

# **MAR GREGORIOS COLLEGE OF ARTS & SCIENCE**

Block No.8, College Road, Mogappair West, Chennai – 37

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## **DEPARTMENT OF COMMERCE (ACCOUNTING & FINANCE)**

**SUBJECT NAME: BANKING THEORY, LAW AND PRACTICE**

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**SEMESTER: III**

**PREPARED BY: PROF.M.PREMA**

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### **Suggested Readings**

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2. Clifford Gomez, Banking and Finance, Theory, Law and Practice, Jain Book Agency, 2010, Mumbai
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## UNIT- 1 Introduction to banking

### INTRODUCTION:

Banking is an integral part of the modern economy. But the nature and functions of modern banks have evolved over a long period of time. The idea of banking evolved with the idea of money. Banking business is mainly linked to lending. Money lender is to be found in every society - ancient or modern; advanced or backward. The ten commandments of Moses, Quoran, Manusmriti, Kautilya's Arthashastra all have reference to money lenders and rate of interest. Modern banks also undertake foreign exchange transactions. The priests in temples took advantage of the sanctity of the temples, collected people's savings and did lending business. In the middle ages, banking business was carried by the individuals. Then came partnership and today in all countries banking is carried out by joint stock companies and is regulated by the Government.

### ORIGIN OF BANKING

It is seen that banking transactions have been taking place since last number of years. Even it is evidenced that the banking system was prevailing at the time of Babilon culture. The banks were in existence in Rome also. It was said that in the year 1171, the authorities of Venice had taken loan from the people for meeting the expenses of war and the arrangements for repayment were also made by them. Such loan was called as 'Mot' in Italian language. The meaning of mot in German language is 'bank'. In those days, there was German rule in many parts of Italy. Afterwards, in Italian language it was called as banco. The German word bank means a joint stock fund. This word bank was Italianized into banco when the Germans were masters of a great part of Italy. Afterwards in France and England this word was used. It is seen that since 1646 the word 'bank' has been used in the articles. Later on there were many

banks who started using the word bank in their names. E.g. Bank of Milan. However, there are some philosophers according to whom the Italian word 'banco' means table. In the old days, the money lenders used to do banking transactions by keeping tables in the market and so the word 'bank' has been evolved

**The advancement in the Indian banking system is classified into 3 distinct phases:**

1. The pre-independence phase i.e. before 1947
2. Second phase from 1947 to 1991
3. Third phase 1991 and beyond

#### Phase I

This phase is characterized by the presence of a large number of banks (more than 600). Banking system commenced in India with the foundation of Bank of Hindustan in Calcutta (now Kolkata) in 1770 which ceased to operate in 1832. After that many banks came but some were not successful like - General Bank of India (1786-1791) Oudh Commercial Bank (1881-1958) - the first commercial bank of India. Whereas some are successful and continue to lead even now like - Allahabad Bank (est. 1865)

Punjab National Bank (est. 1894, with HQ in Lahore (that time)) Bank of India (est. 1906) Bank of Baroda (est. 1908) Central Bank of India (est. 1911) While some others like Bank of

Bengal (est. 1806), Bank of Bombay (est. 1840), Bank of Madras (est. 1843) merged into a single entity in 1921 which came to be known as Imperial Bank of India.

Note: Imperial Bank of India was later renamed in 1955 as the State Bank of India.

In April 1935, Reserve Bank of India was formed based on the recommendation of Hilton Young Commission (set up in 1926). In this time period, most of the banks were small in size and suffered from high rate of failures. As a result public confidence is low in these banks and deposit mobilization was also very slow. People continued to rely on unorganized sector (money lenders and indigenous bankers).

## **Phase II**

Broadly the main characteristic feature of this phase is the nationalization of bank. With the view of economic planning, nationalization emerged as the effective measure.

### **Need for nationalization in India:**

- a) The banks mostly catered to the needs of large industries, big business houses.
- b) Sectors such as agriculture, small scale industries and exports were lagging behind.
- c) The poor masses continued to be exploited by the money lenders.

Following this, in the year 1949, 1st January the Reserve Bank of India was nationalized. 14 commercial banks were nationalized in 19th July, 1969. Smt. Indira Gandhi was the Prime Minister of India, during in 1969 These were Central Bank of India, Bank of India, Punjab National Bank, Bank of Baroda, United Commercial Bank, Canara Bank, Syndicate Bank, Allahabad Bank, Indian Bank, Union Bank of India, Bank of Maharashtra, Indian Overseas Bank. 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, Vijaya Bank.

Note: In 1993, New Bank of India got merged with Punjab National Bank.

Meanwhile on the recommendation of M. Narsimhan committee, RRBs (Regional Rural Banks) were formed on Oct 2, 1975. The objective behind the formation of RRBs was to serve large unserved population of rural areas and promoting financial inclusion. With a view to meet the specific requirement from the different sector (i.e. agriculture, housing, foreign trade, industry) some apex level banking institutions were also set up like

**NABARD** (est. 1982)

**EXIM** (est. 1982)

**NHB** (est. 1988)

**SIDBI** (est. 1990)

Impact of Nationalization:

- a) Improved efficiency in the banking system – since the public confidence got boosted.
- b) Sectors such as Agriculture, small and medium industries started getting funds – led to economic growth.
- c) Increased penetration of Bank branches in the rural areas.

