MAR GREGORIOS COLLEGE OF ARTS & SCIENCE

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SUBJECT NAME: BANKING THEORY, LAW AND PRACTICE

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SYLLABUS

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History of banking - Componentsof Indian banking - Indian banking system - Phases ofdevelopment-BankingstructureinIndia-PaymentbanksandSmallBanks-Commercialbanking-Definition-Classificationofbanks. Bankingsystem-Universalbanking-CommercialBanking-functions-RoleofBanksin EconomicDevelopment.Central Banking-Definition-Need-Principles -CentralBankingVs.Commercialbanking-FunctionsofCentralbank.

UNITIIRBI

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UNITIIIe-banking

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Meaning-Components-KindsofEndorsements-Chequespayabletofictitiouspersons - Endorsement by legal representative - Negotiationback - effect of endorsement - Rulesregardingendorsement.Payingbanker-Banker‟sduty-Dishonoringofcheque-Dischargeofpayingbanks-Paymentofacrossedcheque-Materialalteration-StatutoryprotectionunderSection85-Refusalofchequepayment.CollectingBanker - Statutory protection under section 131 -Collecting banker‟s duty - RBI instructions - Paying banker Vs Collecting Banker-Customer grievances - Grievances redressal - BankingOmbudsman.

Suggested Readings

1. GurusamyS,BankingTheory:LawandPractice,VijayNicolePublications,2015,Chennai
2. CliffordGomez,BankingandFinance,Theory,LawandPractice,JainBookAgency,2010,Mumbai
3. Gupta, RK BANKINGLawandPractice,JainBookAgency,2001,NewDelhi
4. SundaramandVarshney,BankingTheoryLawandPractice,SultanChandCo,2010,NewDelhi
5. Maheswari,S.N.BankingLawTheoryandPractice,KalyaniPublications,2011,Mumbai
6. SanthanamB,BankingTheory:LawandPractice,MargamPublications

UNIT- 1 Introduction to banking

INTRODUCTION:

Banking is an integral part of the modern economy. But the nature andfunctions of modern banks have evolved over a long period of time. The idea of bankingevolved with the idea of money. Banking business is mainly linked to lending. Moneylenderistobefoundineverysociety-ancientormodern;advancedorbackward.Thetencommandments of Moses, Quoran, Manusmrity, Kautilya‗s Arthashastra all have referencestomoneylendersandrateofinterest.Modernbanksalsoundertakeforeignexchangetr ansactions. The priests in temples took advantage of the sanctity of the temples, collectedpeople‗s savings and did lending business. In the middle ages, banking business was carriedby the individuals. Then came partnership and today in all countries banking is carried out byjointstockcompaniesandisregulatedbytheGovernment.

ORIGINOFBANKING

It is seen that banking transactions have been taking place since last number of years. Even itis evidenced that the banking system was prevailing at the time of Babilon culture. The bankswere in existence in Rome also. It was said that in the year 1171, the authorities of Venicehad taken loan from the people for meeting the expenses of war and the arrangements forrepayment were also made by them. Such loan was called as _Mot‗ in Italian language. ThemeaningofmotinGermanlanguageis_bank‗. Inthosedays,therewasGermanruleinmanyparts of Italy. Afterwards, in Italian language it was called as banco. The German word bankmeans a joint stock fund. This word bank was Italianized into banco when the Germans weremasters of a great part of Italy. Afterwards in France and England this word was used. It isseenthatsince1646theword_bank‗hasbeenusedinthearticles.Laterontherewere many

banks who started using the word bank in their names. E.g. Bank of Milan. However, thereare some philosophers according to whom the Italian word _banco‗ means table. In the olddays, the money lenders used to do banking transactions by keeping tables in the market andsotheword_bank‗hasbeenevolved

The advancement in the Indian banking system is classified into 3 distinctphases:

1. Thepre-independencephase i.e.before1947
2. Secondphasefrom1947to1991
3. Thirdphase1991 and beyond

PhaseI

Thisphaseischaracterizedbythepresenceofalargenumberofbanks(morethan600).Banking system commenced in India with the foundation of Bank of Hindustan inCalcutta (now Kolkata) in1770 which ceasedto operate in 1832.After that many bankscamebutsomewerenotsuccessfullike–GeneralBankofIndia (1786-1791)
Oudh ommercial Bank (1881-1958) – the first commercial bank of India .Whereas somearesuccessfulandcontinuetoleadevennowlike –AllahabadBank(est.1865)

PunjabNationalBank(est.1894,withHQinLahore(thattime)) BankofIndia(est.1906) Bank of Baroda (est. 1908) Central Bank of India (est. 1911) While some others likeBank of

Bengal (est. 1806), Bank of Bombay (est. 1840), Bank of Madras (est. 1843) mergedintoasingleentityin 1921 whichcametobeknownasImperialBankofIndia.

Note:ImperialBankof Indiawaslaterrenamedin1955 astheStateBankofIndia.
In April 1935, Reserve Bank of India was formed based on the recommendation of HiltonYoungCommission(setupin1926).Inthistimeperiod,mostofthebankweresmallinsize and suffered from high rate of failures. As a result public confidence is low in these banksand deposit mobilization was also very slow. People continued to rely on unorganized sector(moneylendersandindigenousbankers).

PhaseII
Broadly the main characteristic feature of this phase is the nationalization of bank. With theviewofeconomicplanning,nationalizationemergedasthe effectivemeasure.

NeedfornationalizationinIndia:

a) Thebanks mostlycateredtotheneedsoflargeindustries,bigbusinesshouses.
b) Sectorssuch asagriculture,smallscaleindustriesandexportswerelaggingbehind.
c) Thepoormassescontinuedtobeexploitedbythemoneylenders.

Following this, in the year 1949, 1st January the Reserve Bank of India was nationalized.14commercial banks were nationalized in 19th July, 1969**.** Smt. Indira Gandhi was the PrimeMinister of India, during in 1969 These were Central Bank of India, Bank of India ,PunjabNationalBank,BankofBarodaUnitedCommercialBank,CanaraBank,SyndicateBank
,Allahabad BankIndian Bank, Union Bank of India, Bank of Maharashtra ,Indian OverseasBank 6 more commercial banks were nationalized in April 1980. These were: Andhra Bank,Corporation Bank, New Bank of India, Oriental Bank of Commerce Punjab & Sindh Bank,VijayaBank.

Note:In1993,New BankofIndiagotmergedwithPunjabNationalBank.

MeanwhileontherecommendationofM.Narsimhan committee,RRBs(RegionalRuralBanks) were formed on Oct 2, 1975.The objective behind the formation of RRBs was toservelargeunservedpopulationofruralareasandpromotingfinancialinclusion.Witha view to meet the specific requirement from the different sector (i.e. agriculture, housing,foreigntrade,industry)someapexlevelbankinginstitutionswerealsosetuplike

NABARD(est.1982)
EXIM(est.1982)
NHB(est.1988)
SIDBI(est.1990)

ImpactofNationalization:

a) ImprovedefficiencyintheBankingsystem–sincethepublic_sconfidencegotboosted.
b) SectorssuchasAgriculture,smallandmediumindustriesstartedgettingfunds–ledtoeconomicgrowth.
c) IncreasedpenetrationofBankbranchesintheruralareas.

PhaseIII

This period saw a remarkable growth in the process of development of banks with theliberalization of economic policies**.** Even after nationalization and the subsequent regulationsthatfollowed,alargeportionofmassesare untouchedbythebanking services.

Consideringthis,in1991,theNarsimhancommitteegaveitsrecommendationi.e.toallowtheentryofprivatesectorplayersintothebankingsystem.FollowingthisRBIgavelicenseto 10 private entities, of which 6 are survived, which are- **ICICI, HDFC,** Axis Bank, IDBI,Indus,DCB.
In 1998, the Narsimhan committee again recommended entry of more private players. As aresult RBI gave license to Kotak Mahindra Bank (2003) Yes Bank (2004) In 2013-14, 3rdroundofbanklicensingtookplace.Andin2014IDFCbankandBandhanBankemerged.Inorder to further financial inclusion, RBI also proposed to set up 2 kind of banks i.e. PaymentBanksandSmallBanks.

SomeImportantFacts–

- Allahabad Bank, established in 1865 – Allahabad Bank is the oldest Public SectorBank inIndia having branches all over India and serving the customers for the last145years.
- ImperialBankofIndiawaslaterrenamedin1955astheStateBankof India.
- The first Bank of India with Limited Liability to be managed by Indian Board wasOudhCommercialBank. Itwasestablishedin 1881atFaizabad.
- PunjabNationalBank is thefirstbankpurelymanagedbyIndians,whichwasestablishedinLahorein1895.
- FirstTrulySwadeshibank– CentralBankofIndiaiscalledIndia'sFirstTrulySwadeshi bank, which was established in 1911 and wholly owned and managed byIndians.
- UnionBank ofIndiawasinauguratedbyMahatma Gandhiin1919.
- OsborneSmithwasthe firstgovernoroftheReserveBank.
- CDDesmukhwasthefirstIndiantobethegovernor of ReserveBank.
- SavingsaccountsysteminIndiawas startedbyPresidencyBank,1833.
- The firstIndian bank toopen overseasbranchisBank ofIndia.Itestablished a branchinLondonin1946.
- ICICIBankwasthe firstIndianbanktoprovideinternetbanking facility.
- CentralBankofIndiawasthe firstpublicbanktointroduce Creditcard.
- ICICIbankisthe firstbanktoprovidemobileATM.
- BankofBarodahasthe maximumnumberofoverseasbranches.

MeaningofBank:

Banking is considered to be the nerve center of trade, commerce and business in acountry. It plays a vital role in distributing the money for the development of trade, industry andcommerce. Now-a-days, banking sector acts as the backbone of modern business. Therefore wemay say that banking is the lifeblood of modern commerce. Bankers are not only dealers inmoney but also leaders in economic development of a country. Development of any countrymainlydepends upon thebankingsystem.

The term bank is either derived from Old Italian word *banca* or from a French word*banque*bothmeana**Bench**or**moneyexchangetable**.Inoldendays,Europeanmoneylenders or money changers used to display (show) coins of different countries in big heaps (quantity) onbenches or tables for the purpose of lending or exchanging.A bank is a financial institutionwhich deals with deposits and advances and other related services. It receives money from thosewhowanttosave in the formofdepositsand it lends money to those whoneedit.

Definitions:

1) F.E.Perry:

–Thebankisanestablishmentwhichdealsinmoney,receivingitondepositfromcustomers, honoringcustomer‘sdrawingsagainstsuchdepositsondemand,collectingchequesforcustoms andlendingorinvestingsurplusdepositsuntil theyare requiredforrepayment.

WalterLeaf:

–Abankerisaninstitutionorindividualwhoisalwaysreadytoreceivemoneyondepositsto bereturnedagainst thecheques oftheirdepositors.

Banking Regulation Act of 1949 defines banking as “accepting for the purpose of lendingor investment, of deposits of money from the public, repayable on demand or otherwise, andwithdrawable by cheque,draft,orderor otherwise”.

Characteristics/FeaturesofaBank:

1. DealinginMoney

Bank is a financial institution which deals with other people's money i.e. money given bydepositors.

2. Individual/Firm/ Company

A bank may be a person, firm or a company. A banking company means a companywhich is in thebusiness of banking.

3. AcceptanceofDeposit

Abankacceptsmoneyfromthepeopleintheformofdepositswhichareusuallyrepayable on demand or after the expiry of a fixed period. It gives safety to the deposits of itscustomers. Italso actsas acustodian of funds of itscustomers.

4. GivingAdvances

A bank lends outmoney inthe formof loans to those who requireit for differentpurposes.

5. PaymentandWithdrawal

A bank provides easy payment and withdrawal facility to its customers in the form ofcheques and drafts. It also brings bank money in circulation. This money is in the form ofcheques, drafts, etc.

6. AgencyandUtilityServices

A bank provides various banking facilities to its customers. They include general utilityservicesand agencyservices.

7. ProfitandServiceOrientation

Abankisaprofitseekinginstitutionhavingserviceorientedapproach.

8. EverincreasingFunctions

Banking is an evolutionary concept. There is continuous expansion and diversification asregardsthefunctions,services andactivitiesof abank.

9. ConnectingLink

Bank acts as a connecting link between borrowers and lenders of money. Banks collectmoney from those who have surplus money and give the same to those who are in need ofmoney.

10. BankingBusiness

Abank'smainactivityshouldbetodobusinessofbankingwhichshouldnotbesubsidiary to any otherbusiness.

11. NameIdentity

A bank should always add the word “bank” to its name to enable people to know that it isa bank and thatitis dealinginmoney.

StagesintheEvolutionofBankinginIndia:

Someimportantstagesin theevolutionofmodernbankinginIndiaareasfollows:

1) AgencyHouses:

When the English traders came to India, they had problem of raising working capital dueto the language barrier. Therefore, they established Agency Houses which combined trading withbanking. One agency house established the first bank in India called the Bank of Hindustan in1770. Later on, many banks were established. But they disappeared as fast as they were born.Anybodycouldthen startabank. Thefieldwasfreefor all.

2) PresidencyBanks:

The East India Co., the ruler of India, took initiative in establishing Presidency Banks bycontributing 20% of their share capital to meet its own demand for funds. Accordingly, Bank ofBengal,BankofBombayandBankofMadraswereestablishedin1806,1840and1943respectivel y.

3) JointStockBanks:

In 1884, banks were allowed to be established on the principle of limited liability. In duecourse, this encouraged establishment of banks. By the turn of the century, many banks with theinitiative of Indians were established. Punjab National Bank, Allahabad Bank, Bank of Barodaaresomeofthebanksthenestablished.Manyforeigners alsocameinthefield ofIndianbanking.

4) ImperialBankofIndia:

To meet the competition of foreign banks, the three Presidency Banks were amalgamatedand a powerful Imperial Bank of India was established in 1921 with its network of branches allover the country. This bank was later nationalised in 1955 and it is today’s State Bank of India.Thisis aprestigiousbankas theGovernmentis its customer.

5) EstablishmentoftheReserveBankofIndia:

Though there was boom in banking, due to absence of any regulation and facility

oftimely assistance there were recurrent bank failures. This resulted in suspicion about banks in theminds of the people. They stayed away from banks. The need for a separate Central Bank wasemphasised by the Hilton Young Commission. Accordingly, the RBI was established in 1935 toperform all the functions of a Central Bank. It was modeled on the pattern of the Bank ofEngland. But it did not have much power of regulation. The period was also critical one due tothe great depression and the subsequent Second World War. The RBI could not do much aboutbanking.

6) NationalisationoftheRBIandtheBankingRegulationAct:

These two important steps were taken in 1949. Immediately after independence widepowers of regulation and control were given to the RBI and by making use of those powers theRBI was successful in making Indian banking trustworthy. Soon, bank failures became a thing ofthepastandIndia’sbanksprogressedundertheguidanceoftheRBI.Manymalpractices,deficienciesand drawbacksweresought to beremoved by the RBI.

7) NationalisationofBanksin1969and1980:

Another significant step was taken in 1969 by nationalising 14 big Indian banks. Then sixmore banks were nationalised in 1980. The nationalisation of banks brought about a sea-changein the policies, attitudes, procedures, functions and coverage of banks. Indian banks are nowbeing prepared to become international players. These are the stages through which Indianbanking developed.

CONSTITUENTSOFTHEINDIANBANKINGSYSTEM

Theconstituents oftheIndianBankingSystemcanbebroadlylistedasunder:

(a) CommercialBanks:

- (i) PublicSectorBanks
- (ii) PrivateSectorBanks
- (iii) ForeignBanks

(b) CooperativeBanks:

- (i) Shorttermagriculturalinstitutions
- (ii) Longtermagriculturalcreditinstitutions
- (iii) Non-agriculturalcreditinstitutions

(c) DevelopmentBanks:

- (i) NationalBankforAgriculture andRuralDevelopment(NABARD)
- (ii) SmallIndustriesDevelopment BankofIndia(SIDBI)
- (iii) EXIMBank
- (iv) NationalHousingBank

CLASSIFICATIONOFBANKS

The banking institutions form an indispensable part in a modern developing society. Theyperform varied functions to meet the demands of various sections of the society. On the basis ofthefunctionsperformedanditsownership, thebankscanbeclassifiedintothefollowingtypes:

OnthebasisofFunctions:

CommercialBank:

Banks, which help for the development of trade and commerce, are called CommercialBanks. The commercial banks may be owned by government or owned by private sector. For eg:Canara Bank, Punjab National Bank, Lakshmi Vilas Bank, Karur Visya Bank etc., are called ascommercialbanks.

IndustrialBank:

These banks assist to promote industrial development by providing medium and long-term loans, underwrites the shares and debentures, assisting in the preparation of project reports,providingtechnicaladviceandmanagerialservicetotheindustries.Foreg:IndustrialDevelopmentBankofIndia(IDBI),IndustrialCreditandInvestmentCorporationofIndia(ICICI),areknown as industrialbanks.

RegionalRuralBank:

These banks are established in rural areas. Its object is to develop the rural economy byprovidingcreditandotherfacilitiesforagriculture,trade,commerce,industryandotherproductive activitiesin theruralareas.

Exchangebank:

Exchange banks deal in foreign exchange and specialize in foreign trade. It plays animportant role in promoting international trade. It encourages flow of foreign investments intoIndia and helps in capturinginternationalcapital markets.

Centralbank:

Every country has a central bank of its own which is called as central bank. It is the apexbank and the statutory institution in the money market of a country. The central bank occupies acentral position in the monetary and banking system of the country and is the superior financialauthority.InIndia, the ReserveBankof India is the centralbankof ourcountry.

ReserveBankofIndia:

ReserveBankofIndiawasestablishedin1935.ItisthecentralbankofIndia.Thefollowing arethemainobjectivesofRBI:

(a) Tomanageandregulateforeignexchange.

(b) Tobuildasoundandadequatebankingandcreditstructure.

(c) Topromotespecializedinstitutionstoincreasethetermfinancetoindustry.

(d) Togivesupport togovernment andplanningauthoritiesfortheeconomicdevelopmentofthe country.

(e) Tocontrolandmanagethebanking systeminIndia.

(f) Toexecutethemonetarypolicyofthecountry.

ONTHEBASISOFOWNERSHIP:

Onthebasisofownershipbankscanbeclassified as:

PublicSectorBanks:

These types of banks are owned and controlled by the government. The nationalizedbanksand regionalruralbankscomeunder thiscategory.

PrivatesectorBanks:

TheseBanksareownedbyprivateindividualsandcorporations.

Co-operativeBanks:

Thesebanks are operatedon cooperativeprinciples.It is avoluntaryassociationofmembers for self-help and caters to their financial needs on a mutual basis. These banks are alsosubject to control and inspection by Reserve Bank of India. The main function of co-operativebanking is tolinkthefarmerswith the money marketsofthecountry.

a) PrimaryAgriculturalCo-operativesocieties(PACS):

Itistherootofthecreditstructure.Itisalsocalledasvillagesocietiesandthemembersbelong to therelatedvillages.

Functions:

- Itgivesshort-termandmediumterm loanstofarmers.
- Ithelpsindistributionoffertilizersandseeds.
- Ithelpsindistributionofconsumergoodstotheirmembers.
- Ithelpsinmilk, egg,sugarproductionin thevillage.

b) CentralCo-operativeBanks(CCB):

Itisthefederationofallprimarysocietiesatthedistrictlevel.Thereforeitisalsocalledas District co-operative central bank. It supervises, controls and finances the primary creditsocieties.

Functions:

- Itgivesfinances toprimarycreditsocieties.
- Itgivescredittoindividualcustomersonthe basisofsecurity.
- Itaccepts depositandpayshigherrateofinterestthancommercial banks.
- Ithelpsinremittingmoneytotheircustomers.
- Ithelpsinsolvingproblemsofprimaryco-operativesocieties.

- Itcontrolandsupervisestheworkingofprimaryco-operativesocieties.

a. StateCo-operativeBanks(SCBs):

State Co-operativeBank is thefederation of district Co-operativecentral banks. Eachstate has one state central co-operative bank. It is also called as Apex Bank in the three-tierstructure.

Functions:

- Itco-ordinatestheactivitiesofprimaryandCentralCo-operativeBanksinthestate.
- Itmobilizes depositsforthebenefitofco-operatives.
- IthelpsinmaintainingabalanceamongCentralCo-operativebanks
- Italsofunctionsasacommercialbank.

b. LandDevelopmentBanks:

Itwas earliercalledas LandMortgageBanks.Its structureisnot uniform inallthestates.

Insomestatesitisseparate,insomestates itisfederal.Andinsomestateitismixed.

Functions:

- Itgiveslong-termloanstoagriculturalistsformakingimprovementsontheland,repaying old debtsetc.,loans.
- Itgivesloanto freethemortgaged land andtobuynewland
- Italsograntsloanstocottageandsmallindustries inruralareas.

ONTHEBASISOFSCHEDULESOFRBI:

Scheduledbanks:

ThesetypesofbanksareincludedinthesecondscheduleoftheReservebankofIndiaAct1934.Thebanks,whichfulfillthefollowingconditions,areclassifiedintoscheduledbanks.

- Itspaidupcapitalandreservesareatleast Rs.5Lakhs.
- Itsoperations arenotdetrimentaltotheinterestofthedepositors.
- Itisacorporationorco-operativesocietyandnotapartnershiporasingleownerfirm.

Non-Scheduledbanks:

Thebanks,whicharenotcoveredbythesecondscheduleofReserveBankofIndia,arecalledas non-scheduled banks.

INDIGENOUSBANKERS:

Indigenous bankers are those who do not come under the control of RBI. For examplemoney lenders, marvadis, chettiars, pawn brokers are known as indigenous bankers. They acceptdeposit and deal in Hundis (It is a credit instrument like promissory note.) The indigenousbankersrely ontheir ownresourcesorborrowfrom oneanother tocarry ontheir business.

FunctionsofIndigenousBankers:

Thefollowingaretheirfunctions:

a. Theyreceivedepositsforafixedperiodatahigherrate ofinterest.
b. Theyadvanceloansagainstsecurityofand,jewellery,crops,goodspromissorynote setc.
c. Theywrite,sellandbuyhundis,which arebills ofexchange.
d. Theyfinancebothwholesale,andretail traders.
e. Theyengageinspeculationoffoodandnon-food.cropsandotherarticlesofconsumption.
f. Theyactascommissionagentstofirms.
g. Somenon-professionalindigenousbankersruntheirownmanufacturingorservice firms
h. Someindigenousbankersprovidelong-termfinancebysubscribingsharesanddebenturesof largecompanies.

Theborrowersfinditeasytogetfinancefromindigenousbankersbecauseofthefollowing reasons:

- Lessformality.
- Nofixed bankinghours.
- Borrowersapproachthemdirectlyandinformally.
- Thesetypesofbankersinsistonpunctualityofrepayment.

MAINFUNCTIONSOFCOMMERCIALBANKS

The mainfunctions of commercialbanks are acceptingdeposits from thepublicandadvancing them loans. However, besides these functions there are many other functionswhichthesebanksperform.All thesefunctions canbedivided underthefollowingheads:

1. Acceptingdeposits
2. Givingloans
3. Overdraft
4. Discounting ofBills ofExchange
5. InvestmentofFunds
6. AgencyFunctions
7. MiscellaneousFunctions

1. AcceptingDeposits:

The most important function of commercial banks is to accept deposits from the public.Various sections of society, according to their needs and economic condition, deposit theirsavingswiththebanks.

For example, fixed and low income group people deposit their savings insmall amountsfrom the points of view of security, income and saving promotion. On the other hand, tradersandbusinessmendeposittheir savingsinthebanksfortheconvenienceofpayment. Therefore, keeping the needs and interests of various sections of society, banks formulatevariousdepositschemes.Generally,therearethreetypes ofdepositswhichareas

follows:

(i) CurrentDeposits:

The depositors of suchdeposits can withdrawand deposit money whenever they desire.Since banks have to keep the deposited amount of such accounts in cash always, they carryeither no interest or very low rate of interest. These deposits are called as Demand Depositsbecausethesecanbedemandedorwithdrawnbythedepositorsatanytimetheywant. Such deposit accounts are highly useful for traders and big business firms because they havetomakepaymentsandacceptpaymentsmanytimesinaday.

(ii) FixedDeposits:

These are the deposits which are deposited for a definite period of time. This period isgenerally not less than one year and, therefore, these are called as long term deposits. Thesedepositscannotbewithdrawnbeforetheexpiryofthestipulatedtimeand,therefore,thesear ealsocalledastimedeposits..

(iii) SavingDeposits:

Insuchdeposits,moneyuptoacertainlimitcanbedepositedandwithdrawnonceortwicein a week. On such deposits, the rate of interest is very less. As is evident from the name ofsuch deposits their main objective is to mobilize small savings in the form of deposits. Thesedeposits are generally done by salaried people and the people who have fixed and lessincome.

2. GivingLoans:

The second important function of commercial banks is to advance loans to its customers.Bankschargeinterestfromtheborrowersandthisisthe mainsourceoftheirincome. Banks advance loans not only on the basis of the deposits of the public rather they alsoadvance loans on the basis of depositing the money in the accounts of borrowers. In otherwords, they create loans out of deposits and deposits out of loans. This is called as creditcreationbycommercialbanks..

(i)**CashCredit:**

In this type of credit scheme, banks advance loans to its customers on the basis of bonds,inventories and other approved securities. Under this scheme, banks enter into an agreementwithitscustomerstowhichmoneycanbewithdrawnmanytimesduringayear.Undert his set up banks open accounts of their customers and deposit the loan money. With this type ofloan,creditiscreated.

(iii) Demandloans:

These are such loans that can be recalled on demand by the banks. The entire loan amount ispaid in lump sum by crediting it to the loan account of the borrower, and thus entire loanbecomeschargeabletointerestwithimmediateeffect.

(iv) Short-termloan:

These loans may be given as personal loans, loans to finance working capital or as prioritysector advances. These are made against some security and entire loan amount is transferredtotheloanaccountoftheborrower

3. Over-Draft:
Banks advance loans to its customer‘s up to a certain amount through over-drafts, if there areno deposits in the current account. For this banks demand a security from the customers andchargeveryhighrateof interest.

4. DiscountingofBillsofExchange:
This is the most prevalent and important method of advancing loans to the traders for short-term purposes. Under this system, banks advance loans to the traders and business firms bydiscounting their bills. In this way, businessmen get loans on the basis of their bills ofexchangebeforethetimeoftheirmaturity.

5. InvestmentofFunds:

The banks invest their surplus funds in three types of securities—Government securities,other approved securities and other securities. Government securities include both, centralandstategovernments,suchastreasurybills,nationalsavingscertificateetc.
Other securities include securities of state associated bodies like electricity boards, housingboards, debentures ofLand Development Banks units of UTI, shares of Regional Ruralbanksetc.

6. AgencyFunctions:
Banks function in the form of agents and representatives of their customers. Customers givetheir consent for performing such functions. The important functions of these types are asfollows:
(i) Bankscollectcheques,drafts,billsofexchangeanddividendsofthesharesfortheircustomers .
(ii) Banksmakepaymentfortheirclientsandattimesacceptthebillsofexchange:oftheircustom ers for whichpaymentis madeatthefixedtime.

7. MiscellaneousFunctions:
Besides thefunctionsmentioned above, banks performmany otherfunctions of generalutilitywhichareasfollows:
(i) Banksmakearrangementoflockersforthesafecustodyofvaluableassetsoftheircustomerss uchasgold,silver,legaldocuments etc.
(ii) Banksgivereferencefortheircustomers.
(iii) Bankscollectnecessaryandusefulstatisticsrelatingtotradeandindustry.
(iv) Forfacilitatingforeigntrade,banksundertaketosellandpurchase foreignexchange.
(v) Banksadvisetheirclientsrelatingtoinvestmentdecisionsasspecialist
(vi) Bankdoestheunder-writingofsharesanddebenturesalso.
(vii) Banksissuelettersofcredit.
(viii) Duringnaturalcalamities,banksarehighlyusefulinmobilizingfundsanddonations.
(ix) Banksprovideloansfor consumerdurables likeCar,Air-conditioner,andFridgeetc.

