBI receive the files from the originating centers. These are then consolidated and sorted bank-wise. Bank-wise remittance data files are transmitted to banks on Day-1 itself. Subsequently, bank-wise vouchers are prepared for crediting the receiving banks accounts, the next morning.

**6. Crediting beneficiary**

 The destination centers of the RBI process the remittance files transmitted by RBI on the second day. Credit reports are then forwarded to the destination branches for crediting the beneficiaries accounts.

**8. Task at beneficiary branch**

 Following tasks take place at the beneficiary branch where the EFT transaction passes through for inward remittances.

* Beneficiary branch acting as per the instructions given by the service branch and affording credit to beneficiary’s account as per the advice.

Sending acknowledgement copy of the credit advice, same day to the service branch.

**Real Time Gross Settlement (RTGS)**

The acronym 'RTGS' stands for Real Time Gross Settlement, which can be defined as the continuous (real-time) settlement of funds transfers individually on an order by order basis (without netting). 'Real Time' means the processing of instructions at the time they are received rather than at some later time; 'Gross Settlement' means the settlement of funds transfer instructions occurs individually (on an instruction by instruction basis). Considering that the funds settlement takes place in the books of the Reserve Bank of India, the payments are final and irrevocable.

**ADVANTAGES**

1. **Certainty of Payment:** All payment under RTGS are irrevocable and final. So, beneficiary’s account can be credited immediately. Under paper based system, credit may not be given due to technical reasons such as incorrect account details, foreign accounts etc.
2. **Faster Collection of Funds:** The RTGS would provide an opportunity to collect funds at a faster rate due to improved technology. It has the effect of reducing the receiver’s working capital cycle.
3. **No settlement risk:** It reduces settlement risk since credit to an account is final with no possibility of subsequent returns.
4. **Improved Liquidity management:** From bank’s point of view, the liquidity management can be improved since funds can be seamlessly transferred across banks.
5. **Less fraud and less processing cost:** The processing cost and the risk of frauds are greater in the case of paper based clearing system. They are considerably reduced under RTGS.

**National Electronic Fund Transfer (NEFT)**

National Electronic Funds Transfer (NEFT) is a nation-wide payment system facilitating one-to-one funds transfer. Under this Scheme, individuals, firms and corporates can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country participating in the Scheme. For being part of the NEFT funds transfer network, a bank branch has to be NEFT- enabled. The list of bank-wise branches which are participating in NEFT is provided in the website of Reserve Bank of India.

**Working of NEFT system**

**Step-1:** Customer fills an application form providing details of the beneficiary (like name, bank, branch name, [IFSC](https://en.wikipedia.org/wiki/Indian_Financial_System_Code), account type and account number) and the amount to be remitted. The remitter authorizes his/her bank branch to debit his account and remit the specified amount to the beneficiary. This facility is also available through online banking and some banks offer the NEFT facility even through the ATMs.

**Step-2 :** The originating bank branch prepares a message and sends the message to its pooling centre (also called the NEFT Service Centre).

**Step-3 :** The pooling centre forwards the message to the NEFT Clearing Centre (operated by National Clearing Cell, Reserve Bank of India, Mumbai) to be included for the next available batch.

**Step-4 :** The Clearing Centre sorts the funds transfer transactions destination bank-wise and prepares accounting entries to receive funds from the originating banks (debit) and give the funds to the destination banks(credit). Thereafter, bank-wise remittance messages are forwarded to the destination banks through their pooling centre (NEFT Service Centre).

**Step-5 :** The destination banks receive the inward remittance messages from the Clearing Centre and pass on the credit to the beneficiary customers’ accounts.

**IFSC**

IFSC or Indian Financial System Code is an alpha-numeric code that uniquely identifies a bank-branch participating in the NEFT system. This is an 11 digit code with the first 4 alpha characters representing the bank, and the last 6 characters representing the branch. The 5th character is 0 (zero). IFSC is used by the NEFT system to identify the originating / destination banks / branches and also to route the messages appropriately to the concerned banks / branches. Bank-wise list of IFSCs is available with all the bank-branches participating in NEFT. List of bank-wise branches participating in NEFT and their IFSCs is available on the website of Reserve Bank of India .

## MICR CODE

MICR (Magnetic Ink Character Recognition), as name suggest it is a character recognition technology which helps in faster processing of cheques. Every bank branch is given a unique MICR code and this helps the RBI to identify the bank branch and speed up the cheque clearing process. You can find a magnetic inks bar codes printed on the bottom of your bank’s cheque leaves.

* MICR code has 9 digits of numerical value which represents respectively the city code, bank code and branch code.
* First three digits represent the city where the bank branch located, and it is related to the pin code of that area.
* The next three digits denote the bank code.
* And the last three digits denote the code of the bank branch where the account is maintained.

**Advantages of MICR code:**

* Quick processing and reduced cheque clearing time
* Reduced cheque related fraudulent activities