BANKSUBSIDIARIES

- BankControlsOne orMoreSubsidiaries
- Subsidiaries OfferOtherServicesSuchasInsuranceandSecurityBrokerageServices
- ProfitsandLossesofEachSubsidiaryImpactParentBank

AGENCYSERVICESOFCOMMERCIALBANKS

AgencyServicesorAgencyfunctionsofcommercialbanksareelaboratedindetailbelow

1. **Collection of Cheques, Dividends, Interests etc.**: Collecting cheques, drafts, bill ofexchange, dividends, interests etc. on behalf of its customers and credit the amount intheir account is one of the most important agency services rendered by the banks.Bankeracceptsstandinginstructionsfromthecustomersandarrangestocollectdividend,interest,pension,salaries,billsetc.onbehalfofhiscustomers.

2. Payment of Subscription, Rent, Insurance Premium etc.: Banks undertake the paymentof subscriptions, rent, insurance premium etc. on behalf of the customers and debit theaccountwiththeamount.Itacceptsthestandinginstructionsofthecustomerandarranges

for.Thepaymentofsuchexpensesontheirbehalf.Itchargesasmallamountbywayofcommission for theseservices.

3. Conduct of Stock Exchange Transactions: Banks purchase and sell various securitiessuch as shares, debentures, bonds etc. of joint stock companies both private and Governmentonbehalfoftheircustomers.

4. Acting as Executor, Trustees, Attorneys etc.: Banks act as executors of will, trustees,attorneysandadministrators.Asanexecutoritpreservesthe―Wills‖ofthecustomersand executes them after their death. As a trustee, ittakes care of the funds of the customers. Asanattorney,itsignstransferformsanddocumentsonbehalfofthecustomer.

5. PreparationofIncomeTaxReturns:Banksprepareincometaxreturnsfortheircustomersthroughtheirtaxservicedepartments.

6. ConductingForeignExchangeTransactions:Commercialbankspurchaseandsellforeignexchangefor their customers.

7. Bankeractsasanagenttothecustomer.Whenacustomerdepositscheques,drafts,bills or any other promissory notes, the banker collects them and on realization credits theaccountofthecustomer.Forthisactivity,thebankerisgivencommission.Banksalsoactasa correspondent, representative of their customers. Some banks may even get the travelers'tickets,passportetc.for their customers

StructureofCommercialBanks:

Commercialbanksarebasicallyoftwotypes:

1. Scheduledbanks
2. Non-scheduledbank

Scheduledbanksarethosewhichhavebeenin IIScheduleofRBIAct,1934 andfollowing criteriashouldbesatisfied.

- MinimumpaidupcapitalRs.5lakh

- Itmustbeacorporationascooperativesociety
- Anyactivityofbankwillnotadverselyaffecttheinterestofdepositors.

Scheduledbanksconsistofpublicsectorbanks,privatesectorbanks,foreignbanksandregiona l ruralbanks.

PublicSectorBanks:

Public sector banksare those in which 50% of theircapitalis provided by CentralGovernment, 15% by concerned State Government and 35% by sponsored commercial banks. InIndia, there are 27 public sector banks. They includes the State Bank of India and its 6 associatedbanks such as State Bank of Hyderabad, State Bank of Mysore, etc. and 19 nationalised banksand IDBIbanks ltd.

PrivateSectorBanks:

Private sector banks are those in which majority of share capital kept by business houseand individual. After the nationalization, entry of private sector banks is restricted. But some ofprivatebankscontinuedtooperatesuchasJammu&Kashmirbankltd.Toincreasethecompetition spirit and improve the working of public sector banks, RBI permitted the entry ofprivate sectorbanks in July, 1993.

ForeignBanks:

Foreign banks are those which incorporated outside India and open their branches inIndia. Foreign banks performed all the function like other commercial banks in India. Foreignbanks are superior in technology and management than Indian banks. They offer different typesof products and services such as offshore banking, online banking, personal banking, etc. Theyprovide loans for automobiles, small and large businesses. Foreign banks also provide specialtypes of credit card which are nationally and internationally accepted. These banks earn lots ofprofit and createnewways of investmentsin thecountry.

RegionalRuralBanks:

The regionalrural banksare banksset up to increasethe flow of credit to smallerborrowers in the rural areas. These banks were established on realizing that the benefits of theco-operative banking systemwerenotreaching all thefarmersinruralareas.

SOCIALRESPONSIBILITYOFBANKSININDIA

AspertheinstructionoftheRBI,majorityofthebanksstartedtheirCorporateSocialResp onsibility.GovernmentreducethetaxonlyforthebankthoseadoptedCSR.

RuralBranchExpansion:Banksareexpandtheirbranchesinruralareas.However,illiteracyan dthelowincomesavingsandlackofbankbranchesinruralareascontinuetobea road block to financial inclusion in many states. Apart from this there is inadequate legaland financialstructure. Jammu and Kashmir Bank is the top performer in rural branchexpansion variable and YES banks is the least performer in rural branch expansion variableamong private sector banks. CITI and Standard Chartered banks don‘t have any branch inrural areas. Thus overall it can be interpret from the table 3 that public banks are

leading inruralbranchexpansionthenprivatesector banks andatlastforeignbanks.

PrioritySectorLending: AsdescribedbytheReserveBankofIndia,PrioritySectorlending means lending to the agriculture, small scale and ancillaryindustries, new andrenewable sources of energy, cottage industries, artisans, food and agro based processing,education,housingandweakersection.

Environment Protection: This variable includes all the activities carried out by the banksfor the purpose of environment protection or to reduce the environmental harm by adoptingdifferent initiatives, replacing traditional activities by eco friendly processes or activities inday to day business. The World Bank has also pressurized the banks not to finance theprojects,whicharecausingharmtotheenvironmenteitherdirectlyor indirectly.

1. Assistanceforrainwaterharvestingtanks
2. Wild animalprotectionprojects
3. Treeplantationdrives

FinancialLiteracy:

As per the Reserve Bank of India, Financial literacy is providing familiarity with andunderstanding of financial market products, especially rewards and risks, in order to makeinformedchoices.Itistheabilitytoknow,monitor,andeffectively usefinancialresourcesto

enhance the well-being and economic security of oneself, one's family, and one's business.Financial literacy has assumed greater importance in the recent years, as financial marketshave become increasingly complex and as there is information asymmetry between marketsandthecommonperson,leadingtothelatterfindingitincreasinglydifficulttomakeinformed choices. In India, the need for financial literacy is even greater considering the lowlevels of literacy and the large section of the population, which still remains out of the formalfinancial set-up. Credit Counseling can be defined as counseling that explores the possibilityof repaying debts outside bankruptcy and educates the debtor about credit, budgeting, andfinancial management. In view of the above two points the RBI has initiated a scheme forsetting up of Financial Literacy and CreditCounseling (FLCC) Centre‘s by the banks.Certain banks have not just opened the FLCC centers but have also taken other measures topromote financeeducationamongpeople.

Farmer'sWelfare:

Indian economy has always been an agriculture based economy. Although the contribution ofagriculturetotheGDPofthecountryhasdecreasedinpastyears,alargeportionofpopulation still depends upon agriculture for its survival. However, the agriculture sector isstill in a meager state. Some of the major activities done by the banks under the farmer‘swelfareareas follows:

- AgricultureDebtWaiver&DebtReliefScheme
- LoanforSolarWaterHeatingSystemsatconcessionalrate,
- Rural Extension EducationProgrammers enabling farmers & entrepreneurs to

improvetheirproductivity/production,

- EstablishmentofFarmersclubs,
- Farmers'TrainingCenters(FTCs),
- Specialcreditcardsforfarmers,
- AgricultureknowledgesharingPrograms,
- Nationalinsuranceprogramsforagriculture
- Financingruralgodownsandcoldstorages/warehouses,
- DebtSwapSchemes
- Settingupagricultureclusters forbetterfarming
- Commodityfinanceagainstpledgeofwarehousereceiptsofagrocommodities

BANKINGSECTOR ANDCSR

AspertheinstructionoftheRBI,majorityofthebanksstartedtheirCorporateSocialResponsibility.Governmentreducethetaxonlyfor thebankthoseadoptedCSR.

Thebankplanandimplementseveraleducationalprograms

1. BuildingSchoolinfrastructure
2. TrainingforfreshTeachers
3. Scholarshiptofinancialbackwardstudents
4. VehiclessponsoredtoEducationInstitutions
5. CareerGuidanceprogram
6. Computerdistributionto RuralSchools

Theydomanyactivities relevanttotheHealth

- BloodDonationCampaign
- CancerAwareness Campaign
- MedicalCamps/EyeCamps
- VehicletodifferentlyablechildrenSchools
- SupporttoHIV/AIDSAwarenessprogrammersinSchoolsandVillages.
- CallCentre-PhysicallyChallenged
- AmbulanceSponsoredtoSt.John'sHealthService
- FreeDayCarecentre
- PNBFarmer WelfareTrust

- FarmersTraining Centers

CENTRALBA NK:

A central bank is an independent national authority that conducts monetary policy, regulatesbanks, and provides financial services including economic research. Its goals are to stabilizethenation'scurrency,keepunemploymentlowandpreventinflation

The Principles of Central Banking:

The central bank of a country enjoys a special status in the banking structure of-the country. The principles on which a central bank is run differ from the ordinary banking principles. An ordinary bank is run for profits.

A central bank, on the other hand, is primarily meant to promote the financial and economic stability of the country. "The guiding principle of a central bank", says De Kock, "is that it should act only in the public interest and for and welfare of the country and without regard to profit as primary consideration". Earning of profit for a central bank is thus a secondary consideration.

The central bank is thus not a profit hunting institution. It does not act as rival of other banks. In fact, it is a monetary authority of the country and has to function in a manner so as to promote economic stability and development.

The functions of the central bank especially the Reserve Bank of India have increased enormously in recent years. Not only does the Reserve Bank of India regulate credit and money supply in the country but it promotes economic development and price stability. Guiding principles of the Reserve Bank are to operate its most instruments in a way that serves the objectives of economic policy laid down by the Government and Planning Commission.

FUNCTIONSOFACENTRALBANK:

A central bank performs the following functions, as given by De Kock and accepted by themajorityofeconomists.

1. RegulatorofCurrency:

The central bank is the bank of issue. It has the monopoly of note issue. Notes issued by itcirculate as legal tender money. It has its issue department which issues notes and coins tocommercial banks. Coins are manufactured in the government mint but they are put intocirculation through the central bank. Central banks have been following different methods ofnote issue in different countries. The central bank is required by law to keep a certain amountofgoldandforeignsecuritiesagainsttheissueofnotes.

2. Banker,FiscalAgent andAdvisertotheGovernment:

Centralbankseverywhereactasbankers,fiscalagentsandadviserstotheirrespectivegovernments. As banker to the government, the central bank keeps the deposits of the centraland state governments and makes payments on behalf of governments. But it does not payinterestongovernmentsdeposits.Itbuysandsellsforeigncurrenciesonbehalfofthegovernment.

It keeps the stock of gold of the government. Thus it is the custodian of government moneyandwealth.Asafiscalagent,thecentralbankmakesshort-termloanstothegovernmentfora period not exceeding 90 days. It floats loans, pays interest on them, and finally repays themonbehalfofthegovernment.Thusitmanagestheentirepublicdebt.Thecentralbankalso advises the government on such economic and money matters as controlling inflation ordeflation, devaluation or revaluation of the currency, deficit financing, balance of payments,etc.

3. CustodianofCashReservesofCommercial Banks:

Commercial banks are required by law to keep reserves equal to a certain percentage of bothtime and demand deposits liabilities with the central banks. It is on the basis of these reservesthat the central bank transfers funds from one bank to another to facilitate the clearing ofcheques.
Thus the central bank acts as the custodian of the cash reserves of commercial banks andhelpsinfacilitatingtheirtransactions.Therearemanyadvantagesofkeepingthecashreserve softhecommercialbankswiththecentralbank,accordingtoDeKock.
In the first place, the centralization of cash reserves in the central bank is a source of greatstrength to the banking system of a country. Secondly, centralized cash reserves can serve asthe basis of a large and more elastic credit structure than if the same amount were scatteredamongtheindividualbanks.
Thirdly, centralized cash reserves can be utilized fully and most effectively during periods ofseasonal strains and in financial crises or emergencies. Fourthly, by varying these cashreserves the central bank can control the credit creation by commercial banks. Lastly, thecentral bank can provide additional funds on a temporary and short term basis to commercialbankstoovercometheirfinancialdifficulties.

4. Custody andManagementofForeignExchangeReserves:

The central bank keeps and manages the foreign exchange reserves of the country. It is anofficialreservoirofgoldandforeigncurrencies.Itsellsgoldatfixedpricestothemonetary

authorities of other countries. It also buys and sells foreign currencies at international prices.Further,itfixestheexchangeratesofthedomesticcurrencyintermsof foreigncurrencies.

5. Lenderofthe LastResort:

DeKockregardsthisfunctionasasinequanonofcentralbanking.Bygrantingaccommodation in the form of re-discounts and collateral advances to commercial banks, billbrokers and dealers, or other financial institutions, the central bank acts as the lender of thelastresort.

The central bank lends to such institutions in order to help them in times of stress so as tosave the financial structure of the country from collapse. It acts as lender of the last resortthroughdiscounthouseonthebasisoftreasurybills,governmentsecuritiesandbondsat–the frontdoor‖.

The other method is to give temporary accommodation to the commercial banks or

discounthousesdirectlythroughthe–backdoor‖.Thedifferencebetweenthetwomethodsisthat lending at the front door is at the bank rate and in the second case at the market rate. Thus thecentral bank as lender of the last resort is a big source of cash and also influences prices andmarketrates.

6. ClearingHousefor TransferandSettlement:

As bankers' bank, the central bank acts as a clearing house for transfer and settlement ofmutual claims of commercial banks. Since the central bank holds reserves of commercialbanks,ittransfersfundsfromonebanktootherbankstofacilitateclearingofcheques. Thisis done by making transfer entries in their accounts on the principle of book-keeping. Totransfer and settle claims of one bank upon others, the central bank operates a separatedepartment in big cities and trade centers. This department is known as the ―clearing house‖anditrenderstheservicefreetocommercialbanks.

7. ControllerofCredit:

The most important function of the central bank is to control the credit creation powerof commercial bank in order to control inflationary and deflationary pressures within thiseconomy.Forthispurpose,itadoptsquantitativemethodsandqualitativemethods.Quantitative methods aim at controlling the cost and quantity of credit by adopting bank ratepolicy,openmarketoperations,andbyvariationsinreserveratiosofcommercialbanks.

Central Bank Vs. Commercial Bank

BASIS FOR COMPARISON	CENTRAL BANK	COMMERCIAL BANK
Meaning	The bank which looks after the monetary system of the country is known as Central Bank.	The establishment, which provides banking services to the public is known as Commercial Bank.
What is it?	It is a banker to the banks and the government of the country.	It is the banker to the citizens of the nation.
Governing Statute	Reserve Bank of India Act, 1934.	Banking Regulation Act, 1949.
Ownership	Public	Public or Private
Profit motive	It does not exist for making profit for its owners	It exist for making profit for its owners.
Monetary Authority	It is the supreme monetary authority with wide powers.	No such authority.

BASIS FOR COMPARISON	CENTRAL BANK	COMMERCIAL BANK
Objective	Public welfare and economic development.	Earning Profits
Money supply	Ultimate source of money supply in the economy.	No such function is performed by it.
Right to print and issue currency notes	Yes	No
Deals with	Banks and Governments	General Public
How many banks are there?	Only one	Many

LET YOUR LIGHT SHINE

UNIT- 2 RBI

The Reserve Bank of India (RBI) is the Central Bank or Monetary Authority of India which issues, manages and controls the supply of the Indian Rupee, the official Indian currency. It also acts as the regulatory body for the Banking system of India. It started its operations on 1st April, 1935 as the *Reserve Bank of India Act, 1934* came into force. The basic functions of the RBI, as stated in its preamble, are *"to regulate the issue of Bank notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage; to have a modern monetary policy framework to meet the challenge of an increasingly complex economy, to maintain price stability while keeping in mind the objective of growth."*

History

The origin of this central bank goes back to the British Era. In 1926, the Royal Commission of Indian Currency and Finance, also known as the *Hilton Young Commission*, recommended the creation of a Central Bank in the erstwhile British India. Based on these recommendations, a bill was introduced in the Legislative Assembly, but was withdrawn due to lack of consensus between different sections. Then due to the recommendations of both in the Indian Central Banking Enquiry Committee in 1931 and the White Paper on Indian Constitutional Reforms in 1933, the issue was revived.

This resulted in the introduction of a fresh bill, which was passed through the Legislative assembly and received the Governor General's assent on 5th March 1934. The Act, called the *Reserve Bank of India Act, 1934 (II of 1934)*, forms the statutory basis on which the central bank is established. It commenced operations as India's Central Bank on the 1st of April, 1934. Also, it was set up as a private shareholder's bank before being nationalized in 1949 under the *Reserve Bank (Transfer of Ownership) Act, 1948*. Originally headquartered in Kolkata (then Calcutta), it shifted its base to Mumbai (then Bombay) in 1937 from where it currently operates and functions.

The RBI also acted briefly as the Central Bank of Myanmar (then Burma), ceasing operations there in 1947, and as the Central Bank of Pakistan, ceasing operations there in 1948.

Establishment of Reserve Bank of India

The Reserve Bank is fully owned and operated by the Government of India.

The Preamble of the Reserve Bank of India describes the basic functions of the Reserve Bank as:

- Regulating the issue of Banknotes
- Securing monetary stability in India
- Modernising the monetary policy framework to meet economic challenges

The Reserve Bank's operations are governed by a central board of directors, RBI is on the whole operated with a 21-member central board of directors appointed by the Government of India in accordance with the Reserve Bank of India Act.

The Central board of directors comprise of:

- Official Directors – The governor who is appointed/nominated for a period of four years along with four Deputy Governors
- Non-Official Directors – Ten Directors from various fields and two government Official

Organisation Structure

Objectives

The primary objectives of RBI are to supervise and undertake initiatives for the financial sector consisting of commercial banks, financial institutions and non-banking financial companies (NBFCs).

Some key initiatives are:

i. Restructuring bank inspections
ii. Fortifying the role of statutory auditors in the banking system

Legal Framework

The Reserve Bank of India comes under the purview of the following Acts:

- Reserve Bank of India Act, 1934
- Public Debt Act, 1944
- Government Securities Regulations, 2007
- Banking Regulation Act, 1949
- Foreign Exchange Management Act, 1999
- Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002
- Credit Information Companies(Regulation) Act, 2005
- Payment and Settlement Systems Act, 2007

FUNCTIONS OF RESERVE BANK OF INDIA

The traditional functions of Reserve Bank of India includes Issue of Currency, Banker toGovt,BankersBank,CreditcontrolMeasures,lenderoflostresort,exchangecontrol,clearinghouseetc.

1. **Issue of Currency**: RBI undertakes issue of currency and the system adopted in India istheminimumreservesystem.AllthecurrencynotesfromRs.2,Rs5,Rs.10,Rs.50,Rs.100,Rs.500andRs.1,000areissuedbyRBIandtheycarrythesignatureofReserveBankof India Governor. They are called unlimited legal tender and any amount of payment can bemadewiththesecurrenciessubjecttotheregulationsof IncomeTaxAct,1961.

The one rupee note and smaller coins are issued by the government and they are calledlimited legal tender which means that they can be demanded as a medium of payment only toa limited extent. The one rupee note carries the signature of secretary to the Ministry ofFinance.

2. **Banker to Government**: Reserve Bank of India acts as a banker to the government bymaintaining the account of Central government and also that of the State government. It alsoprovides overdraft facility to both State and Central governments. The public borrowings ofgovernment are done through Reserve Bank of India. Payments to the government such asincometaxarealsoacceptedbyReserveBankofIndia.

3. **Bankers' Bank**: The other traditional function of RBI consisting of bankers‘ bank is doneinthefollowingmanner:

1. IssuinglicensetobanksandallowingthemtoopenbranchesundertheprovisionsofBanking RegulationAct. RBIalsocontrolstheworkingofcommercialbanksandundertakesperiodicalinspection ofthesebanks.
2. In case of violation of the Banking Regulation Act by any of the commercial banks,RBIwillorderfor theclosureofthesebanks.
3. The management of the commercial banks will also be controlled by Reserve Bank ofIndia. All the top level management appointments of commercial banks require priorapprovalof RBI.
4. Thecreditrequirementsofcommercialbanksaremetbydiscountingandre-discountingeligiblesecuritiesatthebankrate.

4. **CreditControlfunctions**:RBIexercisethefollowingcredit controlmeasures

- Thequantitativeweaponsofbankrate,openmarketoperationandvariablereserveratioareexercisedbyReserveBankofIndia.
- ThemodernweaponofselectivecreditcontrolisalsobeingexercisedbyRBIparticularly onagriculturalcommodities.
- TheseasonalfluctuationsinthemoneymarketisbalancedbyReserveBankofIndiathroughadequatefinanceduringaperiodoffinancialstringency.

5. **RBI acts as lender of last resort**: The commercial banks have to maintain as a part ofstatutory requirements certain percentage of their deposits with RBI which is called

cashreserveratio.

By increasing or decreasing this percentage of cash reserve ratio, RBI allows adequate fundsfor lending purpose by commercial banks. When all the commercial banks are depositingwith Reserve Bank of India in the form of cash reserve ratio, a sizable amount of fund isavailable with RBI. This fund will be extended by RBI to any commercial bank which isfacingcrisis.

6. **Exchange control function**: In India, we have the exchange control since independenceandRBIisgivenenoughpowerstoexerciseexchangecontrol.Withoutthelicense ofReserve Bank of India no one can deal in foreign exchange. The exchange rate with differentforeign currencies is provided by RBI to its authorized dealers consisting of nationalized andotherprivatecommercialbanks.

All the foreign exchange earnings in the country are kept by RBI in the form of foreignexchange reserve. RBIalsohas the responsibility ofmaintainingthe value of domesticcurrency and take adequate measures so that its value does not depreciate abnormally inrelationtoforeigncurrencies.

7.**Clearing house**: In all big cities Reserve Bank of India has its branches and clearing houseoperationsareundertaken.WhereRBIdoesnothaveitsbranch,theclearinghouseoperatio nsareundertakenbyStateBankofIndiaanditssubsidiarybanks.AllthecommercialbanksinIndi aaremembersinclearinghouseandtheytakepartintheclearingofcheques.

PROMOTIONALFUNCTIONS

VariouspromotionalfunctionsperformedbytheReserveBankofIndia aregivenbelow

1. **Promotion of Banking Habit**: The Reserve Bank of India helps in mobilizing the savingsof the people for investment. It expanded banking system throughout the nation by setting upof various institutions like UTI, IDBI, IRCI, NABARD etc. Thereby it promoted bankinghabitamongthepeople.

2. **Providing Refinance for Exports**: The Reserve Bank of India is providing refinance forexport promotion. The Export Credit and Guarantee Corporation (ECGC) and Export ImportBankwereestablishedinitiallybytheReserveBankofIndiatofinancetheforeigntradeof

India.Theyfinanceforeigntradeintheformofinsurancecover,long-termfinanceandforeigncurrencycredit.However,theyarenowfunctioningseparately.

3. **ProvidingCredittoAgriculture**:TheReserveBankofIndiamakesinstitutionalarrangeme nts for rural or agricultural finance. For example, the bank has set up specialagricultural credit cells. It has promoted regional rural banks with the help of commercialbanks.IthasalsopromotedNABARD.

4. **Providing Credit to Small Scale Industrial Unit**: Commercial banks lend loans to small-scale industrial units as per the directives issued by the Reserve Bank of India time to time.The Reserve Bank of India encourages commercial banks to render guarantee

services also tosmall-scale industrial sector. The Reserve Bank of India considers advances given to small-scale sector as priority sector advances. It also directed commercial banks to open specializedbranches toprovide adequatefinancialand technicalassistance tosmall-scaleindustrialbranches.

5. **Providing Indirect finance to Cooperative Sector**: The RBI has directed NABARD togive loans to State Cooperative Banks, which in turn lend loans to cooperative sector. Hence,theReserveBankofIndiaprovidesindirectfinancetocooperativesector inIndia.

6. **Exercising Control over Monetary and Banking system of the Country**: The ReserveBank of India is vested with enormous and extensive powers regarding supervision andcontrolovercommercialbanks,cooperativebanksandalsonon-bankinginstitutionsreceivingdeposits.TheBankingRegulationActprescribesextensiverequirementsasminimumregardingthe paid-upcapital,reserves,cashreserves andliquidassets.

Theoperationofthebank,themanagement,amalgamation,reconstructionandliquidationetc.arethoroughlysupervisedby theofficialsoftheReserveBankofIndia.Everyscheduled

bankisrequiredtofurnishtotheReserveBankaweeklystatementshowingtheprincipalitemsofitsliabilitiesandassetsinIndia.

7. **Making Industrial arrangement for Industrial Finance**: The Reserve Bank of Indiamakesinstitutionalarrangementforindustrialfinance.Forinstance,ithasbroughtintoexistence several development banks such as the Industrial Finance Corporation of India, theIndustrialDevelopmentBankofIndia,which providelong-termfinancetoindustries.

MONETARYPOLICYOFRESERVE BANKOFINDIA

Introduction

Monetary policy also known as the credit policy, is the policy which is purely managed byour Central bankof India (Reserve Bank of India) to control themoney supply in theeconomy&amountofcreditintheeconomy.

Monetary policy is governed by RBI. Monetary policy through both monetary and non-monetarymeasuresinfluencesavings,investment,output,income&pricelevelintheeconomy.

To control the money supply RBI uses various instruments. Basically RBI control these rateslike Bank Rates,MSF, Repo Rate,Reverse Repo rate, Cash Reserve ratio & Statutoryliquidity ratio in order to manage price stability in the economy & to achieve high economicgrowth.

CashReserveRatio

Every bankmaintains acertain % of their total deposits with RBI in the form of Cash andNet demand & Time liabilities. Current CRR is 4%. Every Bank has to pay the amount toRBIonevery15Days.

StatutoryLiquidity Ratio(SLR)

Every bank has to maintain a certain % of their total deposits in the form of (Gold +

Cash +bonds + Securities) with themselves at the end of every business days. Current SLR is20.75%.

IndirectInstruments

Bankrateisalsotermedas–DiscountRate‖TheratethroughwhichRBIchargescertain% for providing money to other banks without any security for Long period of time for 90 Days&CurrentBankRateis6.75%.

MSF(MarginalStandingFacility)

MSFistheratethroughwhichbankcanborrowfundsforShorttime–Overnightbasis.CurrentMSF is6.75%.

RepoRate

ReporateistheratethroughwhichRBIlendsmoneytocommercialbankwithsecurityforShortperiodoftimeintheeventofshortfallof funds.CurrentReporateis6.25%.

ReverseRepo Rate

ReverseReporateistheratethroughwhichCommercialBanklendsmoneytoCentralBankofIndiai.e.RBI,forShortperiodoftime.Currentreversereporateis5.75%

State Bank of India:

Establishment of State Bank of India:

The State Bank of India is the biggest commercial bank and holds a special position in the modern commercial banking system in India. It came into existence on July 1, 1955 after the nationalisation of Imperial Bank of India. The Imperial Bank of India was established in 1921 by amalgamating the three Presidency Banks of Madras, Bombay and Bengal.

Until the establishment of the Reserve Bank of India in 1935, the Imperial Bank of India, in addition to its normal commercial banking functions had been performing certain central banking functions. It used to act as the banker to the government, as banker's bank and as the clearing house.

After the establishment of the Reserve Bank of India, the Imperial Bank of India left its central banking functions, but continued to serve as the agent of the Reserve Bank in the areas where the latter did not have its branches. In 1955, on the recommendations of the Rural Credit Survey Committee, the Imperial Bank of India was nationalised and renamed as the State Bank of India through the State Bank of India Act 1955.

Organisation of State Bank of India:

i. Capital:

The state Bank of India has an authorised capital of Rs. 20 crore which has been divided into 20 lakh shares of Rs. 100 each. The issued capital of the State Bank is Rs. 5.6 crore. The shares of the State Bank are held by the Reserve Bank, insurance companies and the general public. At the end of March 2001, the paid-up capital and the reserves of the State Bank were Rs. 13461 crore.

ii. Management:

The management of the State Bank of India is under the control of a Central Board of Directors consisting of 20 members.

The break-up of the Central Board is as given below:

(a) A Chairman and a Vice-Chairman are to be appointed by the Central Government in consultation with Reserve Bank.
(b) Two Managing Directors are to be appointed by the Central Board with the approval of the Central Government,
(c) Six directors are to be elected by the private shareholders.
(d) Eight directors are to be nominated by the Central Government in consultation with the Reserve Bank to represent territorial and economic interests. Not less than two of them should have special knowledge in the working of cooperative institutions and of the rural economy,
(e) One director is to be nominated by the Central Government,
(f) One director is to be nominated by the Reserve Bank.

iii. Subsidiary Banks:

Through the State Bank of India (Subsidiary Banks) Act, 1959, major state- associated banks were converted into subsidiary banks of State Bank of India.

At present, there are seven subsidiary banks of the State Bank of India:

(a) The State Bank of Bikaner and Jaipur;
(b) The State Bank of Hyderabad;
(c) The State Bank of Mysore;
(d) The State Bank of Patiala;
(e) The State Bank of Saurashtra;
(f) The State Bank of Travancore; and
(g) The State Bank of Indore.

The State Bank of India holds not less than 55 per cent of the issued capital of each subsidiary bank.

Objectives and Functions of State Bank of India:

The main objectives and functions of the State Bank of India are given below:

1. Objectives:

The State Bank of India has been established to operate on the normal commercial principles, with the only difference that, unlike other commercial banks in the country, it takes into consideration and responds in a progressively liberal manner the financial requirements of cooperative institutions and small scale industries, particularly in the rural areas of the country.

The main objectives of the State Bank are:

(i) To act in accordance with the broad economic policies of the government;
(ii) To encourage and mobilise savings by opening branches in rural and semi-urban areas and to promote rural credit;
(iii) To establish government partnership in the provision of cooperative credit;
(iv) To extend financial help for the establishment of licensed warehouses and cooperative marketing societies;
(v) To provide financial help to the small scale and cottage industries;
(vi) To provide remittance facilities to the banking institutions.

The State Bank of India acts as an agent of the Reserve Bank in all those places where the latter does not have its branches.

As an agent of the Reserve Bank, the State Bank performs the following functions:

(i) It acts as the government's bank, i.e., it collects money and makes payments on behalf of the government and manages public debt.
(ii) It acts as the bankers' bank. It receives deposits from and gives loans to commercial banks. It also acts as the clearing house for the commercial banks, rediscounts the bills of exchange of the commercial banks and provides remittance facilities to the commercial banks.

3. Ordinary Banking Functions:

The State Bank of India performs all kinds of commercial banking functions:

(i) It receives deposits from the public.

(ii) It gives loans and advances against eligible securities including goods, bills of exchange, promissory notes, fully paid shares of companies, immovable property or documents of title, debentures, etc.

(iii) It invests its surplus funds in government securities, railway securities and securities of corporations and treasury bills.

4. Other Functions:

The State Bank of India also performs the following other functions:

(i) It buys and sells gold and silver.

(ii) It acts as agent of cooperative banks.

(iii) It underwrites issues of stocks, shares, debentures, and other securities in which it is authorised to invest funds.

(iv) It administers, singly or jointly, estates for any purpose as executor, trustee or otherwise.

(v) It draws bills of exchange and grants letters of credit payable out of India.

(vi) It buys bills of exchange payable out of India with the approval of the Reserve Bank; it subscribes buys, acquires, holds and sells shares in the capital of banking companies.

5. Prohibited Functions:

The State Bank of India has been prohibited from doing certain businesses by the State Bank of India Act:

(i) The State Bank cannot grant loans against stocks and shares for a period more than six months.

(ii) It can purchase no immovable property other than its own offices.

(iii) It can neither rediscount nor offer loans against the security of exchange bills whose maturity period exceeds six months.

(iv) It cannot rediscount bills which do not carry at least two good signatures.

(v) It can neither discount bills nor grant credit to individuals or firms above the sanctioned limit.

Achievements of State Bank of India:

(A) General Progress:

The State Bank of India has made a tremendous progress since its inception in 1955.

i. Deposit Mobilisation:

There has been an increasing trend with regard to mobilisation of deposits by the State Bank of India. Total deposits and other accounts which were Rs. 226 crore at the end of 1955, increased to Rs.1227 crore at the end of 1969 and further to Rs. 242828 crore at the end of March 2001. Thus, there has been about 1075 times increase in Banks's deposits during 1955 to 2001.

ii. Credit Expansion:

The progress in the field of credit expansion has also been considerable over the years. At the end of 1955, total advances made by the State Bank were Rs. 106 crore. These advances increased to Rs. 841 crore in 1969 and Rs. 113590 crore in March 2001. This indicates that there has been 1072 times increase in advances during 1955 to 2001.

iii. Branch Expansion:

The number of branches of the State Bank of India has also grown remarkably since its establishment. In 1955, the Bank had 497 offices, in 1969 and 2001, the number increased to 1673 and 9078 respectively.

iv. Present Position of State Bank Group:

By the end of March 2001, total deposits of the State Bank Group (i.e., State Bank of India and its seven associates) had reached Rs. 312117 crore, total advances granted by the group were Rs. 150390 crore, and total number of branches of the Group was 13509.

Thus, the State Bank of India Group accounted for about 41 per cent of deposits, 35 per cent of advances and about 21 per cent of the offices of all scheduled commercial banks in India. The paid-up capital and reserves of the Group were Rs. 4751 crore at the end of March 1994. Net profits of the group were Rs. 2222 crore (Rs. 1604 crore of the SBI and Rs. 618 crore of the associate branches) during 2000-01.

v. Profits, Efficiency and Capital Adequacy:

Over the years, the SBI continued to show better performance in terms of profits, efficiency and capital adequacy. It recorded a net profit of Rs. 1604 crore for the year 2000-01 against Rs. 832 crore for 1995-96, indicating an increase of 48%.

The major contributing factors for improved net profits were higher interest income from advances as well as investment operations, lower operating cost and better performance of foreign offices. The Bank's capital to risk-weighted assets ratio was 12.79% during 2000-01. This is well above the internationally accepted ratio of 8%. Net NPA of the Bank was 6.03% in March 2001 against 6.41% in March 2000.

vi. International Banking:

At present (March 2001), the SBI has a network of 52 overseas offices with their operations spread over 31 countries. These foreign offices mainly cater to the needs of the country's foreign trade and provide foreign currency resources to the Indian corporates.

During 2000-01, the foreign offices of the SBI earned a net profit or Rs. 248 crore. The deposits and advances of the Bank's foreign offices were Rs. 7932 crore and Rs. 14797 crore respectively at the end of March 2001.

vii. Technology Upgradation and Consumer Services:

The State Bank of India (SBI) has taken significant initiatives in the fields of technology upgradation and better consumer services.

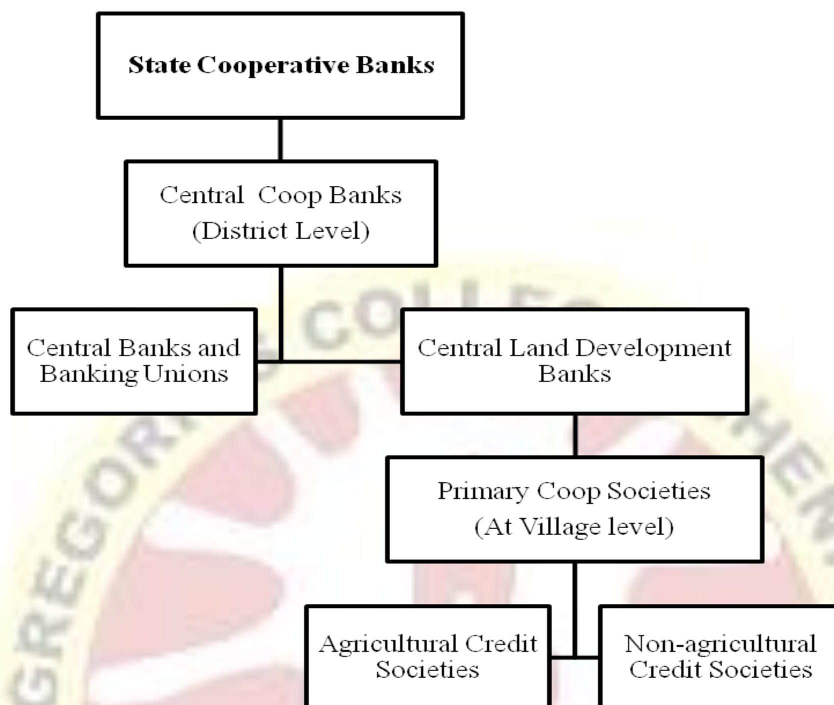
Co-operativeBanks:

Thesebanks are operatedon cooperativeprinciples.It is avoluntaryassociationofmembers for self-help and caters to their financial needs on a mutual basis. These banks are alsosubject to control and inspection by Reserve Bank of India. The main function of co-operativebanking is tolinkthefarmerswith the money marketsofthecountry.

a)PrimaryAgriculturalCo-operativesocieties(PACS):

LET YOUR LIGHT SHINE

Itistherootofthecreditstructure.Itisalsocalledasvillagesocietiesandthemembersbelong to therelatedvillages.



Functions:

- Itgivesshort-termandmediumterm loanstofarmers.
- Ithelpsindistributionoffertilizersandseeds.
- Ithelpsindistributionofconsumergoodstotheirmembers.
- Ithelpsinmilk, egg,sugarproductionin thevillage.

c) CentralCo-operativeBanks(CCB):

Itisthefederationofallprimarysocietiesatthedistrictlevel.Thereforeitisalsocalledas District co-operative central bank. It supervises, controls and finances the primary creditsocieties.

Functions:

- Itgivesfinances toprimarycreditsocieties.
- Itgivescredittoindividualcustomersonthe basisofsecurity.
- Itaccepts depositandpayshigherrateofinterestthancommercial banks.
- Ithelpsinremittingmoneytotheircustomers.
- Ithelpsinsolvingproblemsofprimaryco-operativesocieties.
- Itcontrolandsupervisestheworkingofprimaryco-operativesocieties.

c. StateCo-operativeBanks(SCBs):

State Co-operativeBank is thefederation of district Co-operativecentral banks. Eachstate has one state central co-operative bank. It is also called as Apex Bank in the three-tierstructure.

Functions:

- Itco-ordinatestheactivitiesofprimaryandCentralCo-operativeBanksinthestate.
- Itmobilizes depositsforthebenefitofco-operatives.
- IthelpsinmaintainingabalanceamongCentralCo-operativebanks
- Italsofunctionsasacommercialbank.

d. LandDevelopmentBanks:

Itwas earliercalledas LandMortgageBanks.Its structureisnot uniform inallthestates.

Insomestatesitisseparate,insomestates itisfederal.Andinsomestateitismixed.

Functions:

- Itgiveslong-termloanstoagriculturalistsformakingimprovementsontheland,repaying old debtsetc.,loans.
- Itgivesloanto freethemortgaged land andtobuynewland
- Italsograntsloanstocottageandsmallindustries inruralareas.

Comparison Chart

BASIS FOR COMPARISON	COMMERCIAL BANK	COOPERATIVE BANK
Meaning	A bank, that offers banking services to individuals and businesses is known as a commercial bank.	A bank set up to provide finance to agriculturists, rural industries and to trade and industry of urban areas (but up to a limited extent).
Governing Act	Banking Regulation Act, 1949	Cooperative Societies Act, 1965
Area of operation	Large	Small
Motive of operation	Profit	Service
Borrowers	Account holders	Member shareholders
Main function	Accepting deposits from public and granting loans to individuals and	Accepting deposits from members and the public, and granting loans to farmers and

BASIS FOR COMPARISON	COMMERCIAL BANK	COOPERATIVE BANK
	businesses.	small businessmen.
Banking service	Offers an array of services.	Comparatively less variety of services.
Interest rate on deposits	Less	Slightly higher

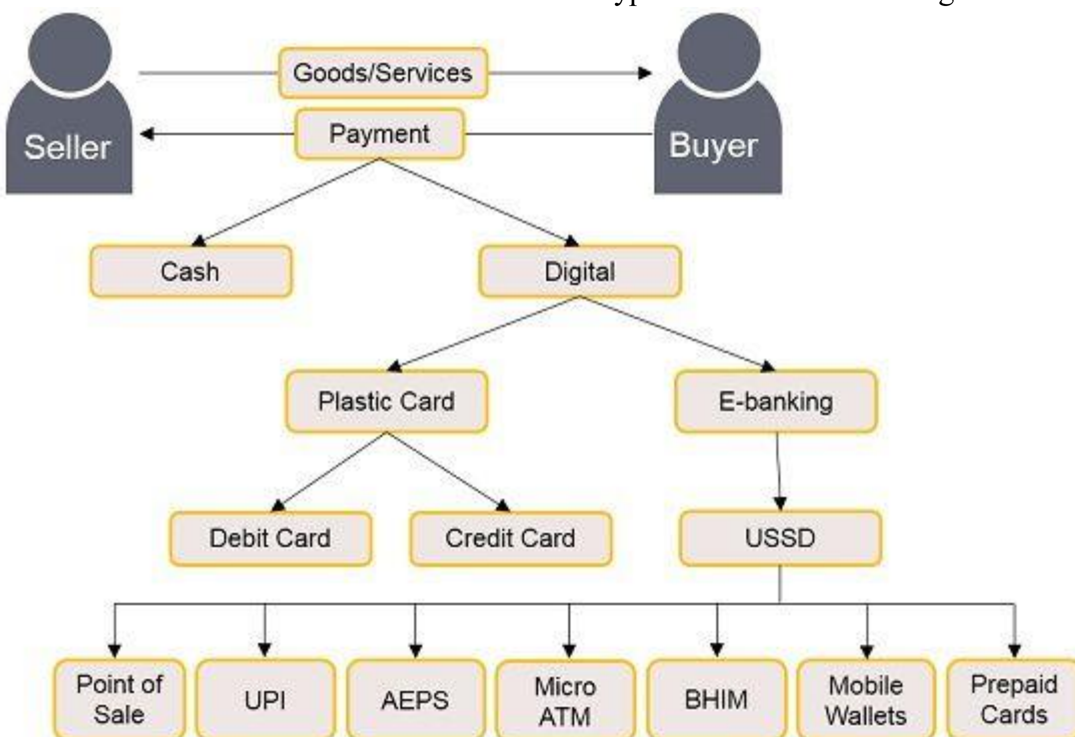
UNIT- 3 E BANKING

Definition: E-banking is a blanket term used to indicate a process through which a customer is allowed to carry out, personal or commercial banking transactions using electronic and telecommunication network.

It is a product offered by banks which facilitates online banking, with the help of which the customer can have access to the bank account in just one click.

E-banking covers facilities such as – fund transfer, checking account statements, utility bill payments, opening of bank account, locating nearest ATM, obtain information on financial products and services, applying for loans, etc. using a personal computer, smartphone, laptop or personal digital assistant.

Let's look at the types of digital payments:



E-banking Services

In simple words, e-banking refers to a banking arrangement, with which the customer can perform various transactions over the internet, which is end-to-end encrypted, i.e. it is completely safe and secure.

E-banking promotes paperless/cashless transactions. It comes with a number of rights, responsibilities and fees as well. The range of services covered under E-banking are:

1. **Internet Banking**: A banking facility provided to the customers through which the customers are able to perform a number of monetary and non-monetary transactions, using the internet, through the bank's website or application.
2. **Mobile Banking**: Almost all the banks have designed their mobile applications with which you can perform transactions at your fingertips. For this, four things are required – a smartphone, internet, mobile application, and mobile banking service enabled in your bank account.
3. **ATM**: Automated Teller Machine, popularly known as ATM is one of the most common and initial service, provided under e-banking. It is not just a machine with which you can withdraw cash as and when required, but it also allows you to check your account status, transfer fund, deposit fund, changes mobile number, change Debit Card PIN, i.e. Personal Identification Number.
4. **Debit Card**: Debit cards are used in our day to day life so as to perform end number of transactions. Debit cards are linked to the customer's bank account and so the customer only needs to swipe the card, in order to make payment at Point of Sale (POS) outlets, online shopping, ATM withdrawal. In this way, the amount is deducted from the customer's account directly.
5. **Credit Card**: Just like a debit card, a credit card is also a payment card which the banks issue to the customers on their request, after checking their credit score and history. It enables the cardholder to borrow funds upto the pre-approved limit and make payment. The limit is granted by the banks which issue the card. The cardholder promises to repay the amount within a stipulated time, with some charges, for the use of credit card.
6. **Point of Sale (POS)**: Points of sale system refers to the point, in terms of date, time and place (retail outlet) where the customer makes a payment, using a plastic card, for the purchase made or services received.
7. **Electronic Data Interchange (EDI)**: EDI is a new mode of communicating information between businesses electronically using a standardized format, which was conventionally paper-based.
8. **Electronic Fund Transfer (EFT)**: When money is transferred electronically from one bank to another, it is called as electronic fund transfer. It covers direct debit, direct deposits, wire transfers, NEFT, RTGS, IMPS, etc.

Benefits of E-banking

- It enables digital payments, which encourages transparency.
- It allows 24/7 access to the bank account.
- It also sends notifications and alerts to get updated with the banking transactions and changes in the rules.
- It lowers transaction cost for the banks.
- It is convenient and easy for customers, as they are not required to visit the bank branch every time.

In a nutshell, any type of banking transaction performed through electronic mode comes under E-banking.

It is a secure, fast and convenient electronic banking facility that allows its customers to undertake online banking services anytime during the day and at any place using the internet, for which the customers used to visit the banks in earlier days.

What is Online Banking

Online Banking, also known as net banking, e-banking or online banking, is the facility provided by banks and financial institutions which allows customers to use banking services via internet. There are scores of services like online money transfer, account opening, bill payment, tracking account activity, etc., which are made available to customers with the help of **online banking**. Online banking also allows banks to advertise their products and services in a manner that it reaches out millions of customers. However, in order to use online banking, an individual will require access to the internet, which is scarcely available in rural areas. Internet banking can also be accessed via mobile phones which have a data 3G/4G connection.

Scope of Online Banking Services

With the help of online banking, there are several indispensable services which are made available to customers, without them having to personally visit the bank. Customers can perform financial transactions like transfer funds online, pay bills, apply for loans and open a savings account among various other debit card transactions. Under non-financial transactions, customers can carry out several activities which may require going to the bank like applying for a new cheque book, getting account statements, update contact information, start/stop payment, etc.

Advantages of Net Banking

In an era when all of us are heavily dependent on technology, internet banking is nothing short of a savior. There are several advantages which e-banking has over conventional banking, which requires one to visit the bank and stand in queues. Listed below are just some of the benefits of internet banking which make our life easier each day.

- **Easy To Operate** – Online banking is very simple and easy to understand, maybe easier than conventional banking in many cases. Operation of an online account is rather simple and easy to use.
- **Convenience Of Making Payments** – Internet banking makes it quite convenient to carry out transactional activities like transfer of funds, payment of bills, etc. this means, no longer having to wait in queues for bill payments or having to safely keep receipts of bill payments, which are also perishable. All record of payments and bills is stored online on your account.
- **Round The Clock Availability** – Another indisputable advantage about online banking is that it is available round the clock, throughout the year. You don’t have to schedule a time when you can carry out banking activities, regardless of it being a weekend, time of the day or even holidays.
- **Time Saving and Efficient** – E-banking in not only fast but also highly efficient in letting you carry out transactions within a few minutes. Transfer of funds, account opening, bill payments take no more than a few minutes to process, which helps save a lot of time.
- **Accounts Activity Tracking** – Another very important benefit provided by net banking is that it allows you to track your account activity at all times. You can keep an eye on your account transactions and balance at all times. Any unauthorized transaction or discrepancy can be immediately tracked and reported to the bank immediately, allowing you to keep your money safe at all times.

Disadvantages of Internet Banking

Online banking is accompanied by a fair set of advantages, but like everything else, it also comes with certain disadvantages. Some of the things to look out for in case of net banking are as follows:

- **May Be Complicated For Beginners To Understand –** For those who are new to the world of banking, online banking may pose as slight challenge in terms of usage. While some banks do provide demos on their websites regarding the use of online banking, there are many banks which don't do that. In the latter case, an inexperienced user may be left to fend for him/herself.
- **No Online Banking Without Internet Access –** In order to use online banking, one needs to have a stable internet connectivity or access. Without one, the facility of online banking is of no use. Also, if the bank servers are down, you will be unable to access your account online to carry out transactions.
- **Transaction Security –** One of the main reasons which still keeps a lot of customers from using internet banking is the safety of transactions. While all major and recognized banks will have a powerful security encryption in place for ensuring the safety of customer's transactions, there have been instances where transaction details have been compromised. Though it is uncommon, but still can pose as a major threat.
- **Securing Your Password –** When it comes to internet banking, account passwords are of crucial importance. For that reason, it is absolutely necessary that a user must never reveal their account password to anyone. The ideal thing to do would be to memorize the password and also keep changing the same frequently, to eliminate any chance of password theft.

Difference between Traditional Banking and Internet Banking

Basis of Difference	Traditional Banking	Internet Banking
Presence	Banks exist physically for serving the customers,	Internet banks do not have physical presence as services are provided online.
Time	It consumes a lot of time as customers have to visit banks to carry out bank transactions like — checking bank balances, transferring money from one account to another.	It does not consume time as customers do not have to visit banks to check bank balances or to transfer money from one account to another. Customers can access their account readily from anywhere with a computer and internet access.
Accessibility	People have to visit banks only during the working hours.	Internet banking is available at any time and it provides 24 hours access.
Security	Traditional banking does not encounter e-security threats.	Online banking is the tempting target for hackers. Security is one of the problems faced by customers in accessing accounts throu h internet.
Finance Control	Customers who often travel abroad cannot pay close attention and	Customers who often travel abroad can have greater control over their finances.

Basis of Difference	Traditional Banking	Internet Banking
	control of their finances.	
Expensive	Customers have to spend money for visiting banks.	Customers do not have to spend money for visiting banks. They can avoid bank charges that may be charged for certain teller transactions or when they pay bills electronically — directly from their account to the merchant. It helps to save money on postal charges.
Cost	The cost incurred by traditional banks includes a lot of operating and fixed costs.	Such costs are eliminated as the banks do not have physical presence.
Customer Service	ln traditional banks, the employees and clerical staff of the bank can attend only few customers at a time.	In online banking, the customers do not have to stand in queues to carry out certain bank transactions.
Contact	Customers can have face to face contact in traditional banking.	Customers can have only electronic contacts.

Frauds in internet banking

The most common types of online fraud are called phishing and spoofing. Phishing is the process of collecting your personal information through e-mails or websites claiming to be legitimate. This information can include usernames, passwords, credit card numbers, social security numbers, etc. Often times the e-mails directs you to a website where you can update your personal information. Because these sites often look "official," they hope you'll be tricked into disclosing valuable information that you normally would not reveal. This often times, results in identity theft and financial loss. Spyware and viruses are both malicious programs that are loaded onto your computer without your knowledge. The purpose of these programs may be to capture or destroy information, to ruin computer performance or to overload you with advertising. Viruses can spread by infecting computers and then replicating. Spyware disguises itself as a legitimate application and embeds itself into your computer where it then monitors your activity and collects information. Fraudulent "Pop-up Windows" are a type of online fraud often used to obtain personal information. They are the windows or ads that appear suddenly over or under the window you are currently viewing. Fraudulent websites or pop-up windows are used to collect your personal information. Other terms for the fraudulent process of gathering your personal information include "Phishing or "Spoofing." Additional links to real websites can be incorporated into the email to lead you to believe the email is legitimate.

Fraudulent websites e-mails or pop-up windows will often:

- Ask you for personal information (Account number, Social Security Number, Date of Birth, etc.).

- Appear to be from a legitimate source (Retail Stores, Banks, Government agencies, etc.).
- Contain prizes or other types of certificate notices.
- Link to other real or counterfeit websites.
- Contain fraudulent phone numbers.

Pop-up windows are often the result of programs installed on your computer called "adware" or "spyware." These programs look in on your Web viewing activity and regularly come hidden inside many free downloads, such as music-sharing software or screen savers. Many of these programs enable harmless advertisements, but some contain "Trojan horse" programs that can record your keystrokes or relay other information to an unauthorized source.

How can I protect myself?

With the proper precautions you can help protect your Hoosier Heartland State Bank accounts and personal information from harmful pop-up windows.

1. Know the Scams

- Phishing, Spoofing, Pop-up Fraud – types of online fraud used to obtain personal information.
- Trojan Horse – Virus that can record your keystrokes. It can live in an attachment or be accessed via a link in the email, website or pop-up window.
- Counterfeit Websites – URLs that forward you to a fraudulent site. To validate a URL, you can type or cut and paste the URL into a new web browser window and if it does not take you to a legitimate web site or you get an error message, it was probably just a cover for a fraudulent web site.

2. Activate a pop-up window blocker.

There are free programs available online that will block pop-up windows. Be sure to perform an Internet search for "pop-up blocker" or look at the options provided by major search engines. You will need to confirm that these programs are from legitimate companies before downloading. Once you have installed a pop-up blocker, you should determine if it blocks information that you need to view or access. If this is the case, you should consider turning off the blocker when you are on Web sites you know use pop-up windows to provide information you need or want to view.

3. Scan your computer for spyware regularly.

You can eliminate potentially risky pop-up windows by removing any spyware or adware installed on your computer. Spyware and adware are programs that look in on your Web viewing activity and potentially relay information to a disreputable source. Perform an Internet search for "spyware" or "adware" to find free spyware removal programs. As with a pop-up blocker, you will want to be sure that your removal program is not blocking, or removing, wanted items, and if it is, consider turning it off for some websites.

4. Avoid downloading programs from unknown sources.

Downloads may contain hidden programs that can compromise your computer's security. Likewise, email attachments from unknown senders may contain harmful viruses.

5. Keep your computer operating system and Internet browser current.

6. Keep anti-virus software up-to-date.

Anti-virus software needs frequent updates to guard against new viruses. Select a reputable provider. Download the anti-virus updates as soon as you are notified that a new program update is available, or flag your program to download and install the updates automatically if that option is available.

7. Keep your passwords secret.
Change them regularly, using a mixture of numbers and characters.

What is Mobile Banking?

Mobile banking refers to the use of a mobile device to carry out financial transactions. The service is provided by some financial institutions, especially banks. Mobile banking enables clients and users to carry out various transactions, which may vary depending on the institution.

Currently, mobile banking's become easier with the development of cellular mobile applications. Clients are now able to check their balances, view their bank statements online, make transfers, and even carry out prepaid service purchases.

FEATURES&BENEFITSOFMOBILEBANKING

a) Simplicity:

Them-paymentapplicationmustbeuserfriendlywithlittleornolearningcurvetothe customer. The customer must also be able to personalize the application to suit his or herconvenience.

b) Universality:

M-payments service must provide for transactions between one customer to anothercustomer (C2C), or from a business to a customer(B2C) or between businesses (B2B). Thecoverage should include domestic, regional and global environments. Payments must bepossibleintermsofbothlowvalue micro-paymentsandhighvaluemacro payments.

c) Security,PrivacyandTrust:

A customer must be able to trust a mobile payment application provider that his or hercredit or debit card information may not be misused. Secondly, when these transactionsbecome recorded customer privacy should not be lost in the sense that the credit histories andspending patterns of the customer should not be openly available for public scrutiny. Mobilepaymentshavetobeas anonymousascashtransactions.

Banks offering mobile access mainly support some or all of the following services:

- Account Balance Enquiry
- Account Statement Enquiries.
- Cheque Status Enquiry.
- Cheque Book Requests.
- Fund Transfer between Accounts.
- Credit/Debit Alerts.
- Minimum Balance Alerts.
- Bill Payment Alerts.
- Bill Payment.
- Recent Transaction History Requests.
- Information Requests like Interest Rates/Exchange Rates.

Advantages of Mobile Banking

In Mobile banking, the user can transfer funds from your bank account to another bank account with a smartphone just with the help of the internet, from anywhere to everywhere. It is available for 24 hours and easy and convenient mode for many Mobile users in the rural areas. Mobile Banking is said to be more secure and risk-free than online Internet Banking. With the help of Mobile, Banking user can transfer funds, and pay bills, checking account balance, study your recent transaction, block your ATM card, etc. Mobile Banking is cost-effective, and Banks offer this service at less cost to the customers.

Features of mobile banking:

One of the main benefits of mobile banking is the convenience of having banking services close at hand. There's no need to go to a bank or ATM and wait for the bank to open to check your account balance, transfer money, pay your bills, or even view your statement. account. You can do it all using your cell phone.

Money transfer transactions can end when banks are open, but you can check your account balance or get an account statement regardless of time or day. Your bank account and personal data are completely secure if you use mobile banking services.

The bank will provide you with a set of credentials that you can use to log into your account and make transactions. This connection information is transmitted to you securely and since you are the only one who knows your username and password, your account is always secure.

Most banks allow you to activate two-step verification where you can only make bank transactions if you enter the one-time password (OTP) sent to your registered mobile phone number.

Disadvantages of Mobile Banking

Mobile Banking is not available on all mobile phone. Sometimes, it requires you to install apps on your phone to use the Mobile Banking feature which is available on the high-end smartphone. If the customer does not have a smartphone than the use of Mobile Banking becomes limited. A transaction like transfer of funds is only available on high-end phones. Regular use of Mobile Banking may lead to extra charges levied by the bank for providing the service. Mobile banking users are at risk of getting fake SMS messages and scams. The loss of a mobile customer device often means that criminals can gain access to your mobile banking PIN and other sensitive information.

Risks associated with mobile banking

Apart from this there are the usual risks associated with mobile banking that could include hacking. However, one needs to be careful and not share the password, just as you apply the same principal to the desktop. It is believed that bulk of the banking frauds take place through known relatives. So be careful when you share your mobile banking password. In fact, we strongly suggest that you have a screenlock for your mobile whereby nobody would be able to open the same.

Steps to improve safety when banking with mobile

Make sure that you do not open a link through your email that is unknown. By doing so, you are making yourself more vulnerable to mobile banking frauds. Also do not access your mobile banking from a wi fi spot. This can be extremely dangerous. If you have your own data card that should be good enough.

Another mobile banking saftey tip that you must adopt is to ensure that you do not use easy passwords. That can be extremely dangerous and full of risks.

Security issues of mobile banking

1. Using a fake mobile banking app

Some scammers have created fake mobile bank apps to get you to enter your password and other private details. Once they have that information, they can turn around and use it to access your real bank account and take out your money. Always read reviews and make sure you're dealing with the real app for your bank before downloading one or trying to log in. You can also try going to your bank's website and clicking on the link to the download page for its mobile app to make sure you're using the right one.

2. Using your mobile banking app on public Wi-Fi

Public Wi-Fi might enable you to save your monthly cell phone data, but it also makes it much easier for hackers to access your phone and see what you're doing. It is possible for them to hack into your phone when you're using cellular data, too, but that is much harder to do. Always stick to cellular data if you need to access your financial accounts in public, or better yet, wait until you're on a private Wi-Fi network to log into your bank account.

3. Not updating your phone's operating system or apps

Installing updates can be a pain and can keep you from accessing your phone or apps for a while. However, you should always do it anyway. Some of these updates are important security patches that fix flaws in an app that might let hackers more easily access your data. Outdated software is also easier to hack in general. Whenever your phone notifies you about an update, install it as soon as it’s feasible, especially if it's for your mobile banking app.

4. Storing passwords and PINs on your phone

You might decide to keep a note on your phone with your bank account password or PIN if you're prone to forgetting it, but this is dangerous, too. If you lose your phone and a would-be thief finds it, they can easily gain access to your financial accounts, and you probably won't even notice until your money is already gone. Try to memorize your passwords, especially your bank account password, so you don't need to store them on your phone or computer.

5. Using an easy password

The days when "Password" was considered a secure password are long behind us -- if they ever existed at all. Fortunately, most online accounts, including mobile banking apps, no

longer allow you to use such simplistic passwords. You must choose something that has a mix of capital and lowercase letters with some numbers and symbols thrown in. These types of passwords are more difficult to hack, so using one of them helps keep your account secure.

You should also use different passwords for all of your online accounts -- or at least use a different password for your mobile banking app -- so that hackers who gain access to one of your online accounts can't break into all of them. Changing your password every couple of months, even if you don't need to, can also keep hackers from accessing your banking information.

6. Not password protecting your phone

Modern smartphones let you enter a passcode or open your phone with a fingerprint scanner so that no one else can access your phone without your permission. This extra layer of security can prevent others from hacking into your mobile banking account or gaining access to other personal information stored on your phone that might help them answer your bank's security questions. Take advantage of these security features to keep your bank account and other personal information protected.

7. Not signing up for security alerts

Security alerts are messages sent to your phone or email that tell you about new or suspicious activity regarding your bank account. It might be a login from a new device or a purchase that seems suspicious. These alerts can help you quickly identify when **your identity has been compromised** so you can take action to stop the thief from draining your account. Enroll in these alerts if your bank offers them and check your bank accounts regularly for signs of suspicious activity.

Mobile banking apps are really useful, and they're not going away anytime soon. But they're also not immune to attack. Avoiding the seven above mistakes is crucial if you want your **bank account** to remain private.

Definition of 'E-wallets'

Definition: E-wallet is a type of electronic card which is used for transactions made online through a computer or a smartphone. Its utility is same as a credit or debit card. An E-wallet needs to be linked with the individual’s bank account to make payments.

Descriptions: E-wallet is a type of pre-paid account in which a user can store his/her money for any future online transaction. An E-wallet is protected with a password. With the help of an E-wallet, one can make payments for groceries, online purchases, and flight tickets, among others.

E-wallet has mainly two components, software and information. The software component stores personal information and provides security and encryption of the data. The information component is a database of details provided by the user which includes their name, shipping address, payment method, amount to be paid, credit or debit card details, etc.

For setting up an E-wallet account, the user needs to install the software on his/her device, and enter the relevant information required. After shopping online, the E-wallet automatically fills in the user’s information on the payment form. To activate the E-wallet, the user needs to enter his password. Once the online payment is made, the consumer is not required to fill the order form

on any other website as the information gets stored in the database and is updated automatically.

What are beneficial features of digital wallets?

- Money from the electronic wallet online account can be spent for any kind of online goods or services anywhere in the world.
- Easiness of managing the account from mobile phone or any device connected to Internet.
- No fees for transferring money and no membership fee.
- Minimal setup and easiness of use. Once the software is installed on consumer's smartphone or computer, he starts by entering all the pertinent information.
- The digital wallet is now set up and while the consumer is purchasing something on online store, the digital wallet software has the ability to automatically insert the necessary information in the online payment form.
- By default, most digital wallets prompt when the software recognizes a form, if you chose to fill in the form automatically, you will be prompted for a password. So unauthorized users have no possibility to see consumer's personal information stored on a particular computer or device.
- Secure method of transferring money as customer's information is encrypted or protected from any fraudulent activity by a unique software code.
- Digital wallets give the owner of online store the possibility to speed up customer checkout process. The experts say that upwards of 25% of customers abandon online purchases if they feel that the order form is too complicated or confusing.
- By using electronic wallet retailers enable shoppers to purchase more quickly and easily and take advantage of impulse purchases and the psychological advantage of not using cash or credit card.
- The consumer feels that everything is under control by receiving emails or SMS notifications after every transaction.
- Although a wallet is free of charge for consumers, vendors charge merchants for wallets. Some wallet vendors take a percentage of every successful purchase directed through their wallets and charge merchants a flat fee.

AUTOMATEDTELLERMACHINE(ATM)

Anautomatedtellermachineorautomatictellermachine(ATM)iscomputerizedtelecommunications device that provides a financial institution‘s customers a secure methodofperforming financial transactionsinapublic space withoutahumanclerkorbankteller.
An automated teller machine (ATM) is an electronic banking outlet that allows customers to complete basic transactions without the aid of a branch representative or teller. Anyone with a credit card or debit card can access cash at most ATMs.

ATMs are convenient, allowing consumers to perform quick self-service transactions such as deposits, cash withdrawals, bill payments, and transfers between accounts. Fees are commonly charged for cash withdrawals by the bank where the account is located, by the operator of the ATM, or by both. Some or all of these fees can be avoided by using an ATM operated directly by the bank that holds the account.

Types of ATMs

There are two primary types of ATMs. Basic units only allow customers to withdraw cash and receive updated account balances. The more complex machines accept deposits; facilitate line-of-credit payments and transfers, and access account information.

To access the advanced features of the complex units, a user must be an account holder at the bank that operates the machine.

Analysts anticipate ATMs will become even more popular and forecast an increase in the number of ATM withdrawals. ATMs of the future are likely to be full-service terminals instead of or in addition to traditional bank tellers.

Although the design of each ATM is different, they all contain the same basic parts:

- **Card reader**: This part reads the chip on the front of the card or the magnetic stripe on the back of the card.
- **Keypad**: The keypad is used by the customer to input information, including personal identification number (PIN), the type of transaction required, and the amount of the transaction.
- **Cash dispenser**: Bills are dispensed through a slot in the machine, which is connected to a safe at the bottom of the machine.
- **Printer**: If required, consumers can request receipts that are printed here. The receipt records the type of transaction, the amount, and the account balance.
- **Screen**: The ATM issues prompts that guide the consumer through the process of executing the transaction. Information is also transmitted on the screen, such as account information and balances.

Full-service machines now often have slots for depositing paper checks.

Special Considerations: Using ATMs

Banks place ATMs inside and outside of their branches. Other ATMs are located in high traffic areas such as shopping centers, grocery stores, convenience stores, airports, bus and railway stations, gas stations, casinos, restaurants, and other locations. Most ATMs that are found in banks are multi-functional, while others that are offsite tend to be primarily or entirely designed for cash withdrawals.

ATMs require consumers to use a plastic card—either a bank debit card or a credit card—to complete a transaction. Consumers are authenticated by a PIN before any transaction can be made.

Many cards come with a chip, which transmits data from the card to the machine. These work in the same fashion as a bar code that is scanned by a code reader.

ATM Fees

Account-holders can use their bank's ATMs at no charge, but accessing funds through a unit owned by a competing bank usually incurs a fee. According to MoneyRates.com, the average fee to withdraw cash from an out-of-network ATM was $4.61 as of late 2019.

Some banks will reimburse their customers for the fee, especially if there is no corresponding ATM available in the area.

The functions corresponding to the ATM are those set out below:

1. Planning of infrastructures and services.

1.1 Planning of collective public transport infrastructures and programming of those which have to be executed within a time horizon of ten years, defining their characteristics, programming the investments, proposing the funding agreements to be signed and the supervision of the corresponding projects to the effects of verifying the fulfilment of the objectives of the planning process, and specifically the drafting of the planning instruments for the coordination of the Metropolitan Collective Public Transport System (SMTPC), including the Intermodal Transport Plan, if appropriate.

1.2 Drafting of the investment programmes for the pluriannual periods and consequent proposal of the Infrastructure Funding Agreements to be signed between the AGE and the Government of Catalonia, and also of the instruments which give coverage to the execution of any other investments which may be carried out by means of other formulas.

1.3 Monitoring of the execution of investments in progress in the system provided for in the programming instruments, whether executed charged to any Infrastructure Funding Agreements signed by the AGE and the Government of Catalonia or under other funding formulas.

1.4 Planning of services and establishment of programmes of coordinated exploitation for all the companies which provide them, and observation of the evolution of the global travel market, with particular attention to the monitoring of the behaviour of private transport.

2. Relations with collective transport operators.

Conclusion, by delegation or jointly with the entities in charge of the services, of contract programmes or other types of agreements with the provider companies of public transport services within their territorial scope.

2.2 Drafting of the contract programmes to be signed between the ATM and the operators.

2.3 Monitoring of the management agreements and contracts of all the private and public companies of the Metropolitan Collective Public Transport System.

2.4 Monitoring of the evolution and fulfillment of the current contract programmes with Transports Metropolitans de Barcelona and Ferrocarrils de la Generalitat de Catalunya.

2.5 Drafting of proposals of agreements with the RENFE Company relating to the integration of its Barcelona local train services into the Metropolitan Collective Public Transport System.

3. Funding of the system by the administrations.

3.1 Drafting of the proposals of funding agreements with the various public administrations responsible for funding public transport, with definition of the contributions of budget resources to the system.

3.2 Conclusion of the funding agreements with the public administrations to subsidise the deficit of the services and operating expenses of the management structure.

3.3 Control of revenues, costs and investments of the service provider companies to the effect of the provisions of the previous sections.

4. Organisation of fares.

4.1 Joint exercise of the powers of the administrations responsible for collective transport over their own fares, including single dialogue of the system with the economic administration.

4.2 Drafting and approval of a common fare framework within a funding policy which will define the degree of coverage of costs by fare revenues and the definition of the integrated fare system, and also of the General Use Conditions of transport tickets in all the systems, with powers in relation with transport tickets for their suspension, retention and disqualification for future re-editions.

4.3 Proprietorship of the fare revenues for combined tickets and appropriate distribution among the operators.

5. Communication.

5.1 Dissemination of the corporate image of the Metropolitan Collective Public Transport System and of the ATM itself with total respect for and compatibility with those of the responsible entities and operators.

5.2 Execution of communication campaigns with the aim of promoting the use of the said system by the population.

5.3 Publicity, information and relations with users.

6. Future regulatory framework.

6.1 Study and drafting of proposals to present to the syndicated administrations, individually or by way of the groups or bodies which represent them within the ATM, of adaptation of the regulatory framework in order to enable the consortium to exercise the attributions provided for within the framework of their competences.

6.2 Exercise of the administrative competences in regard to the organisation of any services within their territorial scope which the signatory public administrations of the Framework Agreement of 28 July 1995 and the syndicated entities may decide to attribute to it.

6.3 Establishment of relations with the other administrations with a view to better fulfilment of the functions attributed to the ATM in accordance with its Articles of Incorporation.

6.4 Participation in international projects related with the ATM's functions which may provide improvements in know-how or management of the ATM's own services.

7. Other mobility-related functions.

7.1 Drafting, processing and evaluation of the mobility steering plans.

7.2 Issuance of reports regarding the urban mobility plans, the services plans and the mobility evaluation studies generated.

7.3 Application and funding of measures for rational use of private vehicles, without prejudice to the competences of the Autonomous Community and local administrations.

7.4 Drafting and funding of proposals for rational use of public thoroughfares and spaces, in aspects such as parking, pedestrian areas or implantation of lanes reserved for public transport or bicycles, without prejudice to the competences of the Autonomous Community and local administrations.

7.5 Promotion of the culture of sustainable mobility among the citizens.

7.6 Any other function in mobility matters which may be attributed to it by the current legislation.

Any other function which may be entrusted to it by the syndicated entities in accordance with the current regulations, in the matters which constitute the ATM's functions.

E-money is defined as digital, monetary medium of exchange that is represented on an electronic device. The device in question could be a software (like a banking system, or a payment service provider such as PayPal) or a piece of hardware like a smartphone or a magnetic device such as a prepaid card. In both cases, we call such devices storing e-money *electronic wallets* (e-wallets).

That's just the basic definition, of course. The official definition comes with a few more layers of meaning, which set electronic money apart from other forms of digital and manifest value.

The Definition of the EMD

In the EU, all handling of fiat-backed electronic money – from payment to obtaining an e-money license to supervising e-money institutions – falls under the purview of the EMD (Electronic Money Directive). This directive was put in place by the European Commission to create a cohesive rulebook for electronic money, including practices for security, risk-aversion, licensing and onboarding of new companies willing to position themselves on the electronic money market.

In 2009, the Commission brought a revised version of this directive into force, now referred to as the EMD2. It contains the following definition of e-money:

What is Electronic Money?

Electronic money refers to the currency electronically stored on electronic systems and digital databases, as opposed to physical paper and coin money, and is used to make it easier for users to transact electronically. The value of the electronic currency is backed by fiat currency.

Classifications of Electronic Money

Electronic money can be classified into two broad categories:

1. Hard

Hard electronic money is when e-money is used for irreversible transactions, ones that are highly securitized, and are more or less procedural in nature. They may include transactions that are

drawn through a bank.

2. Soft

Soft electronic money is when e-money is used for reversible or flexible transactions. There is an increased level of flexibility offered, and users are allowed to manage their transactions even after payment is processed, like canceling a transaction or modifying the payment price, etc.

The changes can be made post-transaction within a defined period. They may include transactions that are passed through payment mechanisms like PayPal, PayTM, Interac, credit cards, and so on.

Features of Electronic Money

Just like physical paper currency, electronic money also includes the following four features:

- **Store of value**: Just like physical currency, electronic money is also a store of value, the only difference being, that with electronic money, the value is stored electronically unless and until withdrawn physically.
- **Medium of exchange**: Electronic money is a medium of exchange, i.e., it is used to pay for the purchase of a good or when acquiring a service.
- **Unit of account**: Just like paper currency, electronic money provides a common measure of the value of the goods and/or services being transacted.
- **Standard of deferred payment**: Electronic money is used as a means of deferred payment, i.e., used for the tools of providing credit for repayment at a future date.

Advantages of Electronic Money

Electronic money offers several advantages for the global economy, including:

1. Increased flexibility and convenience

The use of electronic money brings increased flexibility and convenience to the table. Transactions can be entered into from anywhere in the world, at any given time, with one click of a button. It removes the hassle and tediousness involved with the physical delivery of payments.

2. Historical record

The usage of electronic money is becoming increasingly popular because it stores a digital historical record of each and every transaction made. It makes tracing back payments easier and also helps with making detailed expenditure reports, budgeting, and so on.

3. Prevents fraudulent activities

Since electronic money makes available a detailed historical record of each and every transaction made, it is very easy to keep track of transactions and trace them back through the economy. It increases security and helps prevent fraudulent activities and malpractices.

4. Instantaneous

The use of electronic money brings with it a kind of instantaneousness that has not been experienced before in the economy. Transactions can be completed in split seconds with the click of a button from virtually anywhere in the world. It eliminates problems of physical

delivery of payments, including long queues, wait times, etc.

5. Increased security
The use of e-money also brings with it an increased sense of security. To prevent loss of personal information while transacting online, advanced security measures are implemented like authentication and tokenization. Stringent verification measures are also employed to ensure the full authenticity of the transaction.

Disadvantages of Electronic Money
Electronic money comes with the following disadvantages:

1. Necessity of certain infrastructure
To use electronic money, the availability of certain infrastructure is necessary. It includes a computer or a laptop, or a smartphone, and a stable internet connection.

2. Possible security breaches/hacks
The internet always comes with the inevitability of possible security breaches and hacks. A hack can leak sensitive personal information and can lead to fraud and money laundering.

3. Online scams
Online scamming is also possible. All it takes for a scammer is to pretend to be from a certain organization or a bank, and consumers are easily convinced to give away their bank/card details. Despite the increased security and presence of authentication measures to counter online scams, they are still something to be looked after.

NATIONALELECTRONICFUNDSTRANSFER(NEFT)

NEFT is a system similar to RTGS with certain differences. RTGS handles big tickettransactions, whereas NEFT handles smaller size transactions. Most branches are using thisfacility to transfer funds in an efficient manner. Once the applicant for the transfer of fundsfurnishesfullandcorrectdetails(correctaccountdetailsmeanscorrectnameofthebeneficiary,the correct account number, thebranch and bank of the beneficiary, and thecorrect IFS code, etc.) funds can be transferred to the beneficiary‘s account by the remittingbank. Transfer of funds through NEFT is safe, quick. It reduces the paper work and is costeffective.

NEFT is an innovative electronic media for effecting transfer of funds. Special features ofNEFT are:

- NEFTisafundstransfersystemwhichenablesacustomerofabanktotransferfundstoanothercustomerofanotherbankhavingaccountwithanyparticipatingbank
- NEFT allowsbothintra andinter-bankfundstransferwithinacityandacrosscities
- Sinceitisintheformofetransfer,withoutanyphysicalmovementofinstruments,fundscanbetransferredquickly
- Thebeneficiarycustomergetsfundsinhisaccountonthesamedayoratthearliestonthen

extdaydependinguponthetimeofsettlement

- Boththeoriginatinganddestinationbankbranchesshouldbeon NEFTplatform
- The correct details of IFSC, beneficiary‘s name, account numbers, etc., should befurnishedtotheoriginatingbank.
- TheoriginatingbankbranchcankeeptrackofthestatusoftheNEFTtransaction.
- 8. In case for any reason the destination branch is not able to afford credit to thebeneficiary‘saccount,destinationbranch/bankhavetoreturnthefundstotheoriginat ing bank within two hours of completion of the batch through which thetransactionwasprocessed282PP-BL&P
- It is not only easy method of transfer of funds, but also enables the remitters to haveuserfriendlyandcosteffectivetransferoffunds

List of the Advantages of Electronic Funds Transfers

1. You have the right to dispute a transaction completed by EFT.

If you paid with an electronic funds transfer and have a dispute with a merchant, then you have the right to have your bank investigate anything that seems incorrect or unauthorized. Although you have a 60-day deadline from the time of the bank statement to request help with something that seems wrong, you may have some financial protections available with this advantage that safeguard you against potential fraud.

Make sure that you carefully review every statement from your bank or credit union to ensure there isn't any unauthorized transaction that sneaks through.

2. It helps merchants to access funds faster.

Merchants experience several unique benefits when they complete a transaction using an electronic funds transfer. It may reduce some of their bank fees, eliminates time spent by employees and deposits, and stops chances for fraud to occur. This advantage also benefits customers because it can prevent price increases that are due to issues such as these.

When wire transfers occur in the United States, the money typically moves within 1-2 business days. Some same-day transfers are possible. International payments may take 3-4 business days to complete when using this technology.

3. You can still pay for items without a debit or credit card.

Many businesses will accept an electronic check conversion as a form of payment even though they don't accept a traditional check. That means customers have a chance to buy items that they would otherwise not have a chance to do so if they don't have a credit or debit card. Since the money comes directly from the linked bank account, there isn't the threat of debt occurring with this process either.

4. Customers can set up automatic payments with EFTs.

Although ACH transactions are the most common way to create an automatic payment, an electronic funds transfer process can accomplish the same result. A merchant will pull funds from your account every time you have a bill that is due, which is usually on a monthly basis. The biller is the one who is responsible for initiating the transaction, which means a customer

doesn't need to take any action. If you get busy and forget to pay for some responsibilities, then this option can keep your accounts current.
You'll need to fill out some paperwork to use this advantage. Then you can stop the automatic withdrawal whenever it is needed.

5. Most EFT transactions don't require a hold on the funds.
Because the money moves quickly with an electronic funds transfer, the recipient shouldn't need to wait for any funds to clear before they can claim or use their money. That's an advantage over a traditional check that may need to wait 14 days or more before the funds become available. It can take several weeks, and sometimes longer, to discover that a payment was bad when using the traditional method.
This advantage allows merchants to put their revenues to use right away instead of waiting for them to clear the bank.

6. It is generally safe to receive funds through the EFT process.
It is mostly safe to receive money from a wire transfer. Payments are more certain with this process because an institution will only send money that is available. Once the cash arrives, then it is typically yours to take within a business day – although some exceptions may apply in specific situations. It's also difficult for a sender to take the money back after transferring it to you.
You must verify that the wire transfer is real before trying to access funds. You will want to speak with someone at the bank to determine if the funds cleared. Some electronic payments can get reversed.

7. This service is available almost anywhere in the world.
Many people use electronic funds transfers to send money internationally. It is usually performed through a service like MoneyGram or Western Union, but banks and credit unions can sometimes also offer this service. It is a service that you can find almost anywhere, and online providers make it convenient enough where you don't even need to leave your house. Multiple centers accept payments in every city, so the average person doesn't need to travel very far to find a place to give or receive cash. You'll also receive the money in your current currency.
List of the Disadvantages of Electronic Funds Transfers

1. Customers need to have the funds available immediately.
An electronic funds transfer is a process that happens immediately. If a customer purchases something using EFT, then they must have the money available right away. It's not like the traditional check that might take a few business days to clear before the bank releases the funds. Most institutions will typically release cash from your account much faster, often on the same business day.
2. You won't receive a copy of the canceled check.
When you pay through an electronic funds transfer, then you're initiating a transaction that's similar to a debit card. You'll receive a receipt at the register for the amount spent, but you will not receive a copy of a canceled check from the bank. This disadvantage applies even when you write a paper check that the merchant processes through their point-of-sale equipment. That means you must pay close attention to your statements to ensure that the transaction processes correctly.

3. It creates purchasing opportunities around the clock.
The convenience of an electronic funds transfer can also become a disadvantage for some consumers. The urge to buy something in the Internet economy means there are 24/7 shopping opportunities for anyone with a data connection. Sellers want to encourage this process by removing any potential barriers to a buying opportunity.
Some sellers don't accept an electronic funds transfer – and may not even allow for a debit card. Universal acceptance may never happen, which means consumers must have multiple forms of payment available to ensure that they can buy what they need.

4. Payments can still "bounce" when using an EFT.
An electronic funds transfer can come back as "returned," which creates a result that's similar to bouncing a check. Customers must take immediate action if a payment declines or gets returned to you so that payment can occur. Financial institutions do not automatically try to reprocess returned or declined transactions.
Most institutions will charge a returned EFT fee for every item that comes back for any reason. It's often a similar fee to that of a bounced check, although it is usually a lower amount. Merchants will pass this cost along to a customer when it occurs if they are at fault for the problem with the transaction.

5. It is almost impossible to bank anonymously in the United States.
Some countries allow consumers to have accounts anonymously, which means their electronic fund transfers don't provide any personal information at all. This process doesn't happen in the United States. Individuals can keep their identity from businesses and individuals to some degree, but it also allows law enforcement to find you if there is a need to do so. Even the banks in Switzerland that are famous for their anonymity cooperate with American policing efforts.
6. If you lose money in a wire transfer, it may not be recoverable.
Many scams involve electronic funds transfers because the initiator may not realize that their money isn't going to its intended purpose until the process is too far along to stop. A thief only needs to take control of an account for a few days to send money to a different location. Wire transfers can go to overseas accounts where the cash gets withdrawn almost immediately in some situations. That's why you should never use an EFT to send money to someone that you don't personally know.
7. You cannot guarantee the recipient unless it is yourself.
Unless you initiate an electronic funds transfer to pay yourself or transfer money between accounts, there is no way to verify that the intended recipient got the cash. Someone with a fake ID could collect the money without going through an extensive verification process. Some transactions that use this method are particularly risky, such as wiring money to an office that pays proceeds in cash.
Down payments for home loans are particularly vulnerable with a wire transfer. If you receive instructions by email, then it isn't that difficult to alter the instructions to send the EFT to the wrong place.

8. Some ETFs must get reported to the government.
Any transaction that involves more than $10,000 cash with an electronic funds transfer gets reported to the Internal Revenue Service in the United States. Some banks require advanced notice before they'll transfer a large sum of money to you or someone else, so you'll want to

check with your institutions before you find yourself in a place where you have an immediate need. You might need to have funds available the day before closing the transaction to ensure that there aren't any problems with the account.

9. Wire transfers can sometimes get lost.

There is a myriad of problems that can occur when using an electronic funds transfer to send money. Numbers can get transposed when writing down account information. Some ETFs can even get lost between the initiator and the bank. When you miss the deadline for this process, then the money isn't going to go out until the following business day. A manager who approves a transfer might be unavailable, creating a further complication to consider.

10. The fees for some EFTs can be somewhat high.

Every wire transfer service provider charges a fee for the initiated transaction. It is usually the sender that pays this amount, giving the receiver the entire balance sent. Some companies require a minimal fee from the receiver or a percentage of the amount sent as compensation for the services. International transactions usually cost more than the local transfer. If you want the money to be available in real-time, then the fee can be as high as 15% of the amount being sent. Since an electronic funds transfer is nonreversible in this circumstance, it is essential to make sure that you want to go through with this process. Senders are not going to get their money back once they initiate the transaction.

UNIT- 4 BANK ACCOUNT
GENERALPRECAUTIONSFOROPENINGACCOUNTS

ApplicationForm:

The prospective customer is first of all asked to sign an application form prescribed forthat purpose after furnishing all particulars. Different bankers have different printed applicationforms. They also vary with classes of customers and for kinds of deposits. These applicationforms contain the rules and regulations of the bank along with the terms and conditions of thedeposit.Onthebackoftheapplicationformitself,thereisaprovisionforgivingspecimensignatures.However,theapplicationformforopeningacurrentaccountcontainsmanyconditionswhich arenotnormallyfound in othercases.

(2) SpecimenSignature:

Every new customer is expected to give three or more specimen signatures. Usually, theyare obtained on cards which are filled alphabetically for ready reference. Each bank maintains asignaturebookforthispurpose.Nowadays,banksobtainspecimensignaturesrightontheapplication forms.

(3) LetterofIntroduction:

It is always on the part of a banker to allow the prospective customer to open an accountonly with a proper introduction. The usual practice for the banker is to open an account only witha proper introduction. The usual practice for the banker is to demand a letter of introduction froma responsible person known to both the parties. Failure to get a letter of introduction may landhim in trouble and affect his credit. For instance, as soon as a new party opens a current accounthe should be supplied with a cheque book which may be misused to his best advantage if hehappens to be an unscrupulous person. The responsible person who issues the letter must also becautious because if he supplies any false information about a party, he would be held liable tocompensate for the loss, if any, suffered by the banker. If the introduction turns out to be forgedone theaccount is treatedashaving notbeen introducedatall. Aletterofintroductionoraletterofreferencealwaysprotectsabakerinthefollowingways:

(a) Productionagainstfraud:

A letter of introduction serves as a precaution against fraud. It protects a baker againstissuing a cheque book to an undesirable and dishonest person. But for such a letter,he couldhave given a cheque book to an undesirable person who might have made use of those chequelaves to his best advantage even in the absence of sufficient funds. In such a case the goodwill ofthe bank would suffer. If the customer is a man of good character, he will not do such things. Thebanker can find out the character of a new party only through this letter. Thus, the purpose ofintroduction is to identify the depositor and to find out whether he is a genuine party or animpersonator or afraudulentperson.

(b) Protectionagainstinadvertentoverdraft:

It may so happen that a bank clerk may misread the balance of a customer and pay acheque. The result will be the emergence of an overdraft. The baker can recover the money onlyif thecustomeris amanofgood character.

(c) Protectionagainstanundischagedbankrupt:

If a new party happens to be an undischarged bankrupt the fact of which is not known tothebankerandifthepropertiesdepositedbyhimarenotacquiredbyhim,thebankerisanswerable to the Official Assignee for the transactions. A letter of introduction prevents theoccurrence of such events. Moreover, it is the duty of a banker to inform the existence of anaccount in the name of an undischarged bankrupt and get his current for the operation of such anaccount.

(d) Protection againstnegligenceunderSec.131oftheNegotiableInstrumentAct:

If a broker fails to obtain a letter of introduction at the time of opening a new account, itconstitutes negligence on the part of the collecting banker under Sec. 131 of the NegotiableInstrumentsActand so,hewilllosethe statutoryprotection.

(e) Protectionagainstgivingincorrectinformationtofellowbankers:

It is a courtesy among bankers to give reference about the financial position of theircustomers to fellow bankers. In the absence of a reference letter a banker may not be able tosupplycorrectinformation.

(4) Interview:

At the time of opening of new accounts, it is always advisable to have an interviewinvariably with the prospective customer so as to obviate the chances of perpetration of any fraudat alaterstage.

(5) Accountincash:

It is a common practice among bankers to allow a new party to open an account only incash. In the absence of an express notice, a banker needs to worry about neither the source ofmoney nor the customer’s title over the money. On the other hand if the account is opened bydepositing acheque,therisks aregreater.

(6) MandateinWriting:

If a new party wants its account to be operated by somebody else, the banker shoulddemand a mandate from his customer in writing. The mandate contains the agreement betweenthe two regarding the operation of the account, the specimen signatures of the authorised personand thepowers delegatedtotheauthorisedperson.

(7) VerificationofDocuments:

If the new party happens to be a corporate body, it is essential that the banker shouldverifysomeoftheimportantdocumentslikeMemorandumofAssociation,articlesofassociations , bye-law copy etc. In other cases, the verification of certain other documents likeTrust Deed Probate,Letterof Administration, etc.,may benecessary.

(8) ConversantwiththeProvisions ofSpecialActs:

Since a banker has to deal with different classes of customers, he has to be thoroughlyconversant with certain laws like Indian Companies Act, Indian Partnership Act, Insolvency Act,the various TrustActs, theCooperative SocietiesAct, etc.

(9) Pay-in-slipBookandPassBook:

Then, the customer is supplied with a pay-in-slip book. The pay-in-slip is a documentwhich is used for depositing cash or cheque or bill into the account. It has a counterfoil which isreturned to the customerfor making necessary entriesin his books.

Thecustomerisalsosuppliedwithachequebookwhichnormallycontains10to20blank forms.

A cheque leaf is used for the purpose of withdrawing money. If the customer doesnot like to have a cheque book, he can make use of the withdrawal form for withdrawing money.The firstchequebookis usuallybrandedwith therubberstamp‘N’.

Inadditiontotheabove,acustomerisalsogivenapassbookwhichreflectsthecustomer's account in the banker's ledger. It usually contains the rules and regulations of thebank and the terms and conditions of the deposit. Every customer is supposed to have read andunderstood theconditions.Heshouldcomplywiththem under all circumstances.

(10) PassportSizePhotograph:

Nowadays,banksinsistupontheprospectivecustomerstoaffixtheirpassportsizephotographs on the application forms at the time of opening the accounts. This is to preventimpersonationand for easy identification.

(11) KnowYourCustomer(KYC)Norms:

Strict norms have been laid down by the RBI under Sec. 35A of the Banking RegulationAct,1949withregardtoKYC.Themainobjectiveofthesenormsistoenablebankstoknowand understand their customers and their financial dealings closely so that any criminal elements/undesirable customers may not misuse banks for their money laundering activities. Moreover, abetter knowledge about customers would enable banks to manage their risks very prudently byavoiding any loan asset becoming non-performing through strict monitoring or by avoiding loansto high risk category of customers. At the same time, it is very important that any KYC policyshould not result in denial of banking services to the general public, especially to those who arefinancially andsociallydisadvantaged.

For the purpose of this KYC policy, a customer has been defined as a person or any entitythat either maintains an account with the bank or has any business relationship with the bank orboth. As per KYC norms it is very essential that customers should be allowed to open an accountor have any businessdealing with the bank only after identifyingthemand verifyingtheiridentityby using reliabledocuments.

Elements ofKYCNorms:

Generally,everybankisexpectedtoframeitsKYCNormsbytakingintoaccountthefollowing elements:

(i) CustomerAcceptancePolicy

(ii) CustomerIdentificationProcedures

(iii) MonitoringofTransactions

(iv) RiskManagement

(i) CustomerAcceptancePolicy:

OneoftheKYCNormspolicyistolaydowncustomeracceptancepolicybyeverybank.

Accordingly,

(a) Noaccountshouldbeopenedinbenamicnamesorfictitiousoranonymousnames.
(b) Thereshouldbeclearcategorisationofcustomersintolow,mediumandhighriskwithany suitablenomenclature.
(c) Necessarydocumentationrequirementsshouldbecompliedwithdependingupontheabove

perceivedrisks.

(d) Incaseitisnotpossibletoverifytheidentityorobtainnecessarydocuments,itisadvisable nottoopen an accountoreven close an existing account.

(ii) CustomerIdentificationProcedures:

Thefollowingdocumentsarenecessarytoestablishtheidentity ofindividuals:

(a) Foridentity-Passport,PanCardVoter's,Identity Card,DrivingLicense,etc.

(b) ForPermanentAddress-RationCard,TelephoneBill,ElectricityBill,LetterfromEmployer,etc.

In the case of limited companies and other corporates, documents like Board Resolution,Certificate of Incorporation, Articles and Memorandum of Association, copy of PAN allotmentletter,copy of any utilityservicebilletc.

(iii) MonitoringofTransactions:

KYC Norms also insist upon banks to ensure strict monitoring of transactions. Banksshould pay a special attentionto transactions that involve large amounts of cash. Generally,banks are expected to maintain proper record of all cash transactions of Rs.10 lakh and aboveeitherdepositsorwithdrawals.SuspiciousnatureoftransactionsshouldbereportedtotheControllingOffice/HeadOfficeimmediately.

(iv) RiskManagement:

Banks may apply monetary limits based on the nature and type of the account. Clear-cutresponsibility should be fixed for strict implementation of KYC norms. The internal auditorsshould check whether KYC norms and procedures are strictly followed and lapses, if any shouldbe broughtto lightimmediately.

All banks have been directed by the RBI to get complete identity of their customers under'Know Your Customer' Norms. Account without proper identification will not be allowed to beoperated fromApril2010 onwards.

Awithdrawalformshouldbeaccompaniedbythepassbook.Everychequebookcontainsa'Requisitionslip'attachedtoitattheend.Whenthechequebookisnearingcompletion hecanfill up theRequisitionSlip andobtaina freshchequebook.

FIXEDDEPOSITS:

A fixed rate of interest is paid at fixed, regular (monthly/quarterly/half yearly) intervalsandtheprincipalamountisreturnedattheendofthematurityperiod.Theinterestmaybepaidin cashtothe depositorormay becreditedtohissavingsaccount, asinstructed byhim

FeaturesofFixedDepositAccount:

Themainfeatures offixeddepositaccount areasfollows:

- Themainpurposeoffixeddepositaccountistoenabletheindividualstoearnahigherrate of intereston their surplus funds (extramoney).
- Theamountcan bedepositedonlyonce. For furthersuch deposits,separateaccountsneed to beopened.
- Theperiodoffixeddepositsrangebetween 15daysto10years.

- A highinterestrateis paidonfixed deposits.Therateofinterestmayvary as peramount,period and frombankto bank.
- Withdrawalsbeforematurityarenotallowed.
- The depositor is given a fixed deposit receipt at the time the deposit is made. He shallhave to produce it at the time of maturity. The deposit can be renewed for a further periodalso atthetimeof maturity.

OpeningtheAccount:

As usual, the prospective fixed deposit holder is expected to fill up an application formprescribed for the purpose, stating the amount and the period of deposit. The application itselfcontains the rules and regulations of the deposit in addition to the space for specimen signature.Unlike as in opening a current account, a banker does not insist upon a letter of introduction orreference for opening a fixed deposit account because of the absence of frequent transactions onthis account. After all, this account will never show any debit balance and put the banker introuble.

Interest:

Theinterestrateofferedonthefixeddepositisattractivethatithasresultedinachangein the composition of bank deposits. The rate of interest varies according to the period of deposit.In Indian banking history, the first ever highest interest rate of 25% was offered on term depositsfrom01.02.1997onwards.However,inrecenttimes,theRBIhasderegulatedtheinterestrateson fixed deposit.The banksaregiven the freedomtofixtheir ownratesfordifferent periods.

TaxDeductionScheme(TDS)extendedtoFixedDeposit:

Though the interest rates on fixed deposit are attractive, the system of tax deduction atsource was extended in 1991-92 to cover interest payment made by banks on fixed deposits,where the interest payment exceeds Rs.2,000 per financial year. Since it acted as a deterrentfactor in the welfare and development of a sound and healthy banking system, it was completelywithdrawn by the Governor subsequently. However, it has been reintroduced from the financialyear 1995-96. This TDS is applicable to interest payments exceeding Rs.10,000 per financialyear.

Period ofDeposit:

The minimum period has been fixed as low as seven days. As per the guidelines of theIndian Banks' Association, banks should not accept deposits for a period longer than 10 years. Ifthe maturity date of a fixed deposit falls on a holiday, it should be paid only on the succeedingworking day, since, a fixed deposit cannot be claimed before the maturity date as per the terms ofthe originalcontract.

FixedDepositReceipt:

At the time of opening the deposit account, the banker issues a receipt acknowledging thereceipt of money on deposit account. It is popularly known as FDR (Fixed Deposit Receipt). Itcontains the amount of deposit, the name of the holder of the deposit, the rate of interest, duedate, etc. On the reverse side of the FDR, separate columns are provided for making entriesregarding interest.

DebtorandCreditorrelationship:

The legal position of a banker in respect of a fixed deposit is that of debtor who is boundto repay the money only after the expiry of a fixed period. The banker continues to be a debtorevenafter theperiod isover,thoughhe doesnotpayanyinterestafterthe date ofmaturity.

Chequesnotpermitted:

The customer has no right to draw cheques on this deposit account. Hence, the amountcannot be withdrawn by means of cheques after the period is over. Alternatively, the customercan request the banker to transfer the amount with interest either to a current or savings accountand thereafterhecanwithdraw the amountby meansof acheque.

SurrenderofFDR:

Every bank makes it obligatory on the part of the depositor to surrender the FDR beforeclaiming themoneyonmaturity.Therefore, itis essential togetthereceiptdulydischargedatthetime of maturity. When such a receipt is so surrendered by the owner, the banker cannot put forthany excuseto repaytheamount.

LossofFDR:

Where a deposit receipt is lost, generally the banker demands the customer to sign anindemnitybondwithaguarantee.Itwillprotectthebankeragainstlossesinfuture.Inextraordinary cases, the customer may be asked to go to the court and seek its authorization.Hence, to avoid troubles the customer is well advised to preserve the receipt very carefully till hegetsthepayment.

ExemptionfromStampDuty:

A fixed deposit receipt, though an important document, is exempted from stamp dutyunder the Indian Stamp Act. This is just to popularize the deposit account. Otherwise, any reciptexceedingRs.500 requiresto bestamped.

FDR–NotaNegotiableInstrument:

A deposit receipt is not a Negotiable Instrument. The transferee cannot get a better titlethan that of the transferor himself. That is why the receipt has been specifically marked 'Nottransferable'. However, money in deposit account becomes a debt from the bank and like anyother debtthiscan beassigned.

FixedDeposit–SubjecttoGarnisheeOrder:

A Garnishee Order is one of court orders attaching a customer's account in the hands ofthe banker. This order can attachonly a present debtand not a future debt. Since the fixeddeposit isa present debt payable asa futuredebt, it can very wellattachthis account.AGarnishee Order issued in joint namescannotattachanindividualaccount.

Fixed Deposit–SubjecttoIncomeTaxAct:

Theofficersoftheincometaxhavebeenvestedwithwidepowerstoattachtheaccountof a customer in the hands of a banker for non-payment of income tax under Sec.226 of theIncome Tax Act, 1961. In recent times, the income tax officers have been increasingly using thisright to collect income tax arrears from the assessee. In such cases, a banker is bound to complywith theirorders.

SimultaneousODfacilitytoFixed DepositHolders:

A new scheme has been introduced by the SBI called ‘CASHKEY’ scheme. As per thisscheme, simultaneous OD facility in a current account equal to 75% of the amount of depositmade under the ‘CASHKEY’ scheme are automatically available to term deposit holders whohaveaminimuminitialdepositofRs.5,000.Thisschemeisavailableat allbranches oftheSBI.

Lien onFDR:

No lien is available on the fixed deposit account. The banker has only a right of set-off.However, a banker can exercise his lien on the FDR which can be offered as security provided itisdulystamped andsigned bythecustomer.

Nominationfacility:

The nomination facility has been extended to deposits of all kinds and safety lockers witheffect from 29.03.1985 on the recommendations of Talwar Committee. The said nomination canbe made in favour of only one individual. Where the nominee happens to be a minor, anotherindividualcan be appointedtoreceivethe amountonbehalfoftheminor.

FixedDepositandtheLawofLimitationAct:

The law of limitation does not cover a fixed deposit. The FDR invariably contains acondition for its return to claim the fixed deposit amount. Hence, the period of three years will becalculated from the date on which the FDR is surrendered. Otherwise, the period of three yearswill havetobecalculatedfrom thedate of expiry of thefixeddepositaccount.

AdvantagesofFixed Deposit:

Fixeddepositswiththebanksarenearly100% safeasallbanksaregovernedbytheRBI'srulesandr egulations.So,bankdepositsareamongthesafestmodesofinvestment.Onecan get loans up to 75-90% of the deposit amount from banks against fixed deposit receipts.Though the interest charged will be slightly more than the interest earned by the deposit. In caseof loss of a fixed deposit receipt, an indemnity bond has to be executed by the depositor forobtainingaduplicateone.

BANKER – CUSTOMER RELATIONSHIPDEFINITIONOFA‘BANKER’

The Banking Regulations Act (B R Act) 1949 does not define the term banker‘but defineswhatbankingis?AsperSec.5(b)oftheBRAct–Banking'meansaccepting,forthepurpose of lending or investment, of deposits of money from the public repayable on demand orotherwiseandwithdrawable bycheque,draft,orderorotherwise."

AsperSec.3IndianNegotiableInstrumentsAct1881,theword–bankerincludesany personactingasbankerandanypostoffice savingsbank‖

According to Sec. 2 of the Bill of Exchange Act, 1882, banker includes a body of persons,whetherincorporatedornotwhocarryonthebusinessofbanking.‘

Whoisa ‘Customer’?

The term Customer has not been defined by any act. The word _customer‘ has been derivedfrom the word _custom‘, which means a _habit or tendency‘ to-do certain things in a regularor a particular manner‘s .In terms of Sec.131 of Negotiable Instrument Act, when a bankerreceives payment of a crossed cheque in good faith and without negligence for a customer,the bank does not incur any liability to the true owner of the cheque by reason only

of havingreceived such payment. It obviously means that to become a customer account relationship ismust.Accountrelationshipisacontractualrelationship.

BANKER-CUSTOMERRELATIONSHIP:

Banking is a trust-based relationship. There are numerous kinds of relationship between thebank and the customer. The relationship between a banker and a customer depends on thetype of transaction. Thus the relationship is based on contract, and on certain terms andconditions.

These relationships confer certain rights and obligations both on thepart of thebankerandonthecustomer.However,thepersonalrelationshipbetweenthebankandits customers is the long lasting relationship. Some banks even say that they have generation-to-generation banking relationship with their customers. The banker customer relationship isfiducially relationship. The terms and conditions governing the relationship is not be leakedbythebanker toathirdparty.

CLASSIFICATIONOFRELATIONSHIP:

The relationship between a bank and its customers can be broadly categorized in to GeneralRelationship and Special Relationship. If we look at **Sec 5(b)** of Banking Regulation Act, wewould notice that bank's business hovers around accepting of deposits for the purposes oflending. Thus the relationships arising out of these two main activities are known as GeneralRelationship.Inadditiontothesetwoactivitiesbanksalsoundertakeotheractivitiesmentioned in Sec.6 of Banking Regulation Act. Relationship arising out of the activitiesmentionedinSec.6oftheactistermedas specialrelationship.

GENERALRELATIONSHIP:

1. Debtor-Creditor: When a 'customer' opens an account with a bank, he fills in and signsthe account opening form. By signing the form he enters into an agreement/contract with thebank. When customer deposits money in his account the bank becomes a debtor of thecustomer and customer a creditor. The money so deposited by customer becomes bank'sproperty and bank has a right to use the money as it likes. The bank is not bound to informthe depositor the manner of utilization of funds deposited by him. Bank does not give anysecurity to the depositor i.e. debtor. The bank has borrowed money and it is only when thedepositordemands,bankerpays.Bank'spositionisquitedifferentfromnormaldebtors.

Banker does not pay money on its own, as banker is not required to repay the debtvoluntarily. The demand is to be made at the branch where the account exists and in a propermannerandduringworkingdaysandworkinghours.

Thedebtorhastofollowthetermsandconditionsofbanksaidtohavebeenmentioned in the account opening form. {Though the terms and conditions are not mentionedintheaccountopeningform,buttheaccountopeningformcontainsadeclarationthatthe

terms and conditions have been read and understood or has been explained. In fact the termsand conditions are mentioned in the passbook, which is issued to the customer only after theaccount has been opened.In the past while opening account some of the banks had thepractice of giving a printed handbill containing the terms and conditions of account alongwith the account open form. This practice has since been discontinued. For convenience andinformation of prospective customers a few banks have uploaded the account opening form,terms and conditions for opening account, rate charge in respect of various services

providedbythebanketc.,ontheir website.

While issuing Demand Draft, Mail / Telegraphic Transfer, bank becomes a debtor asitownsmoneyto thepayee/beneficiary.

2. Creditor–Debtor: Lendingmoneyisthemostimportantactivitiesofabank.Theresources mobilized by banks are utilized for lending operations. Customer who borrowsmoney from bank owns money to the bank. In the case of any loan/advances account, thebanker is the creditor and the customer is the debtor. The relationship when person depositsmoney with the bank reverses when he borrows money from the bank. Borrower executesdocuments and offer security to the bank before utilizing the credit facility. In addition toopeningofadeposit/loanaccountbanksprovidevarietyofservices,whichmakestherelationship more wide and complex. Depending upon the type of services rendered and thenature of transaction, the banker acts as a bailee, trustee, principal, agent, lessor, custodianetc.

SPECIALRELATIONSHIP:

1. Bank as a Trustee: As per **Sec. 3** of Indian Trust Act, 1882 A "trust" is an obligationannexedtotheownershipofproperty,andarisingoutofaconfidencereposedinandaccepte d by the owner, or declared and accepted by him, for the benefit of another, or ofanotherandtheowner.‘ Thustrusteeistheholder ofpropertyonbehalfofabeneficiary.

As per **Sec. 15** of the Indian Trust Act, 1882 A trustee is bound to deal with thetrust-property as carefully as a man of ordinary prudence would deal with such property if itwere his own; and, in the absence of a contract to the contrary, a trustee so dealing is notresponsible for the loss, destruction or deterioration of the trust-property.‘ A trustee has therighttoreimbursementofexpenses(Sec.32ofIndianTrustAct.).

In case of trust banker customer relationship is a special contract. When a personentrusts valuable items with another person with an intention that such items would bereturned on demand to the keeper the relationship becomes of a trustee and trustier.Acustomer keeps certain valuables or securities with the bank for safekeeping or depositscertain money for a specific purpose (Escrow accounts) the banker in such cases acts as atrustee.Bankschargefeefor safekeepingvaluables

2. Bailee – Bailor: Sec.148 of Indian Contract Act, 1872, defines "Bailment" "bailor" and"bailee". A "bailment" is the delivery of goods by one person to another for some purpose,uponacontractthattheyshall,whenthepurposeisaccomplished,bereturnedorotherwisedis posedofaccordingtothe directions of the person delivering them.Thepersondeliveringthegoodsiscalled the "bailor". The persontowhomtheyaredeliverediscalled,the"bailee".

Banks secure their advances by obtaining tangible securities. In some cases physicalpossessionofsecuritiesgoods(Pledge),valuables,bondsetc.,aretaken.Whiletakingphysic alpossessionof securities the bank becomes bailee and thecustomer bailor.Banksalso keeps articles, valuables, securities etc., of its customers in Safe Custody and acts as aBailee.Asabaileethebankisrequiredtotakecareofthegoodsbailed.

3. Lessor and Lessee: Sec.105 of Transfer of property Act 1882‘defines lease, Lessor,lessee, premium and rent. As per the section ―A lease of immovable property is a transfer ofa right to enjoy such property, made for a certain time, express or implied, or in perpetuity, inconsiderationofapricepaidorpromised,orofmoney,ashareofcrops,serviceorany other

thingofvalue,toberenderedperiodicallyoronspecifiedoccasionstothetransferorbythetransferee,who acceptsthetransfer onsuch terms.
DefinitionofLessor,lessee,premiumandrent:

(1) The transferor is called the lessor,(2) The transferee is called the lessee,(3)
Thepriceiscalledthepremium,
(4) The money,share,service orotherthing tobe sorenderediscalledtherent.‖

Providingsafedepositlockersisasanancillaryserviceprovidedbybankstocustomers. While providing Safe Deposit Vault/locker facility to their customers'bank entersinto an agreement with the customer. The agreement is known as ―Memorandum of letting‖andattractsstampduty.

The relationship between the bank and the customer is that of lessor and lessee.Banks lease (hire lockers to their customers) their immovable property to the customer andgive them the right to enjoy such property during the specified period i.e. during the office/banking hours and charge rentals. Bank has the right to break-open the locker in case thelocker holder defaults in payment of rent. Banks do not assume any liability or responsibilityincaseofanydamagetothecontentskeptinthelocker.Banksdonotinsurethecontentskeptinthelockersbycustomers.

4. AgentandPrincipal:Sec.182ofTheIndianContractAct,1872'definesanagent‖asa person employed to do any act for another or to represent another in dealings with thirdpersons.Thepersonforwhomsuchactisdoneorwhoissorepresentediscalled‒the Principal‖.

Thus an agent is a person, who acts for and on behalf of the principal and under thelatter'sexpressorimpliedauthorityandtheactsdonewithinsuchauthorityarebindingonhisprincipaland,theprincipalisliabletothepartyfor theactsoftheagent.

Banks collect cheques, bills, and makes payment to various authorities' viz., rent,telephonebills,insurancepremiumetc.,onbehalfofcustomers..Banksalsoabidesbythe

standing instructions given by its customers. In all such cases bank acts as an agent of itscustomer, and charges for these services. As per Indian contract Act agent is entitled tocharges. No charges are levied in collection of local cheques through clearing house. Chargesareleviedinonlywhenthechequeisreturnedintheclearinghouse.

5. As a Guarantor: Banks give guarantee on behalf of their customers and enter in to theirshoes. Guarantee is a contingent contract. As per sec 31, of Indian contract Act guarantee is a"contingentcontract".Contingentcontractisacontracttodoornottodosomething,ifsome event, collateral to such contract, does or does not happen.Itwouldthusbeobservedthatbankercustomerrelationshipistransactionalrelationship

RIGHTSOF THEBANKER

Therightsofabankerthatthebankercanenjoyareasfollows

1. Rightsof generallien

Oneoftheimportantrightsofbankeristherightofgenerallien.Lienmeanstherightofthecreditor to retain the goods or securities own by debtor until the debt due from him is repaid.Therearesomeexceptionalcasesinwhichtherightofgenerallienisnotapplicable.

Theseare:

- Safecustodydeposit.
- Documentsdeposited forspecialpurpose.
- Securityheldintrust.

2. Rightofthesetoff

A banker possess the right of set off which enables him to combine two accounts in the nameof same customer and to adjust the debit balance in one account with the credit balance in theother.Therightofset offcanbeexercisedsubjecttothefulfillmentofthefollowingconditions:

- Theaccountsmustbein thesamenameinthesameright.
- Therightcanbeexercisedinrespectsofdebtsdueonlynotinrespectsoffuturedebtsorcontingentde bts.
- Theamountofdebtsmustbecertain.
- Thebankermayexercisethatright athisdiscretion.

3. Banker'srightofappropriation

If the customer has more than one account or he has taken more than one loan from thebanker,thebankerhastheright toappropriationtheseloansbytheaccounts.

4. Righttochargeinterest,incidentalcharges

As a creditor, a banker has the implied right to charge interest on the loans granted to thecustomer.
In the same way incidental charges like service charges, processing fees, appraisal charges,panelchargesmaybeimposedbythebankertothecustomer.
Deposit are repayable on term and made by the customer but the period of limitation for therefund of bank deposit is three years with affect from the date a customer made a demand forhis money.

PASSBOOK

Introduction:

Allkindsofdepositsareinthenatureofrunningaccounts.So,itbecomesimperativefora banker to inform his customers of the real position of their accounts from time to time. For thispurpose, a banker makes use of a small booklet called pass book. A pass book is a booklet,wherein a banker records his customer's account at it appears in his ledger. It is called a passbook because it passes between the hands of a banker and his customer very often. It reflects thecustomer's account in the banker's ledger. Thus, it is nothing but a copy of the customer'saccount in the banker's ledger. All the amounts deposited by a customer are credited and thecheques paid by banks against his account are debited. The balance is shown from time to time.Inthe place ofapassbook,statementsof account may alsobesent tothe customers.

MaintenanceofaPassBook:

A pass book may be maintained in the form of a ledger account with debit entries on theleft hand side and credit entries on the right hand side. This method is not popular amongstbankers. Most of the banks follow a tabular form for maintaining the pass book. There is aneconomy of stationeryinthis method.

A pass book may also be maintained in the form of a 'loose-leaf ledger card system'. Insuch a case, entries would have to be made by means of computers. When such a system isfollowed,itbecomesnecessaryforthebankertosendperiodicalstatementsregardingthe accuracyoftheentriesmadethereintothecustomersfortheirapprovalandreturn.Thesestatementsservethe purposeof apass book.

ThepositioninIndia:

The position in India is not well defined. This difficulty arises because a customer is notbound to examine his pass book. So, if a customer does not examine the pass book, cannot claimthat he has accepted it as a settlement of account. To find an answer to what the real effects ofentries in a pass book are, have to carefully analyze the type of entries. The entries in a pass bookmay beof twokinds viz.,(i) acorrectentry,and (ii) awrong entry.

(i) Correct entry: A dispute does not arise in respect of a correct entry and therefore canboldly say that a correct entry constitutes a settlement of account as between a banker and abanker.

(ii) Wrong entry: To err is human and therefore a banker may commit an error in a passbook. What is the result of his wrong entry? To find out an answer to this question,have todecide the nature of the wrong entry. The wrong entry may again be either (a) favourable to acustomer, or (b) favourabletoabanker.

(a) EntriesfavourabletotheCustomer:

Can a customer rely upon a wrong entry favourable to him? The answer is "yes". It is sobecause all the entries in passbook are made by the banker or his agent. Therefore, a passbookrecord can be used as evidence against banker. If the customer acts upon them as bonafide so asto alter his legal position,thebankerisstopped fromrectifyingthesame.

Thewrongentryfavourabletoacustomerconstitutes asettlementofaccountwhen:

(i) Thecustomerbelievesthatistrue,

(ii) Thecustomerdrawsachequeingoodfaithandincompleterelianceonthelargercredit balance,

(iii) Thewrongentryiscommunicatedtothecustomer

(iv) Inanycase,acustomercannotrelyuponanyfictitiousentrymadeinthepassbookby abank employee

Abankercanhavethismistakerectified,provided(i)thecustomerhasnotbeenadversely affected, and (ii) the sum has not been withdrawn. Hence, if a banker wants to rectifythe mistake, he must immediately inform the customer. Until the matter is settled, the bankershould go on honouring the cheque s drawn in reliance on the larger credit balance. The principleis, 'longer the duration, lesser the chance of a banker rectifies the mistake'. A passbook belongsto a customer and the entries made in it are statements on which the customer is entitled todepend and act.

(b) EntriesfavourabletotheBanker:

The wrong entry in a pass book may sometimes be favourable to a banker. The mistake iscommitted by the banker and the customer is not bound by the mistake. However, there is oneexception to the above rule. That is, where a customer has so acted as to render the entries ascorrectbyhisconduct,thenthoseentrieswouldconstituteasettledaccount.Inotherwords,ifthe customer, by his conduct, accepts the entries as correct, later on, he cannot question theaccuracy of those entries. Whether the customer has rendered the entries as settled ones or notdependsonlyupon thecircumstances.

It is quite evident that where a customer has voluntarily taken up the duty of examininghis pass book and if he is negligent of verifying those entries, then the liability falls only on thecustomer. Thoseentriesconstituteasettledaccount.

A customer's duty to examine his pass book can arise from an express agreement. Inspecial circumstances, if the attention of the customer is drawn to the accounts, he is under anobligation to examine the pass book and to report any inaccuracies in them. In such a case, if thecustomer keeps silent, it may be presumed that he has accepted the entries as correct. If a bankersucceeds in establishing this custom, the court may give legal recognition to the practice. That iswhy some bankers send periodical statements to their customers and ask them to certify them ascorrect. If theydo so, they areboundby them.

The place of pass book in the Indian Banking System is not well defined. To be on thesafer side, a banker should see that the pass book is made up, signed and returned to the customeras often as possible. When a pass book is sent, the date should be noted in the ledger togetherwith the initials of the clerk who is in-charge of it. He is responsible for its accuracy. Wheneveranerroris discovered,thecustomershouldbeinformedofit immediatelyand askedtoreturnthe pass book for correction. When a pass book is lot, a duplicate can be given against a payment ofRs.3 with opening entries and with additional charge of Rs.2 per ledger folio and it should bemarked'DUPLICATE'.Ifapassbookispreparedcarefully,itwilleliminatemanycomplications

SPECIALTYPESOFBANKCUSTOMERS

Introduction:

When a banker opens an account in the name of a customer, there arises a contractbetween the two. This contract will be a valid one only when both the parties are competent toenter into contracts. Since the banker has to deal with different kinds of persons with differentlegal status, he ought to be very careful about the competency of the customers. Any carelessnessonhispartmaylandhimintroubles.Hence,differentkindsofcustomersneeddifferenttreatmentsatthehands of thebanker.

TYPESOFCUSTOMERS

1. **MINORORINFANT:**

A minor is a person who has not attained the age of 18. According to Sec.3 of the IndianMajority Act, 1875, a minor is a person who has not attained the age of 18 and in case a guardianappointed, it is 21. But, in England until a person completes his age of 21, he is regarded as aminor or an infant.

Theprivileges ofaMinorguaranteedbyLaw:

(i) AsperSec.11oftheIndianContractAct,acontractenteredintobyaminorisvoid.Hence, aminor’s contractis notatall enforceable.
(ii) Evenifheborrowsmoneybyfalselyrepresentinghimselfasanadult,hecannotbecompelled to repay theloansince thecontractisavoid one.
(iii) An adult, who gives a bill of exchange for the debt contracted during the period ofhisinfancy,cannotbesued.
(iv) Itwasestablishedthatevenaguaranteegiveninrespectofaminor’sdebtisnotvalidsince theprimarycontractbetweenthebanker andthecustomer is void.
(v) Aminorwhoborrowsmoneycannotbecompelledtorepay,unlessitisforthenecessariesof hislifeasper Sec.11of the Indian ContractAct.
(vi) A minorhas the right to get back thesecuritiespledgedforthe purposeof securinga loaneven withoutrepayingthe loan,whichisnotfor the necessaries ofhislife.
(vii) Aminorcanrecoverevenathirdparty’ssecuritiespledgedwithoutrepayingthedebt.
(viii) Aminorcanneverbeappointed asatrustee.
(ix) A minor can enjoy the benefits of a partnership firm. But, he is not liable for the debts ofthe partnership firm. According to Sec.30 of the Indian Partnership Act, 1932, a minormust expressly repudiate the contract of partnership within six months of his attaining theage of majority. If he does not to do so, he will be regarded as having ratified theagreement and will be thereafter, regarded as a full-fledged partner and his liabilitycommencesfromthedateofhis joiningthefirm.
(x) A minor can act as an agent of an audit who has given the necessary authority to him.Thus,hecandraw,endorseanddiscountabillandobtainaloanonbehalfoftheprincipalprovi dedsuch powershavebeen delegatedtohim in writing.
(xi) Sec.26 of the Negotiable Instruments Act permits a minor to draw and endorse anycheque,bill orpromissorynote. Itwillbevalid againstall partiesexceptingaminor.
(xii) A minor can be appointed as an executor, but he can commence his work onlyafter his comingof age.
(xiii) Evenaguaranteegiven byaminor isnotvalid.
(xiv) Aminorcannotbeadjustedasaninsolventeither onhisownpetitionorofothers.

2. AMARRIEDWOMAN:

Abankermayopenanaccountinthenameofamarriedwoman.Likeanyothercustomer, she has the power to operate her account herself and the bonafide dealing with theaccount cannot be questioned. But, there was a time when married women were allowed to openaccountsonlyaftergettingtheconsentoftheirhusbands.Moreover,allherpropertiesbecamethe properties of her husband on her marriage. She was not allowed to hold property in her ownname. So,thepositionofamarriedwomanwasfar fromsatisfactoryinthose days.

ThePresentpositionofMarried Women:

(i) Now, the position of a married woman has considerable improved. She can open andoperate anaccountevenwithouttheconsentofher husband.
(ii) Shecannowownproperties inherownnameevenaftermarriage.
(iii) Even though she can own properties, in certain cases the properties would havebeen settled in such a way that she can enjoy only the income from those properties andthe ownership would not have been transferred. If a banker were to lend under thosecircumstances, hecould notattachthe property fornon-paymentofthemoney.
(iv) But,undercertaincircumstance,shecanmakeherhusbandliablefortheoverdraftenjoyed by her. Theyare:
   a. Ifsheborrowsmoneyforthe necessariesofher life.
   b. Ifsheborrowsforthenecessariesofherhusband.
   c. Ifsheactsasanagent ofherhusband.
(v) However, the husband can escape from his liability if he proves that, he has alreadysupplied her with the necessariesof life and householdand he has never allowedher toact as his legalagent.
(vi) Further,amarriedwomanenjoys certainprivileges underthelaw.Theyare:
   a. Shecannot beimprisoned fornon-payment ofajudgement debt,and
   b. Shecannot bemade aninsolvent,unless,shecarriesonsometrade orbusiness.

3. LUNATIC:

ThepositionofLunaticunder Law:

(i) A lunatic is a person of unsound mind. He cannot form a rational judgement on matters.Hence, he has no capacity to enter into a contract. According to Sec.12 of the IndianContract Act, 1872, persons of unsound mind are disqualified from entering into a validcontract.
(ii) However, this disqualification does not apply: (a) to contracts entered into by lunaticsduringtheperiod ofsanity,or(b)to contractswhichare ratified duringsuchperiods.
(iii) In England, the contract with a lunatic is voidable, whereas it is void in India.Obviously,such contractshave inherentdefectsinIndia.

4. DRUNKARD:

ThepositionofaDrunkardunderLaw:

Adrunkardisdisqualifiedfromenteringintoacontract,whenheisincapableofunderstandingthe implicationsof the contractdue to theeffectof theliquor. In India,thecontract by a drunkard is void, whereas it is voidable under the English law. So, in India, itcannot beratifiedby himlater whenheis sober.

5. APARTNERSHIPFIRM:

Apartnershipfirmisanassociationoftwoormorepersonscalledpartnerswhoundertake a venture for a mutual benefit. According to Sec.4 of the Indian Partnership Act, 1932,a

partnership is the 'relationship between the persons who have agreed to share the profits of abusiness carried on by all or any one of them acting for all of them'. A banker can very well dealwith these types of customers only when he has a thorough knowledge of the firm and therelevantActgoverningthefunctioningofthefirm.

OpeningofanAccount:

A banker will open an account for a partnership firm only when an application in writingis submitted by any one or more partners. Under Sec.19(2)(b) of the Indian Partnership Act of1932, authority to open a bank account in the name of an individual partner is positively denied.A single partner has no power to open an account in his own name on behalf of a partnershipfirm. If he does so, then it will be a private account and so, it will not bind the other partners.Therefore, itisadvisabletoopentheaccountonly in the nameofthefirm.

ConsentofallPartners:

To be on the safer side, a banker should get a written request from all the partners jointlyforopeningan account.

PartnershipDeed:

Further,thebankershouldgothroughthePartnershipDeedandcarefullystudyitsobjects, capital, borrowing powers, etc. The banker should enquire about the details of theorganization, description of the business, the names and addresses of all the partners and theirpowers. The banker should get a copy of the duly stamped partnership deed. He should furthersee if it is a registered firm or not. The interest of the banker would be jeopardized, if he hasdealingswith anunregisteredfirm.

Mandate:

In the absence of a mandate, the partnership account cannot be operated effectively andeasily.So, the bankershould ask for a mandateduly signed by all thepartners. Themandatemust containinformationregarding:

(a) Thenameofthepersonwhoisauthorizedtooperate theaccount:

In the interest of the firm and for the safety of the partnership funds, it is advisable thatthe account is operated by more than one partner. The authority given to operate the account canberevokedbyanyoneofthepartners.Likewise,thechequedrawnbyapartnercanbecountermandedb yany other partnersoastosecure thesafety ofthefunds.

(b) Theextentofauthoritygiven tosuchpersons:

A Banker should know whether the authority given is to include drawing, endorsing andaccepting bills, mortgage and sell properties of the firm, overdraw the partnership account and soon. The nature and extend of authority delegated to the authorised person must be put down inwriting in clearcutterms.

(c) Personalaccountandafirm'saccount:

Usually,abankerhasthepersonalaccountofapartnersidebysidewiththepartnershipaccount.Thes etwoaccounts aredifferentinnature.Hence,thebankershouldnotethefollowing:

(i) Heshouldnotmixoneaccountwithanotherandtherightofsetoffandlienwillnotbeavailable againsteachother.

(ii) A cheque payable to the firm must not be accepted for collection to the private account ofthepartnerwithoutproperenquiryandtheconsentofallotherpartners.Ifabankerdoes

so, it will amount to negligence under Sec.131 of the Negotiable Instrument Act and hewill losethestatutoryprotection.

(iii) But, if a cheque is drawn against the partnership account and is payable to thepersonal account of a partner, then the banker should honour the cheque. As he acts in thecapacity of a paying banker, the question of wrongful dishonor will arise if he fails tohonoursuch acheque.

(iv) Withtheconsentofthepartnerconcernedthebankercanhavenoobjectionintransferring the funds from the private account of a partner to the partnership account butin any case, thereverseisnotpermitted.

Creation ofmortgage:

According to Sec.19 of the Partnership Act, no partner has an implied power to sell ormortgage the property of his firm. But, Sec.8 of the Transfer of Property Act lays down that thetransferorofanimmovablepropertycantransferthetitlehehasintheproperty.So,thecombined effectof the Sec.19 and Sec.8 is that, in the case of mortgage for a partnership loan,the Deed of Mortgage must be signed by all the partners. Only then, all the partners will be madeliable.

Theretirement ofthepartner:

When a partner retires from business, notice of retirement should be given to the banker.If no notice is served, he will continue to be liable even for advances made after his retirement.However, a secret partner is not affected by this provision. At the time of retirement, if thepartnership account shows a debit balance, and if the banker wants to make the retiring partnerliable for his share, the banker should immediately close the account and open a new account toavoid the operation of the rule. Otherwise, any payment made in to the account by the newlyconstituted firm will automatically discharge the debit balance since the rule is, the first item onthedebitsideiscancelledbythefirstitemonthecreditside.Thus,theretiringpartnerwillescape fromhis liability.

Thedeathofthepartner:

Thedeathof apartnermayormaynot dissolvethepartnershipfirm.Ifit does notdissolve the firm, and if the account shows a credit balance, the banker can have no objection toallow the other partners to continue the operation of the account. But, he must have obtained afresh mandate from the remaining partners. A cheque drawn in the name of a deceased partnercanbehonouredaftergettingtheconfirmationoftheotherpartners.Whetherthefirmisdissolvedo rnot,iftheaccountshownacreditbalance,thesurvivingpartnersaloneareaccountable to the legal representative of the deceased partner for his share in the assets of thefirm. However, if the

account shows a debit balance, the banker must immediately close theaccount and open a new account in order to make the deceased partner liable, for his share andthustoavoid theoperationin therule.

Theinsolvency/insanityofapartner:

Theinsolvencyofapartnermaydissolveafirm.Likewise,theinsanityofapartnercanbe taken as a ground for the court's intervention to dissolve it. In such cases, the banker mayallow the other partners to operate the account for the purpose of the dissolution of the firm. TheOfficial Receiver or the Assignee of the insolvent partner cannot interfere in the day-to-dayaffairs of the firm and all that they can do is to demand an account from the solvent partners andthe share of the insolvent in the business. If the account shows a credit balance, the solventpartners are answerable to the insolvent for his legitimate share. Cheque drawn by an insolventbefore the commencement of his bankruptcy but presented afterwards can be honoured providedit is confirmed by the other solvent partners. At the time of insolvency of a partner, if thepartnership account shows a debit balance, the banker must immediately close the account andopenanewaccounttomaketheinsolventliableforhisshare.Thebankershouldmakeaclaimontheestateoftheinsolventwiththeconcernedauthority.

6. **AJOINTSTOCKCOMPANY:**

A joint stock company is an artificial person created by law. It has a separate existencedifferent from that of the members who constitute it. It has a common seal. It can sue others andcan be used. From birth to death, it is governed by law. As it is an artificial creation, it cannot actby itself. It has to act only through human agents. Because of the above features, it requires aspecial treatmentinthehands of the banker. PreliminarySteps:

(i) Before opening an account, the banker should find out whether the company has a legalexistence or not. It can be ascertained by referring to the Certificate of Incorporationwhich is aproof for thebirthof the company.
(ii) Then, the banker should obtain the latest copies of the Memorandum of Association andArticles of Association. These documents will reveal the objects of the company, itscapital, its name, the operation of its registered office, its directors and their addresses, itsborrowingpowers,dutiesandliabilitiesof officersandso on.So,thebankermustcarefullyinspectthemandgather thenecessary particulars.
(iii) In addition to the above, the banker must get a copy of the prospectus of thecompany. A public limited company will have to obtain yet another certificate, namely,Certificate of Commencement of Business. The banker should verify that document also.In case, he has any doubt with regard to any one of the documents mentioned above, hecanrefersthematter totheRegistrar ofJoint StockCompanies and getit clarified.
(iv) In case, the company is a new one, the banker should carefully note whether the names ofthefirstdirectorsofthe firstdirectorshavebeen mentioned in thedocument ornot.
(v) If the company happens to be an existing one, the banker should demand copies of recentbalance sheet and profit and loss account which will reflect the growth of the companyand its financial soundness. After having satisfied himself with these precautionary steps,the banker cansafely openan account.

7. **NON-TRADINGCOMPANIES:**

Companies Limited by Guarantee are generally promoted for the purpose of promotion ofeducation, science, art, commerce, etc. They do not declare dividends and they do not use theword 'limited' after their names. They do not have any implied powers to borrow. Powers toborrowmustbeexpresslygiveninthedocuments.Inadditiontothese,thebankershouldtakethe abovementionedprecautionsinthecaseofsuch nontrading companiestoo.

8. PRIVATECOMPANIES:

Private Limited Companies are those companies, wherein the number of shareholders islimitedto50andthetransferabilityofthesharesisrestricted.Inadditiontotheaboveprecautions, the banker should pay a special attention to the formation of private companies. It ispossible that a sole trader might have been heavily indebted and so, he might have converted hisbusiness into a Private Limited Company, just to deceive the creditors. In such a case, thistransferofassetswillbeconsideredasafraudperpetratedonthecreditors.Hence,suchatransferinitsel fwouldamounttoacommitmentofanactofinsolvency.Thereiseverypossibilityofthesoletraderbeinga djudicatedasinsolventonthepetitionofthecreditors.Ifheissoadjudicated,theofficialassignor'stitlewil lcommencenotfromthedateofadjudication,but from the date of the commencement of the first act of insolvency, itself namely, the transferof business. The banker should, therefore, go into the details and make necessary enquiries toavoid such unpleasant situations. Apart from it, the bankers should observe the other usualprecautionsas listedabove.

9. CLUBS,SOCIETIESANDNON-TRADINGASSOCIATIONS:Openingof Accounts:

Clubslike'SportsClub','Friendsclub',etc.,andassociationsandsocietiesmayapproach a banker for the purpose of opening an account. The banker should first see whethertheyareregisteredbodiesornot.Iftheyarenotincorporated,itwillbedifficulttomakeallthe members liable for the banking transactions. In the case of registered clubs, the banker can openthe accountin thenameof theclub.

But, in practice, most of the associations are only informal associations without legalincorporation. Hence, they cannot be used for debt nor can the officers be made personally liable.Most of the banks in that case open the account in the name of an individual and designate it asclub account. For instance, 'Krishnamoorthy – Nellai Cricket Club Account'. In that case, thatindividual is personally liable for the debt of the club. However, it is advisable that the bankergets the guarantee of a person with a good financial background. This will constitute a realprimary security.

MandateandResolution:

The banker then gets a mandate from the customer along with an authenticated copy of aresolution appointing the banker as the banker to the association or club and requesting thebankertoopenanaccount.Italsocontainsthenamesofthedifferentofficials,whoareauthorised to operate the account, their powers and their specimen signatures. The resolutionought tohavebeen signed bythechairman andcountersignedbythesecretary.

RulesoftheClub:

Ifacopyoftherulesofacluborheconstitutionofanassociationisavailable,thebanker shouldgetacopyof itand file itfor his reference.

ChangeintheOfficials:

Should there be any change in the officials of the club or society and in particular in theonewhoisauthorisedtooperate,thebankermustbenotifiedtothechangethroughanauthenticated copy of the resolution making the change. It must contain the specimen signaturesofthenew officials.

Borrowings:

These associations do not have an implied power to borrow. However, the rules maypermit them to borrow after fulfilling the necessary formalities. For instance, the rules mayprovide that the club may borrow after getting the necessary sanction from the general body. Inthatcase, thebanker willdemand acertifiedcopyofthe resolution passedinthegeneral body.

Security:

To safeguard his position, the banker should grant loan either against the guarantee of afinancially sound person or against the property of a club. Usually, the property of club will bevested in the names of the trustees. Hence, the banker must note the powers of the trustees tocharge theproperty for theborrowings oftheclub.

AClubAccountandaPersonalAccount:

Iftheclubaccountandthepersonalaccountoftheauthorisedpersonexistsidebyside,the banker should notethefollowing:

(a) Hecannotcombineboth theaccounts

(b) Theright oflienandsetoffwill notbeavailableagainst eachother.

(c) Achequepayabletotheclubmustnotbecollectedtotheprivateaccountoftheindividualsoper atingthataccount.

10. EXECUTORS,ADMINISTRATORSANDTRUSTEES:

An executor is a person to whom the executionof a will is entrusted by the testator(maker of the will). Any alteration or addition in the original will might have been made in aseparate instrument called ‘Codicil’ which also forms a part of the will. If the person named inthe will refuses to act or if a person dies intestate (without any will), then the court will appoint apersoncalledadministrator.Insuchcases,thecourtwillissueanordercalledletterofadministration.
The certified copy of the final will is called Probate. Probate is granted only to anexecutor appointed by a will. A trustee is a person in whose care the control of an estate is placedunder an instrument of trust or trust deed. Sometimes, two or more persons may be appointed asexecutors or trustees. They may approach a banker for the purpose of opening an account.

Abanker'spositionwillbesafeiftheaccountisopenedintheirpersonalcapacity.However,they may like to open the account in their official capacity. In that case, a banker should be verycautiousand he willgenerallytake thefollowingprecautions:

NEGOTIABLE INSTRUMENTS

CHEQUE

Introduction:

A cheque is a document of very great importancein the commercial world. It wasoriginally spelt as 'check'. It is Gilbart, who introduced the modern spelling 'cheque' in his book'Practical Treatise on Banking'. The origin of the word cheque is not clear. According to Gilbart,it hasbeen derived from the French word 'Eches' meaning'chess'. Others are of the viewthatthe origin of 'cheque' can be traced to the notes issued by the Goldsmiths of London in the earlyperiods. The modern cheque is the outcome of many old trial and error forms of cheques. Forinstance, a cheque had been written on the back side of a cow. Now, all commercial banks issuetheir own standard printedforms of cheques.

MeaningofCheque:

A cheque is a document that orders a payment of money from a bank account. The personwritingthecheque,thedrawer,usuallyhasanaccountwheretheirmoneywaspreviouslydeposited . The drawer writes the various details including the monetary amount, date, and apayee on the cheque, and signs it, ordering their bank, known as the drawee, to pay that person orcompanytheamountofmoneystated.Chequesareatypeofbillofexchangeandweredeveloped as a way to make payments without the need to carry large amounts of money. Whilepaper money evolved from promissory notes, another form of negotiable instrument, similar tocheques in that they were originally a written order to pay the given amount to whoever had it intheir possession.

Technically, a cheque is a negotiable instrument instructing a financial institution to pay aspecific amount of a specific currency from a specified transactional account held in the drawer'sname with that institution. Both the drawer and payee may be natural persons or legal entities.Specifically, cheques are order instruments, and are not in general payable simply to the bearer(as bearer instruments are) but must be paid to the payee. In some countries, such as the US, thepayeemayendorsethecheque,allowing themtospecifyathird partyto whomitshouldbepaid.

DefinitionofCheque:

According to Section 6 Negotiable Instrument Act, "Cheque is an instrument drawn onspecific banker, ordering to pay specific amount, to a specific person, after the specific date." Acheque is also abillof exchange.

"Cheque is an instrument in writing containing an unconditional order, addressed to abanker, signed by the person who has deposited money with the banker, requiring him to pay ondemand a certain sum of money only to or to the order of certain person or to the bearer ofinstrument."

DistinctionbetweenChequeandBillofExchange:

S.No.	Cheque	BillofExchange
1	Acheque isalwaysdrawnonaprinted form.	Abillneednotbedrawnonaprintedform
2	Thedrawee(banker)neednotacceptacheque. Accordingly, there is no privacy ofcontractbetweenthe payeeandthebanker.	Acceptance bythedraweeisessential
3	Achequeisalwayssupposedtobedrawnagainstt he fundsin thehandsofthe banker.	Thereisnosuchsupposition
4	Achequeisaninstrumentforimmediatepayment	It is drawn for a specified period and so itis intended for circulation. Therefore, it isentitled to days ofgrace.
5	Theliabilityofthedrawercontinuesforsixmont hs.	Unreasonabledelayinthepresentationwill dischargethebill
6	Acheque isfreefrom stampduty	Abill subjecttoasvaloremduty
7	It isdrawninsets	Foreignbillsarealwaysdrawninsets
8	Itmaybecrossedtoensuresafety	Itcannotbecrossed
9	Achequemaybecountermanded	Countermandingofabillisnotpossible
10	It isnotprotested ornotedondishonor	Itisusuallyprotestedandnotedfordishonor
11	Incaseofdishonor,noticeofdishonortothedraw eris notessential	Noticeofdishonormustbesenttoholdthe party liable
12	Statutory protection as given under Sec. 85and Sec. 131 of the Negotiable InstrumentsAct applies onlytocheques.	Statutoryprotection isnotavailableinthecase of bills

ImportantFeaturesofCheque:

i. **Chequeisaninstrumentinwriting:**Oralordersarenotconsideredascheques.Acheque mustbein writing.

ii. **Chequecontainsanunconditionalorder:**Everychequecontainsanunconditionalorder issued by the customer to his bank. A cheque containing conditional orders isconsidered invalidandis dishonouredby thebank.

iii. **Cheque is drawn by a customer on his bank:** A cheque is always drawn on a specificbank mentioned in that. Cheque book facility is made available only to account holderwhoissupposed to maintaincertain minimumbalance inthe account.

iv. **Cheque must be signed by customer:** A cheque must be signed by customer, i.e. theaccount holder. Unsigned cheques or cheques signed by persons other than customers arenot regarded as cheque.

v. **Cheque must be payable on demand:** A cheque when presented for payment must bepaid on demand. If cheque is madepayable afterthe expiry of certainperiod of timesthen itwillnotbeacheque.

vi. **Cheque must mention exact amount to be paid:** Cheque must only be for money. TheNotes amount to be paid by the banker must be certain and written in words as well asfigures.

vii. **Payee must be certain to whom payment is made:** The payee of the cheque should becertain whom the payment of a cheque is to be made i.e. either real person or artificialpersonlikeJointStockCompany.Thenameofthepayeemustbewrittenonthechequeori tcan bemadepayableto bearer.

viii. **Cheque must be duly dated by customer of bank:** A date must be duly mentioned bythecustomer ofbank.Achequeisvalid fora periodofsixmonthsfrom thedateofissue.

CharacteristicsofCheque:

1) InstrumentinWriting:

A cheque must be an instrument in writing. Oral orders, although they may have the otherrequisites, cannot be treated as cheques. It may be in any language and in any form. It may bewritten in ink or pencil or may even be printed or cyclostyled. It may be in any form, but thewordsmustbevisible.

2) UnconditionalOrder:

Cheque must contain definite and an unconditional order to pay. A conditional instrumentisinvalid.Forinstance,ifthechequehasareceiptformattachedtoitandthefollowingwords

are added, “Provided the receipt form at the foot is duly signed and dated,” or if the amount ismade payable out of a particular fund, the order will be regarded as conditional and hence theinstrumentcontainingsuchadirectioncannotberegardedasacheque.

3) OnaSpecified BankerOnly:

The instrument must be drawn on a specified banker. This means, firstly, that it should bedrawn on a banker and not on any other person. Secondly the name and preferably also theaddressof thebanker should bespecified.

4) Certain SumofMoneyOnly:

The order must be only for the payment of a certain sum of money only. It is clear thatordersasking thebanker to deliversecuritiesor certainother thingscannot be regarded ascheque. Itmust also benotedthat thesumof money to bepaidmustbecertain.

5) AmountofCheque:

It is necessary to mention clearly the amount of money which the drawer desires hisbankertopay.Thesumisusuallystatedinwordsaswellasinfiguressoastoavoidmistakes.No blank space should be left on the cheque before and after the amount stated in words and infigures.

6) PayeetobeCertain:

Inorderthataninstrumentshallbeavalidcheque,itshouldbemadepayabletoortotheorder of acertain person or the bearer. Thepayee mustbecertain.

7) Signature:

Thecheque mustbesignedbythe drawer.

Parties toaCheque:

Herearethreepartiesinvolvedinacheque.Theyareasfollows:

1) Drawer:

Drawer is the party who draws the cheque upon a specified banker. He is the maker of thecheque. He is the account holder who draws the cheque for drawing money from his bankaccount. He is the person who issues cheque directing the bank to pay a certain sum of money toacertain personortothe bearer. Thus,thepersonwhosignsthe cheque isknownasdrawer.

2) Drawee:

Draweeisthepartyuponwhomthechequeisdrawn.Draweeisthebank.Itisthepartytowhomthed rawergivesordertopaytheamounttothepersonnamedonthechequeorhisorder to the bearer. When the bank follows the order and pays the amount of the cheque then thechequeissaidto behonored.Incase ofrefusalofthe order,thecheque issaidto bedishonored.

3) Payee:

Payee is the party who presents the cheque for payment. He is the person who receivesmoney from bank. He is the party in favor of whom cheque is issued. The payee is the personwhose name is mentioned on the cheque. If the cheque is made payable to self, the drawerhimself becomesthepayee.

TypesofCheque:

1) BearerCheque:

Generally, the cheque indicates the name of a person to whom the amount is to be paid.He is called the payee, paying bank is the drawee and the person who draws the cheques is thedrawer.In case ofbearercheque,thewordingof thechequeis paytoor bearer.It isnotnecessary for the payee to personally present the cheque and get the money. He can sign on theback and hand it over to any other person. Any person who holds the cheque lawfully can getpayment.The person who presents the chequeis calledthe bearer. Bank isnot bound to verifythe identity of the bearer. Thus, any bearer cheque lost or stolen is likely to be presented forpayment.Thereisnothingtopinpointtheidentityofthepersonwhoacceptedpayment.Anybody whocomesin possessionofthechequecanencashit.Thus,bearerchequesaresomewhat risky.

2) OrderCheque:

An order chequespecificallyinstructsthe bankerto ensure thattheperson mentionedonly receives payment. The bank is duly bound to verify the identity of the person and see thatthe person presenting the cheque is the person whose name is mentioned on the cheque. If theword 'bearer' is struck off, the cheque becomes order cheque. Thus, the order cheque is safer thanthe bearer cheque. If both the words i.e. 'bearer' and 'order' are cancelled, the cheque becomes notnegotiable, i.e.itcannotbelegallytransferredtoany otherperson.

3) CrossedCheque:

When two parallel lines are drawn on the top left side of the cheque, it is called crossedcheque. The lines should be conspicuous. The lines may or may not contain the words '& Co'.When a cheque is crossed, the payment is not made across the counter but the amount is creditedto thepayee'saccount.Hecanthenwithdrawtheamountfromhis account.

A crossed cheque is an express instruction to the banker not to make cash payment. Thisis the safest type of cheque. This is called general crossing. Sometimes, name of a specific bankand branch is written between the lines. It means the cheque must be presented through that bankonly.Thisiscalledspecialcrossing.Insuchcase,theamountispaidtothespecificbankwhichin turn credits the amount to the payee's account. The words 'not negotiable' between the linesdestroy thenegotiabilityof thecheque.

4) Uncrossed/opencheque:

When a cheque is not crossed, it is known as an "Open Cheque" or an "UncrossedCheque". The payment of such a cheque can be obtained at the counter of the bank. An opencheque maybeabearerchequeor anorder one.

5) AntiDateCheque:

If a cheque bears a date earlier than the date on which it is presented to the bank, it iscalledas"anti-
datedcheque".Suchachequeisvaliduptosixmonthsfromthedateofthecheque.ForExample,
achequeissuedon10thJan2010maybearadate20thDec2009.

6) Post-datedCheque:

If a cheque bears a date which is yet to come (future date) then it is known as post-datedcheque. A post dated cheque cannot be honoured earlier than the date on the cheque. Forexample, if a cheque presented on 10th Jan 2010 bears a date of 25th Jan 2010, it is a post-datedcheque. The bank will makepaymentonlyon orafter 25th Jan2010.

7) StaleCheque:

If a cheque is presented for payment after six months from the date of the cheque it iscalledstalecheque. Astalechequeisnothonoured bythebank.

8) MutilatedCheque:

When a cheque is torn into two or more pieces and presented for payment, such a

chequeis called a mutilated cheque. The bank will not make payment against such a cheque withoutgettingconfirmationof thedrawer.

MICRCheque:

MICR (Magnetic Ink Character Recognition) cheque is a modern form of cheque, whichminimizes the human efforts and processing time. It is a system that uses a special machine thattypes characters on the documents using ink containing iron oxide. These characters can be readby people as well as by a computer input devices. Magnetic Ink characters for bank identificationnumber,customeraccountnumber andcheque numberare preprintedon cheques. Whenacheque is presented to the bank, the amount of the transaction is encoded before computerprocessing.

AdvantagesofMICRcheque:

a. Theclearingtimeforthechequesisconsiderably reduced.
b. TheMICRcharacters areeasilyreadableandassuchitreduces errors.
c. Settlementbetweenthe banksisdonefastandassuchnetposition isquicklyknown.
d. Itreducesthemanualsortingandtotalingwork.

LimitationsofMICR:

a. MICRchequesareexpensive,asitrequiressuperiorqualitypaperandspecialink.
b. CustomershavetobeeducatedinhandlingMICRcheques.
c. Counterfoilsarenotpermittedinthechequebooks,whichmaycauseinconvenienceto customers.

CROSSINGOFCHEQUE

Introduction:

The open cheques are presented by the payee to banker on whom they are drawn and arepaid over the counter. It is obvious that an open cheque is liable to great risk in the course ofcirculation. It may be stolen or lost and the finder can get it cashed, unless the drawer has alreadycountermanded payment. In order to avoid the losses incurred by open cheques getting into thehandsof wrong partiesthecustomofcrossingwas introduced.

MeaningofCrossCheque:

A crossing is a direction to the paying banker to pay the money generally to a banker or aparticular banker and not to pay to holder across the counter. A banker paying a crossed chequeover the counter does so at his own peril if the party receiving the payment turns out to be notentitledtogetpayment.Theobjectofcrossingistosecurepaymenttoabankersothatitcouldbe traced to the person receiving the amount of the cheque. The crossing is made to warn thebanker but not to stop negotiability of the cheque. To restrain negotiability addition of words"NotNegotiable"or "Account PayeeOnly"isnecessary.

CrossedCheque:

When two parallel lines are drawn on the top left side of the cheque, it is called crossedcheque. The lines should be conspicuous. The lines may or may not contain the words '& Co'.When a cheque is crossed, the payment is not made across the counter but the amount is creditedto the payee's account. He can then withdraw the amount from his account. A crossed cheque isanexpressinstructiontothebankernottomakecashpayment.Thisisthesafesttypeofcheque.

This is called general crossing. Sometimes, name of a specific bank and branch is writtenbetween the lines. It means the cheque must be presented through that bank only. This is calledspecial crossing. In such case, the amount is paid to the specific bank which in turn credits theamounttothepayee'saccount.Thewords'notnegotiable'betweenthelinesdestroythenegotiabilityof thecheque.

TypesofCrossing:

a) GeneralCrossing:

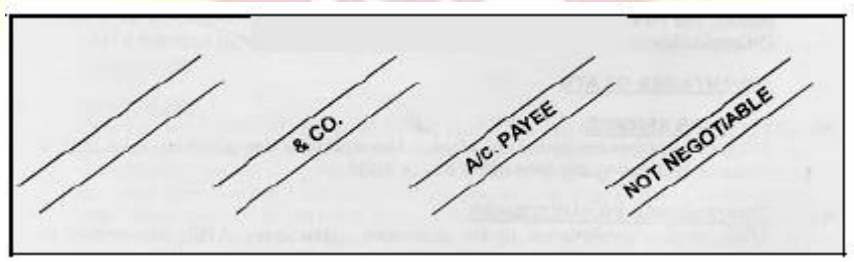
Generally,chequesarecrossedwhentherearetwo transverseparallellines,markedacross its face or the cheque bears an abbreviation “& Co.“ between the two parallel lines or thecheque bears the words “Not Negotiable” between the two parallel lines or the cheque bears thewords“A/c. Payee”betweenthetwo parallellines.

A crossed cheque can be made bearer cheque by cancelling the crossing and writing thatthe crossingiscancelledand affixing thefull signatureof drawer.

Generally,cheques arecrossedwhen:

- Therearetwotransverseparallel lines,markedacrossitsface,or
- Thechequebearsanabbreviation “&Co.“betweenthetwoparallellines,or
- Thechequebearsthewords“NotNegotiable”betweenthetwoparallellines,or
- Thechequebearsthewords“A/c.Payee”betweenthetwoparallellines.

SpecimensofGeneralCrossing



b) SpecialCrossing:

When a cheque is crossed by two parallel lines and the name of the banker is writtenbetween the two parallel lines it is called special crossing. There may be words "not negotiable"writtenbetweenthesetwolines.Thebankeronwhomitisdrawnshallnotpayitotherwisethan tothebankertowhomitiscrossedorhisagentforcollection.Itwillbepaidonlywhenpresented by thebanker.

EssentialsofSpecialCrossing:

ii. Twoparalleltransverselines arenotatallessentialforaspecial crossing.

iii. The name of a banker must be necessarily specified across the face of the cheque. Thename of the banker itselfconstitutesspecialcrossing.

iv. Itmustappearonthelefthandside,preferablyonthecorner,soasnottoobliteratethe printednumber of thecheque.

v. Thetwoparalleltransverselinesandthewords'NotNegotiable'maybeaddedtoaspecial crossing.

SpecimensofSpecialCrossing

DifferencebetweenGeneralCrossingandSpecialCrossing:

Sl. No.	GeneralCrossing	SpecialCrossing
1	Drawingoftwoparalleltransverselinesis amust	Drawingoftwoparalleltransverselinesisnotessent ial.
2	Inclusionofthenameofabankerisnotess ential	Inclusionofthenameofabankerisessential.
3	In General crossing paying bankerhonoursthe cheque fromanybank a/c.	In special crossing paying banker honours thecheque only when it is presented through thebankspecifiedinthecrossingandnootherbank.
4	GeneralcrossingcanbeconvertedintoaS pecialCrossing	Specialcrossingcanneverbeconvertedtogeneral crossing
5	In case of General Crossing the words"And Company"or "&Company"or"NotNegotiable"betw eenthetransverse lines to highlight the crossingdoesnotcarry specialsignificance.	In case of Special crossing the name of a bankermay be written within two parallel transverselinesorwiththewords"AndCompany"o r"Account Payee Only" or "Not Negotiable" theinclusionofthesewordshasbecome customary.

c) NotNegotiableCrossing:

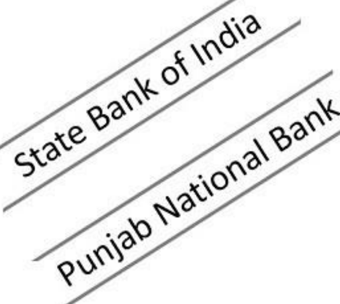
Often cheques are crossed with two parallel transverse lines. The words "A/c payee" or"A/c payee only" are written between these two lines. It meansthat the proceedsof the chequearetobecreditedtotheaccountofthepayeeonly.Thiskindofcrossingisalsocalled'Restrictivecrossing".

d) A/CPayeeCrossing:

There is no provision in law regarding this type of crossing. But it has been developed inpractice.Ifthewords,‘A/cPayee’areaddedtoacrossing,it becomes anA/cPayeecrossing.

e) DoubleCrossing:

Sec. 125 of the Act provides that, ‘Where a cheque is crossed specially, the banker towhomit iscrossed,mayagain crossitspeciallytoanother banker, hisagentforcollection.’



UNIT- 5 ENDORSEMENT

Endorsements:

The word 'endorsement' in its literal sense means, a writing on the back of an instrument.But under the negotiable instruments Act it means, the writing of one's name on the back of theinstrument or any paper attached to it with the intention of transferring the rights therein. Thusendorsement is signing a negotiable instrument for the purpose of negotiation. The person whoeffects an endorsement is called an 'endorser' and the person to whom negotiable instrument istransferred by endorsement are called the 'endorsee'. An endorsement on a negotiable instrument,such as a check or a promissory note, has the effect of transferring all the rights represented bythe instrument to another individual. The ordinary manner in which an individual endorses acheck is by placing his or her signature on the back of it, but it is valid even if the signature isplacedsomewhereelse,suchasonaseparatepaper,knownasanallonge,whichprovidesaspace for asignature.

Meaning:

In its literal sense, the term endorsement means writing on an instrument. In its technicalsense in the Act, it means the writing of a person's name on the face or back of a negotiableinstrument or on a slip of paper for the purpose of negotiation. In simple words endorsementmeans transferring the instrument by the holder by signing the instrument. In simple words, thus,Endorsement means transferring the instrument by the holder by signing the instrument. Suchsignature must be in ink. The indorser must sign his name as exactly as he has signed on the faceofnegotiableinstrument.Hemustsign forthepurposeofnegotiation.

Definitions:

Section 15 of the Negotiable Instrument Act defines “When the maker or holder of anegotiable instrument signs and the same, otherwise than as such maker, for and purpose ofnegotiation, on the back or face thereof or on a slip of paper annexed thereto, or signs for thesame purpose a stamped paper intended to be completed as negotiable instrument, he is said tohave indorsed thesame, andis calledtheindorser.”

PartiesofEndorsement:

i) Endorser: Thepersonmakingtheendorsement.

ii) Endorsee: Thepersontowhomtheinstrumentisendorsed.

The essence of a negotiable instrument is easy legal transfer of ownership right. It isassumed that the transfer is done in good faith and for value received. A credit instrument isnegotiated,i.e.transferredfromonepersontoanother(calledholder)bydeliveryorbyendorsement and delivery. When the maker or holder of a negotiable instrument signs his namefor the purpose of negotiation on the back or face thereof or on a slip of paper annexed to it, he issaidtohaveendorsedtheinstrument.Apersoninwhosefavourtheendorsementismadeiscalledthe endorsee.

EssentialsofavalidEndorsement:

1) MustbeonInstrument:

It must be on the instrument. The endorsement may be on the back or face of theinstrument and if no space is left on the instrument, it may be made on a separate paper attachedto itcalledallonage.Itshould usuallybeinink.

2) EndorsementbyMakerorHolder:

Itmustbemadebythe makerorholder ofthe instrument. Atrangercannot endorseit.

3) SignatureofEndorser:

It must be signed by the endorser. Full name is not essential. Initials may suffice. Thumb-impression shouldbeattested.Signaturemay bemade on anypart oftheinstrument.

4) NoSpecificForm:

It may be made either by the endorser merely signing his name on the instrument (it is ablack endorsement) or by any word showing an intention to endorse or transfer the instrument toa specified person (it is a blank endorsement) or by any words showing an intention to endorse ortransfer the instrument to a specified person (it is an endorsement in full). No specific form ofwordsisprescribed foran endorsement,butintentionto transfermustbepresent.

5) Delivery:

It must be completed by delivery of the instrument. The delivery must be made by theendorser himself or by somebody on his behalf with the intention of passing property therein.Thus where a person endorses an instrument to another and keeps it in his papers where it isfound after his death and then delivered to the endorsee, the latter gets no right on the instrument.Ifdelivery isconditional endorsement isnot complete until the condition isfulfilled.

6) EndorsementofEntireBill:

It must be an endorsement of the entire bill. A partial endorsement i.e. which supports totransfertotheendorseeapartonlyoftheamountpayabledoesnotoperateasavalidendorsement.

TypesofEndorsement:

1) EndorsementinBlank:

Where an endorsement on a bill of exchange specifies no endorse, it is an endorsement inblank. A bill so endorsed becomes payable to bearer. The same term applies to the endorsementof cheques. In such a case, so long as the instrument continues in blank, the property in theinstrument may pass by mere delivery, in the same manner as an instrument payable to bearer.Anyholdermayconvertablankendorsementintofullendorsementbywritingabovetheendorser's signature a direction to pay the instrument to, or to the order of, himself or some

otherperson.

Section 54 of Negotiable Instruments Act provides: “Subject to the provisions hereinaftercontained as to crossed cheques, a negotiable instrument indorsed in blank is payable to thebearer thereofeven although originallypayabletoorder.”

2) EndorsementinFull:

If the endorser adds a direction to pay the amount specified in the instrument to, or to theorderof,acertainperson,thentheendorsementissaidtobeinfull.Byinscribinghisnameonthe back of an instrument, the endorser guarantees to his immediate endorsee or a subsequentholder in due course, that at the time it left his hands, he had a good title to it and that it wasgenuine in every particular. He also attests thereby, that all the endorsements made prior to this,are genuine. The holder of a negotiable instrument indorsed in blank may without signing hisown name, by writing above the endorser’s signature a direction to pay to any other person asendorsee, convert the endorsement in blank into an endorsement in full, and the holder does notthereby incur the responsibility of an endorser. If a negotiable instrument, after having beenindorsed in blank, is indorsed in full the amount of it cannot be claimed from the endorser in full,except by the person to whom it has been indorsed in full or by one who derives title throughsuchperson.

3) ConditionalEndorsement:

Ordinarily, an endorser binds himself to pay upon no other condition than the dishonouroftheinstrumentonduenoticeofdishonourtohim.However,ifhelikeshemaymakehiso wn

liability on the instrument subject to a condition, in which case the endorsement is termed aconditional endorsement. Again, he may make his liability dependent upon the happening of acontingent event or make the right of the endorsee to receive the payment in respect of theinstrument dependent upon the happening of such an event. The conditions thus added may beeither conditions precedent or conditions subsequent. In the former, no right to recover theamount passes to the endorsee, until the fulfilment of the conditions. If it be a subsequentcondition, the endorsee's right is defeated on its fulfilment. Thus, if the endorsement is 'Pay to Xif he returns from Mumbai within a year', then the right to receive payment becomes absoluteonly if Mr. X arrives within a year from the date of the endorsement on the instrument. Theconditionattachedtoendorsementsdoesnotaffectthenegotiabilityoftheendorsementendorsed.

4) RestrictiveEndorsement:

It is the endorsement by which the endorsee's right of negotiating the instrument endorsedis restricted or excluded by express words. Sometimes, a restrictive endorsement may merelyconstitute the endorsee, as an agent, to endorse the instrument or to receive its contents for theendorser, or for some other specified person. For example, if Mr. A.K.Agrawal, endorses anynegotiable instrument payable to order as 'Pay Mr. R.K.Goyal for the account of Mr. S.K.Garg',Mr.A.K.Agrawalwill berestrictingthenegotiabilityofthe instrument thusendorsee.

5) SansRecourseEndorsement:

In terms of Section 52 of Negotiable Instruments Act, an endorser may, by express wordsintheendorsement,excludehisownliabilitythereon.Thisisknownas'SansRecourse'endorsement, or 'without recourse' endorsement. Thereafter if he again becomes the holder theinstrument, all the intermediate endorsers shall be liable to him. An endorser, who endorseswithout recourse, cannot beheld liable,iftheinstrumentis dishonoured.

An endorser may also lay down a condition that the right of the endorsee to receive theamountwoulddependuponthehappeningofaneventwhichmayormaynothappen.Thiswould be a conditional endorsement. An endorser may endorse the instrument for the specificpurpose of collection. Thereafter, all further transferees shall only have a restricted right on thebasisof theendorsement.

Section131 of NegotiableInstrumentsAct provides that where a banker receivesacrossed cheque from a customer for collection, and obtains payment of it on his customer'sbehalf, the fact that the customer's title to the cheque was defective would not render the bankerliable in conversion to the true owner. The banker is only to prove that it collected the cheque ingoodfaithand withoutnegligence.

6) FacultativeEndorsement:

A facultative endorsement is one by which the endorser, by express words, abandonssome rights or increases his liability under the instrument, e.g., by using after signature, wordssuch as 'notice of dishonour dispensed with' or 'waiver of notice of dishonour' or notice ofdishonour not required'. The effect of facultative endorsement is to make the endorser liable,though otherwiseundertheNegotiable InstrumentsAct, 1881,hemay notbe liable.

Example: PayAororder.Noticeofdishonourwaived.

7) PartialEndorsement:

No writing on a negotiable instrument is valid for the purpose of negotiation if suchwriting purports to transfer only a part of the amount appearing to be due on the instrument. Butwhere such amount has been partly paid, a note to that effect may be endorsed on the instrumentwhich may thenbenegotiatedfor thebalance.

As a rule, where part of the amount due on the negotiable instrument is to be transferredby an endorsement such endorsement is a partial endorsement and is invalid. This is because apersonal contract cannot be apportioned. Only when the amount is partly paid, and such fact isnoted on theinstrument,thebalancecanbenegotiated by endorsement.

EffectsofEndorsement:

Meaning:

Section 50 of the Negotiable Instrument Act deals with effects of endorsement. Theendorsementof a negotiableinstrumentfollowed by delivery transfers to the endorsee, thepropertythereinwiththerightoffurthernegotiation.Theendorsementmaybe,byexpresswords,

restrict or exclude such right, or may merely constitute the endorsee, an agent to endorsetheinstrument, ortoreceiveitscontents fortheendorser orforsome otherspecifiedperson.

EffectsofEndorsement:

i) EffectofUnconditionalEndorsement:

Anunconditionalendorsementofanegotiableinstrument,alsofollowedbyitsunconditional delivery, has the effect of transferring the amount (property) in the instrument tothe endorsee. In such cases (of unconditional endorsement), the endorsee concerned acquires allthe legal rights to negotiate the instrument to any person whom he likes to. Further, he alsoacquires all thelegal rightstofilesuitsagainst anyofthe parties whosenamesappearonit.

ii) EffectofanEndorsementinBlank:

The effect of an endorsement in blank is that, by virtue of such in endorsement, an orderinstrument (i.e., the instrument made payable to the order of a specific person) can be convertedinto a bearer instrument. Thus, the title of such instrument can thereafter be transferred by meredelivery, withoutrequiringany endorsement thereon.

iii) EffectofaRestrictive Endorsement:

Thefollowingaretheeffectsofarestrictiveendorsement:

(a) Torestrictorprohibitanyfurtherendorsementandnegotiation thereafter;

(b) Toconstitutethe endorseeasthe agentoftheendorser,to endorsethedocument;or

(c) To constitute the endorsee as an agent to receive its contents for some other personspecified therein.

However, in case of an instrument made payable to the joint payees or the endorsees, itmust be endorsed by all of them jointly, failing which such endorsement may be held invalid inthe eyeof law, even if itisendorsed infavour ofanotherperson.

iv) EffectofaForgedEndorsement:

A negotiable instrument, endorsed in full, cannot be negotiated or endorsed any furtherexcept where such endorsement is made by the same person to whom it was originally madepayable (or to his order) or where it was endorsed in full in his favour (or to his order). But then,if such instrument is negotiated by endorsement, by forging the signature of such specific payeeorendorsee,theendorseeinsuchcaseswillnotacquireanytitle,eveninthecaseswheresuch

endorseemaybethepurchaserforvalueandingoodfaith.Thisissobecauseaforgedendorsement is anullityin theeyeof law.

MATERIALALTERATION

Introduction:

An alteration on a cheque may be material or immaterial. Material alteration refers tochange introduced on a cheque, which affects its fundamental character. In other words, 'anychange in any instrument, which makes it speak a different language, for all legal purposes, fromwhat it spoke originally' would constitute a material alteration. If the alteration is material, itrendersthechequeinvalid.

Alteration thatamountstoaMaterialalteration:

Todeemanalterationamaterialone,itshouldhavesatisfiedthefollowingconditions:

- Itmustaffectthefundamentalcharacter oftheinstrument.
- Itmustsubstantiallychangetherightsandliabilities oftheparties totheinstrument.
- Itshouldchangethelegalcharacterofthedocument.
- Itshouldspeakadifferentlanguagefromwhatitspokeoriginally.
- Itmusthavetakenplace withouttheknowledge ofthe drawer.
- Itmusthavetakenplaceafterthe chequehasbeenissued.

EffectofMaterialAlteration:

According to Sec. 87 of the Negotiable Instruments Act, if a cheque is materially altered,itcannotberegardedasa chequeat all.Therefore,materialalterationrendersthechequevoid.A

material alteration affects the parties at the time of alteration, and it does not affect parties,subsequent to such an alteration. Thus, according to Sec. 88 of the Negotiable Instruments Act,an acceptor or endorser is bound by his acceptance or endorsement notwithstanding any previousmaterial alterationon it.

ExamplesofMaterial Alteration:

(i) Alteration of Date: The date is an important part of a cheque, because, it fixes theperiod of limitation for obtaining payment. The date may be altered with a view to proponing orpostponing payment.Hence, if the date is altered without the consent of the drawer, it amounts to a materialalteration. It is so because the original intention of the drawer has been changed due to thisunauthorizedalteration.

(ii) Alteration of the place of payment: A cheque may be always drawn only on aspecified banker. In particular, it must be drawn on a particular branch, in which the account iskept. Hence, if the place of payment is altered, no banker will pay the cheque. It amounts to amaterial alteration.

(iii) Alteration of crossing: According to the Act, crossing is a material part of a cheque.Hence, alteration of crossing or addition thereto not authorized by the drawer, amounts to amaterial alteration.

(iv) Alteration of the words 'or order' or 'or bearer': If the words 'or order' on theface of an order cheque are altered to 'or bearer', the cheque becomes payable to the bearer, forthe time being. This amounts to a material alteration. However, any person can alter a chequepayable 'to bearer' to that payable 'to order' since, it does not affect the fundamental character ofthe instrument.

(v) Alteration of the amount: The amount column is a very important material part of acheque. In fact, many unscrupulous persons try to alter this part of a cheque, because, they standto get much benefits only from the alteration of the amount. Moreover, it is easy to introducealterations in the amount. At the same time, it is very difficult to detect. For instance, Rs.10 canbe easily altered to Rs.100 or to Rs.1,000 depending upon the space available. A banker should,therefore, pay aspecial attentiontothiscolumn,before honouring acheque.

(vi) Alteration of payee: If the payee's name is altered without the knowledge of thedrawer,itamountsto amaterial alteration.

(vii) Alteration by an outsider: An alteration made by an outsider on a cheque must beconsidered as an alteration made by the holder himself, as, it is the duty of the holder to preservethe instrumentfreefromsuch forgeries.

Material alterationandtheBanker:

(i) Material alterationrendersthechequeinvalid. So,thepayingbankershouldnothonourit.

(ii) Thebankershouldreturnthechequetothedrawerwithremarkslike'Alterationrequiresdrawer' sconfirmation'.

(iii) Thedrawershouldconfirmthealterationbymeansofhisfullsignature.Asfaraspossible,abankershouldprefer fullsignatureto initials, asinitialscanbeforgedeasily.

(iv) Incasethechequeisdrawnbytwoormorepersonsjointly,materialalterationrequiresthesignature of allthedrawers.

(v) Inthecaseofchequesdrawnbyregisteredcompaniesandothercorporatebodies,materialalterationmust beconfirmed bythosepersonswhoareauthorizedtooperate theamount.

(vi) Inthecaseofapartnershipfirm,anypartnercanauthorizethealteration.

(vii) Abankerwhoishonouringamateriallyalteredchequeisnoteligibleforanylegalprotection, because, heissaid to be negligentin his duty.

(viii) Ifabankerhonoursamateriallyalteredcheque,hehasnoauthoritytodebitthedrawer'saccount. So, heshould beartheloss.

StatutoryProtection inthecaseofaMateriallyaltered cheque:

A paying banker cannot normally claim any statutory protection for a materially alteredcheque. However, Sec. 89 of the Negotiable Instruments Act gives protection in the case of amateriallyalteredchequeprovided,

- Heisliabletopay,
- Suchanalterationisnotapparent,and
- Thebankerhasmadethe payment induecourse

IMMATERIALALTERATION

Introduction:

If an alteration does not, in any way, affect the fundamental character of the instrument,then it is called an immaterial alteration. In other words, an apparent minor mistake will notrender achequeinvalid.

Examples:

(i) Conversionofabearerchequeintoanordercheque.

(ii) Alteration madewiththeconsentofparties.

(iii) Alterationmadetocarryoutthecommonintentionoftheoriginalparty,i.e.,wherethe drawer ofachequeomitsto usethe word ‘ororder’ in the cheque.
(iv) Wheretheword‘rupees’hasbeenmentionedtwice,andthen,oneiscancelled.

Alterationauthorized bytheAct:

Therearecertainalterations,which,thoughmaterial,donotrenderthechequeinvalidbecause, theyarepermittedby theAct.

Examples:

(i) Sec.20oftheNegotiableInstrumentsActpermitsanyonetofilluptheblanksoftheinstrument.
(ii) Sec.49oftheActpermitsanyholdertoconvertablankendorsementintofullendorsement.
(iii) Sec.86oftheActpermitsanyonetoacceptabillsubjecttocertainconditions.(iv) Asper Sec.125 of theAct, any holdercan cross acheque.

Devicestoarrestmaterialalteration:

To prevent unauthorized alterations, modern banks adopt many techniques, which will goa long way in protecting the interest of both the banker and the customer. Some of the recenttechniqueshavebeen listedbelow:

(a) Thechequeismadeofa specialkindofpaperwhichpreventsthe useofchemicals

(b) The body of all cheques are printed over with a design or usually with words to showmore clearly,ifan erasuretakesplace.

(c) Thepaperusedforachequemaybemadewitha‘fugitive’surface,i.e.,apaperwhichlosesitssurfaceif anyattemptismadeto ruboutwhatiswrittenthereon.
(d) Theusesofmachineslike‘protectographs’and‘perforatingmachine’safeguardsabanker to alargerextent.

PAYINGBANKER

Introduction:

A banker on whom a cheque is drawn should pay the cheque when it is presented forpayment. This cheque-paying function is a distinguished one of a banker. This obligation hasbeen imposed on him by Section 31 of the Negotiable Instruments Act. A banker is bound tohonour his customer’s cheques, to the extent of the funds available and the existence of nolegal bar to payment. Further, the cheque must be in order and it must be duly presented forpayment at the branch where the account is kept. The paying banker should use reasonablecare and diligence in paying a cheque, so as to abstain from any action likely to damage hiscustomer’s credit. If the paying banker wrongfully dishonours a cheque, he will be asked topay heavy damages. At the same time, if he makes payment in a hurry, even when there is nosufficient balance, the banker will not be allowed to debit the customer’s account. If

he doesso, it will amount to sanctioning of overdraft without prior arrangement, and, later on, thecustomer can claim it as a precedent and compel the banker to pay cheques in the absence ofsufficientbalance.Hispositionisveryprecariousandisinbetweenthedevilandthedeepsea.

PrecautionsbeforehonouringaCheque:

Inordertosafeguardhisposition,thepayingbankerhastoobservethefollowingprecautionsbeforehonouring acheque:

1. **Presentation ofthecheque:**

Firstofall,apayingbankershouldnotewhetherthepresentationofthechequeiscorrect. Itcanbefoundoutby payingattentionto thefollowing factors:

(a) Typeofthecheque:

Before honouring a cheque, he must find out the type of which it belongs. Cheques maygenerally be of two types – open or crossed. If it is an open one, the payment may be made atthe counter. If it is crossed, the payment must be made only to a fellow banker. If it isspeciallycrossed,thepaymentmustbespecificallymadetothatbankerinwhosefavourithas been crossed. If there are 'A/c Payee' and 'Not Negotiable' crossings, the paying bankerneed not worry, as they are the directions only to the collecting banker. If the paying bankerpaysachequecontrarytothecrossing,heisliabletothedrawerandtothetrueownerandthis payment cannot be regarded as a payment in due course. Therefore, he must pay specialattention to thetypeof acheque.

(a) Branch:

Then the paying banker should see whether the cheque is drawn on the branch wherethe account is kept. If it is drawn on another branch, without any prior arrangement, thebanker can safelyreturn thecheque.

(b) Account:

Even in the same branch, a customer might have opened two or more accounts. Foreach account, a separate cheque book would have been issued. Hence, the paying bankershould see that the cheque of one account is not used for withdrawing money from anotheraccount.

(c) Bankinghours:

Thepayingbankershouldalsonotewhetherthechequeispresentedduringthebanking hours on a business day. Payment outside the banking hours does not amount topayment induecourse.

(d) Mutilation:

If the cheque is torn into pieces or cancelled or mutilated, then the paying bankershould not honour it. He should return the cheque for the drawer's confirmation. In case achequeistornaccidentally,thedrawermustconfirmitbywritingsuchwordsas'Accidentally torn by me' and affixing his full signature. A cheque torn into two or morepiecesis generally returnedwitharemark'Mutilated'.

2. **FormoftheCheque:**

Before honouring a cheque, a banker should see the form of the cheque and find

outwhether itis regularor not.

(a) Printedform:

The cheque must be in the proper form. It must satisfy all the requirementsof law.The customer should draw cheques only on the printed leaves supplied by the bankers, failingwhich, thebankermay refusetohonour it.

(b) Unconditionalorder:

The cheque should not contain any condition. If it is a conditional one, the payingbanker'spositionwill becomecriticalandhemaynothonour it.

(c) Date:

Beforehonouringacheque,thebankmustseewhetherthereisadateontheinstrument. If it is undated, it cannot be regarded as a valid instrument. If a cheque is antedated, it may be paid if it has not become stale by that time.A cheque which is presentedafter six months, from the date of its issue is a stale one. If a cheque is post-dated, he shouldhonouritonly on itsduedate.

(d) Amount:

The banker should see whether the amount stated in the cheque, both in words andfigures, agree with each other. If the amount is stated only in figures, the banker should returnit with a remark 'Amount required to be stated in words'. However, if the amount is statedonlyinwords,thebankermayhonourit.Suppose,thereisadifferenceintheamountstatedin words and figures, then the banker can take any one of the following courses available tohim:

(i) Hecan dishonourthechequewitha memorandum'wordsandfiguresdiffer',or

(ii) Hecan honourtheamount stated inwords,or

(iii) Hecanhonourthesmalleramount.

(e) Materialalteration:

A paying banker should be very cautious in finding out the alterations that may appearonacheque.Ifthereisanymaterialalteration,thebankershouldreturnitwithamemorandum"alterationrequiresdrawer'sconfirmation".Ifthealterationisconfirmedbythe drawer by means of his full signature, then the banker can have no objection to honour it.If the alteration is not apparent, and, if it is paid in due course, then the banker will not beliable.

3. Sufficientbalance:

There must be sufficient balance to meet the cheque. If the funds available are notsufficienttohonour acheque,thepayingbankerisjustifiedinreturningit.So, beforehonouring a cheque, he must check up the present state of his customer's account. For thispurpose, he must compute the balance in the account of his customer. In computing thebalance, the previous agreement, if any, for OD should be taken into account. He should notdisclose the state of affairs of his customer's account to anybody. He must not offer a part oftheamountofthecheque,ifthebalance isinsufficienttomeetthefull amountofthecheque.

4. SignatureoftheDrawer:

Paying banker is to compare the signature of his customer found on the cheque withthat of his specimen signature. If he fails to do so and if he pays a cheque, which contains aforged signature of the drawer, then the payment will not amount to payment in due

course.Hence, he cannot claim protection under Section 85 of the Negotiable Instruments Act. If thesignature has been too skillfully forged for the banker to find it out, even then the banker isliable. However, if the customer facilitates the forgery of his signature by his conduct, thenthe banker willberelievedfromhis liability.

5. **Endorsement:**

Before honouring a cheque, the banker must verify the regularity of endorsement, ifany, that appears on the instrument. It is more so in the case of an order cheque, which requiresan endorsementbeforeits delivery

6. **LegalBar:**

The existence of legal bar like Garnishee Order limits the duty of the banker to pay acheque.

7. **Minorprecautions:**

A payingbankershould lookintothefollowingminordetailsalso, beforehonouringacheque:

(a) Hemust seewhether thereisanyorder ofthecustomernottopayacheque.

Hemustseewhetherthereisanyevidenceofmisappropriationofmoney.Ifso,the chequeshouldbereturned.

(b) He must see whether he has got any information about the death or insolvency orinsanityofhiscustomer.Failuretonotethoseinstructionswilllandhimintrouble.

CIRCUMSTANCESFORDISHONOROFCHEQUES

A paying banker is under a legal obligation to honour his customer's mandate. He isbound to do so under his contractual relationship with his customer. A wrongful dishonor willhave the worst effect on the banker. However, under the following circumstance, the paymentofachequemustberefused:

i. **Countermanding:**

Countermandingis the instructiongiven by the customer of a bank requesting thebank not to honour a particular cheque issued by him. When such an order is received, thebanker mustrefusetopay thecheque. Countermanding,in order to be really effective,must be in writing. The written mandateshouldcontainallthedetailsofthecheque,viz.,date,numberofthecheque, nameof the payee and the amount. Without these details, the banker would find it difficult to obligethe customer. The mandate must be signed by the customer. In the case of a company, anydirector canstop paymentof acheque.

ii Uponthereceiptofnoticeofdeathofacustomer:

Death puts an automatic end to the contractual relationship between a banker and hiscustomer. When a banker receives written information from an authoritative source regardingthe death of a particular customer, he should not honour any cheque drawn by that deceasedcustomer. If the banker is unaware of the death of a customer, he may honour the cheque,drawn by him, it would be held valid notwithstanding the fact that the payment has beenactually madeafterhis death.

iii Uponthereceiptofnoticeofinsolvency

Once a banker has knowledge of the insolvency of a customer, he must refuse to paycheques drawn by him. Usually, the banker will be served with a notice of the presentation

ofpetitionupon which hecan takenecessary action.

IV Uponthereceiptofnotice ofinsanity:

Where a banker receives notice of a customer's insanity, he is justified in refusingpayment of the cheque drawn by him. The banker should make a careful note, when thelunacy order is received. It is advisable that the banker should act upon a definite proof of thecustomer'sinsanitylike adoctor'scertificate,acourt order, etc.

V UponthereceiptofnoticeofGarnisheeOrder:

Garnishee Order refers to the order issued by a court attaching the funds of thejudgement debtor in the hands of a third party. The term 'Garnishee' refers to the person whohasbeenserved with theorder.

VI Whenabreachoftrustisintended?

In the case of a trust account, mere knowledge of the customer's intention to use thetrust funds forhis personal useisasufficient reason to dishonor hischeque.

VII Defectivetitle:

If the person who brings a cheque for payment has no title or his title is defective, thebanker shouldrefusetohonour thechequepresentedby him.

VIII othergrounds:

Abankerisjustifiedindishonouringachequeunderthefollowingcircumstances

Ifachequeis:

(a) Aconditionalone

(b) Drawnonanordinary pieceofpaper

(c) Astale one

(d) Apostdated one

(e) Mutilated Drawnonanother branchwherethe account isnotkept

(f) Presentedduringnon-bankinghours

(g) Ifthe wordsandfiguresdiffer

(h) Ifthere isnosufficient funds

(i) Ifthe signature ofthecustomer isforged

(j) Iftheendorsementisirregular

(k) Ifacrossedcheque ispresentedatthecounter

COLLECTINGBANKER

Meaning:

A collecting banker is one who undertakes to collect the amount of a cheque for hiscustomer from the paying banker. A banker is under no legal obligation to collect cheques,drawn upon otherbanksfor a customer.But, everymodern bankerperformsthisduty,

because, no customer will be satisfied merely with the function of payment of cheque alone.Moreover, in the case of crossed cheques, there is no other alternative to collect the chequesexcept through some banker. In rendering such services, a banker should be careful, becausehe is answerable to a number of persons with whom he has no contractual relationship andany negligence or carelessnesson hispartmay land him in difficulties.

BankerasaHolderforValue:

Incollectingacheque,thebankercanactintwocapacities,namely:(1)asaholderfor value, and (2) as an agent for collection. The banker would be regarded as a holder forvalue:

(a) Ifheallowshiscustomerstowithdrawmoneybeforechequespaidinforcollection areactuallycollectedandcredited,
(b) Ifanyopenchequeisacceptedandthevalueispaidbeforecollection,and/or
(c) If there isa reductionin the overdraft accountof the customerbefore thecheque iscollected and creditedintherespective account.

Inallthesecases,thebankeracquires apersonalinterest.

TheRightsofaBanker asaHolderfor Value:

Ifthebankeractsasholderforvalue,hisrightswillbethesameasthoseofaholderin due course. The title of the holder in due course is superior to that of true owner. If theinstrument contains a forgery, then the title of the true owner will be superior. So, if there isforgery, the collecting banker will have to refund the amount to the true owner. But he canrecover the money from the last endorser. If the customer is unable to meet the liability, thenthe banker will have to bear the burden. If the cheque is paid in due course, all the parties willget discharged.

BankerasanAgent:

In practice, no banker credits a customer’s account even before a cheque is collected.He collects a cheque on behalf of a customer. So, he cannot acquire any of the rights of aholder for value. He has to act only as an agent of the customer. This is so because; he cannothave a title better than that of the customer himself. So, a colleting banker cannot choose the

Capacity in which he wants to act at his discretion. He will be regarded only as an agent. So,during collection, if a banker, in his capacity as an agent, collects a cheque which belongs tosome other person, to the account of his customer, he will be held liable for ‘conversion’ ofmoney received.

Conversion:

‘Conversion’ is a wrongful interference or meddling with the goods of another. Forexample, taking or using or destroying the goods or exercising some control over them in awaythatisinconsistentwiththeowner’srightofownership.Theterm‘goods’includesbillofexchang e,chequeorpromissorynote.Conversionmaybecommittedinnocently.

Conversionisawrongthatrendersthepersoncommittingitpersonallyliable.Thisliabilityexistseven when apersonactsmerelyas anagent.

Banker’sLiability:

Hence, if a collecting banker, however, innocent he may be, has converted the goodsof another, he will be held personally liable. This liability exists because the banker is actingas an agent and not as a holder of value. If it is so, no banker will be in a position to collectcheques for his customer. In those days, the position of a collecting banker was far fromsatisfactory. Therefore the statutory protection was granted by Section 131 of the NegotiableInstruments Act against conversion. Section 131 of the Negotiable Instruments Act, 1881correspondsto Section82of theBillsofExchangeAct, 182.

BasisofNegligence:

The word ‘negligence’ has no definite meaning in banking law. It has been verywidely interpreted by courts of law frequently to the detriment of banker. It is flexible and isever expandingin itsscopeas new circumstancesarise.

The liability for negligence imposes on the banker a statutory duty to the true owner.But, as a general rule, a banker owes no duty to third parties. Moreover, when a collectingbanker wants to claim protection under Sec.131, he has the burden of proving that he hasacted without negligence. It is so because, the true owner’s case is complete, as soon as,conversion is proved *prima facie* againstthebanker.

There has been considerable difference of opinion, as to, what constitutes negligencefor the purpose of Sec, 131. It should be noted that negligence under this Section is more orlessartificial,asthereisnocontractualrelationshipbetweenthecollectingbankerandthetrue owner of thecheque.

Foraproperunderstanding,negligence canbestudiedunderthefollowingheads:

1. Grossnegligence
2. Negligenceconnectedwiththeimmediatecollectionofcheque
3. Negligence underremotegrounds
4. Contributorynegligence

DUTIESOFACOLLECTINGBANKER

(i) Exercisereasonablecareanddiligenceinhiscollectionwork:

When a banker collects a cheque for his customer, he acts only as an agent of thecustomer. As an agent, he should exercise reasonable care, diligence and skill in collectionwork. He should observe utmostcare when presentinga chequeor a billfor payment.Reasonable care anddiligencedependsuponthecircumstanceofeach case.

(ii) Presentthechequeforcollectionwithoutanydelay:

Thebankermustpresentthechequeforpaymentwithoutanydelay.Ifthereisdelayinpresentm ent,thecustomer maysuffer lossesdue to theinsolvencyof the drawer orinsufficiency of funds in the account of the drawer or insolvency of the banker himself. In allsuchcases, thebanker should beartheloss.

(iii) Noticetocustomerinthecaseofdishonorofacheque:

If the cheque, he collects, has been dishonoured, he should inform his customerwithout any delay. The Negotiable Instrument Act has prescribed a reasonable time for givingthe

notice of dishonor. If he fails to do so, and consequently, any loss arises to the customer,the banker has tobear theloss.

(iv) Presentthebillforacceptanceatanearlydate:

As per Sec.61 of the Negotiable Instrument Act, a bill of exchange must be accepted.Acceptance gives an additional currency to the bill, because, the drawee becomes liablethereon from the date of acceptance. Moreover, in the case of a bill of exchange payable aftersight, acceptance is absolutely essential to fix the date of maturity. If a banker undertakes tocollect bills, it is his duty to present them for acceptance at any early date. Sooner a bill ispresented and gotaccepted, earlieris itsmaturity.

(v) Presentthebill forpayment:

The banker should present the bills for payment in proper time and at proper place. Ifhe fails to do so and if any loss occurs to the customer, then the banker will be liable.According to Sec.66 of the Negotiable Instrument Act, a bill must be presented for paymenton maturity. As per Sec.21, sight bills are payable on demand. Sec.22 lays down that thematurity of the bill is the date on which it is due for payment, to which, 3 days of grace areadded.Thus,therulesforcalculatingthematuritydatesaregiveninSecs.23,24and26ofthe NegotiableInstrumentAct.

(vi) Protestandnoteaforeign billfornon-acceptance:

In case of dishonor of a bill by non-acceptance or non-payment, it is the duty of thecollecting banker to inform the customer immediately. Generally, he returns the bill to thecustomer. In the absence of specific instructions, collecting bankers do not get the inland billsnotedandprotestedfordishonor.Ifthebillinquestionhappenstobeaforeignbill,thebanker should have it protested and noted by a Notary Public and then forwarded it to thecustomer.

Banking Ombudsman: Redressal for customer complaints against banks

The main object of the complaint is to get resolved your problem as earliest. So it is most important to make complaint to appropriate person who will resolve your problem effectively

, who have not provided us good services at some point of time. We face issues like activating our dormant account, issue of cheque book, adding nominee name, refunding overdraft charges, delay in remittance from abroad, closing bank account, etc. At times, we do not get a proper resolution from the bank. In such case need to know to whom can we file a complaint to resolve our issue.

Banks are like any other business and therefore you can file a complaint against them—if you are not satisfied with their services. Filing a complaint also helps you, to make sure that next time you won't have any bad experience with them. However, for a filing a complaint against a bank you first need to know the right process.

The main object of the complaint is to get resolved your problem as earliest. So it is most important to make complaint to appropriate person who will resolve your problem effectively. There is a system in Indian banking to get your problem resolved by contacting authorities in procedure. First approach to concerned bank, then Director of Public Grievances, Govt of

India, then Ombudsman (RBI) and finally consumer forum. If you will follow the procedure you will find result sure.

Presently RBI (Reserve Bank of India) has compelled banks to hear customer on priority basis. On direction of RBI every bank has to appoint nodal office for redressal of customer grievances. Every bank has designated higher level office at head offices and other senior level officer at controlling offices and at large branches.

Steps of complaints

- Write or e-mail to concerned bank branch, office or department
- Write or e-mail to nodal officer at controlling office and head office of the bank
- Write or e-mail to Director of Public Grievances, Govt of India, Cabinet Secretariat, Sansad Marg, New Delhi-110001
- Complaint in appropriate form (along with copies of earlier correspondence with concerned bank) to Banking Ombudsman (Located at state capitals under RBI Ombudsman Scheme)
- District Consumer Forum (under Consumer Protection Act, 1985) complain in appropriate form.
- In this article we will learn more about banking ombudsman, their role, appointment & tenure, grounds of complaints among others.
- Banking ombudsman is a quasi-judicial authority created by Government of India to provide effective complaints resolutions. It is a senior official appointed by RBI to address the complaints by the banking customers. Some people also call it ombudsman banking.

Internal Ombudsman Scheme

The coverage of the Internal Ombudsman Scheme is extended to all scheduled commercial banks (other than Regional Rural Banks) having 10 or more banking outlets in India. The objective of setting up the Internal Ombudsman is to ensure that undivided attention is given to resolution of consumer grievances in banks and the bank's customers get an independent and auto-review of their grievances so that they are not partially or wholly unaddressed before they approach the Banking Ombudsman.

Origin: Banking Ombudsman Scheme 2006

The RBI first introduced the Banking Ombudsman Scheme in 1995 and it was revised in 2002 to over regional and rural banks. Then again there was a revision in the year 2006 which is known as "Banking Ombudsman Scheme 2006" to cover complaints for ATM transactions, debit and credit cards, deduction of service charges etc. It was last amended in February 2009, to cover problems due to internet banking. This RBI Banking Ombudsman scheme covers all banks- PSU Banks, Rural and Co-operative Banks. The Ombudsman Banking has been defined under clause 4 of the Banking Ombudsman Scheme, 2006.

The RBI shall specify the territorial limits to which the authority of each of the Banking Ombudsman shall extend.

The Banking Ombudsman is a senior official appointed by the Reserve Bank of India to redress customer complaints against deficiency in certain banking services covered under the grounds of complaint specified under Clause 8 of the Banking Ombudsman Scheme 2006 (As amended upto July 1, 2017).

Appointment & tenure

The RBI on recommendation by its Governor may appoint one or more officials for this post. The minimum age to be considered shall be 55 years. The person selected will be appointed for a period of 3 years which could be further extended for a period not exceeding 2 years and subject to age limit of 65 years.

Clause 12 Grounds of Complaints

1) Complaints Pertaining to Deficiency in any of the Banking Services such as:-

- Non-payment or delay in payment of cheques, drafts, bills, etc
- Non acceptance of small denomination notes without any reason and also charging of commission in respect thereof
- Non issuance of drafts to customers
- Non adherence to prescribed working hours by the branches
- Failure to honour guarantee or letter of credit
- Claims in regards to fraudulent withdrawals or fraudulent encashment of cheque or a bank draft
- Complaints for any of the accounts pertaining to delays , non credit of proceeds to parties accounts
- Complaints for non observance of RBI’s directives applicable to rate of interests on deposits or violation of directives on any other matter
- Complaints from exporters for delays in receipt of export proceeds, handling of export bills, collections of bills
- Complaints from NRI’s in regards to remittance from abroad
- Complaints pertaining to refusal to open deposit accounts without any valid reason

2) Complaints Concerning loans & advances

- Non observance of RBI directives on interest rates
- Delays in sanction or disbursement of loan applications
- Non acceptance of loan application without any valid reason
- Non observance of any other directives by RBI.

Procedure for lodging complaint

Any person who has a grievance against a services as mentioned above in Clause 12 of the scheme can approach Banking Ombudsman for addressing his concern. The person can make a complaint to Banking Ombudsman within whose jurisdiction the branch or office of the bank complained against is located.

The complaint filed should be in writing duly signed by the complainant. It should clearly state the name and address of complainant along with name and address of branch of bank against which complaint is being made. It should also give facts causing complaint supported by documents along with description of nature and extent of loss.

Rejection of complaints

1) If the complainant hasn’t first approached the bank named in the complaint and the complaint would be accepted only if the other bank has

- Rejected the complaint or
- No reply received within 1 month after the concerned bank received the case or
- Person is not satisfied with the reply given

2) If the complaint has been made to Ombudsman later than one year after the cause of action

3) If the complaint is in regards to the same subject matter which was settled though Banking Ombudsman in any previous proceedings
4) If the complaint for same subject matter is pending before any court, tribunal or arbitrator or a final order has already been passed by such an authority
5) If the complaint is frivolous, vexatious or malafide in nature
6) If there is no loss or damage caused to complainant
7) If it is pursued without sufficient cause and reasonable diligence
8) If the complaint is outside the purview of the scheme
9) If the bank branches fall outside the jurisdiction of Ombudsman as several states are clubbed together since it`s not available in all states.

RBI Banking Ombudsman Offices in India are located at Mumbai Delhi, Bangalore, Hyderabad and 11 other locations. Banking Ombudsman email can be obtained from RBI website for respective locations in Delhi, Mumbai and others.