## **Phase III**

This period saw a remarkable growth in the process of development of banks with the liberalization of economic policies. Even after nationalization and the subsequent regulation that followed, a large portion of masses are untouched by the banking services.

Considering this, in 1991, the Narsimhan committee gave its recommendation i.e. to allow the entry of private sector players into the banking system. Following this RBI gave license to 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 a result RBI gave license to Kotak Mahindra Bank (2003) Yes Bank (2004) In 2013-14, 3<sup>rd</sup> round of bank licensing took place. And in 2014 IDFC bank and Bandhan Bank emerged. In order to further financial inclusion, RBI also proposed to set up 2 kind of banks i.e. Payment Banks and Small Banks.

### **Some Important Facts–**

- Allahabad Bank, established in 1865 – Allahabad Bank is the oldest Public Sector Bank in India having branches all over India and serving the customers for the last 145 years.
- Imperial Bank of India was later renamed in 1955 as the State Bank of India.
- The first Bank of India with Limited Liability to be managed by Indian Board was Oudh Commercial Bank. It was established in 1881 at Faizabad.
- Punjab National Bank is the first bank purely managed by Indians, which was established in Lahore in 1895.
- First Truly Swadeshi bank – Central Bank of India is called India's First Truly Swadeshi bank, which was established in 1911 and wholly owned and managed by Indians.
- Union Bank of India was inaugurated by Mahatma Gandhi in 1919.
- Osborne Smith was the first governor of the Reserve Bank.
- C.D. Deshmukh was the first Indian to be the governor of Reserve Bank.
- Savings accounts system in India was started by Presidency Bank, 1833.
- The first Indian bank to open overseas branch is Bank of India. It established a branch in London in 1946.
- ICICI Bank was the first Indian bank to provide internet banking facility.
- Central Bank of India was the first public bank to introduce Credit card.
- ICICI bank is the first bank to provide mobile ATM.
- Bank of Baroda has the maximum number of overseas branches.

### **Meaning of Bank:**

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

The term bank is either derived from Old Italian word *banca* or from a French word *banque* both mean a **bench money exchange table**. In olden days, European money lenders or money changers used to display (show) coins of different countries in big heaps (quantity) on benches or tables for the purpose of lending or exchanging. A bank is a financial institution which deals with deposits and advances and other related services. It receives money from those who want to save in the form of deposits and it lends money to those who need it.

### **Definitions:**

1) F.E. Perry:

-The bank is an establishment which deals in money, receiving it on deposit from customers, honoring customer's drawings against such deposits on demand, collecting cheques for customers and lending or investing surplus deposits until they are required for repayment.

Walter Leaf:

-A banker is an institution or individual who is always ready to receive money on deposit to be returned against the cheques of their depositors.

Banking Regulation Act of 1949 defines banking as "accepting for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise".

### **Characteristics/Features of a Bank:**

#### **1. Dealing in Money**

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

#### **2. Individual/Firm/ Company**

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

#### **3. Acceptance of Deposit**

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

#### **4. Giving Advances**

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

#### **5. Payment and Withdrawal**

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

#### **6. Agency and Utility Services**

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

#### **7. Profit and Service Orientation**

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

#### **8. Ever increasing Functions**

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

### **9. Connecting Link**

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

### **10. Banking Business**

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

### **11. Name Identity**

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

### **Stages in the Evolution of Banking in India:**

Some important stages in the evolution of modern banking in India are as follows:

#### **1) Agency Houses:**

When the English traders came to India, they had a problem of raising working capital due to the language barrier. Therefore, they established Agency Houses which combined trading with banking. One agency house established the first bank in India called the Bank of Hindustan in 1770. Later on, many banks were established. But they disappeared as fast as they were born. Anybody could then start a bank. The field was free for all.

#### **2) Presidency Banks:**

The East India Co., the ruler of India, took initiative in establishing Presidency Banks by contributing 20% of their share capital to meet its own demand for funds. Accordingly, Bank of Bengal, Bank of Bombay and Bank of Madras were established in 1806, 1840 and 1943 respectively.

#### **3) Joint Stock Banks:**

In 1884, banks were allowed to be established on the principle of limited liability. In due course, this encouraged establishment of banks. By the turn of the century, many banks with the initiative of Indians were established. Punjab National Bank, Allahabad Bank, Bank of Baroda are some of the banks then established. Many foreigners also came in the field of Indian banking.

#### **4) Imperial Bank of India:**

To meet the competition of foreign banks, the three Presidency Banks were amalgamated and a powerful Imperial Bank of India was established in 1921 with its network of branches all over the country. This bank was later nationalised in 1955 and it is today's State Bank of India. This is a prestigious bank as the Government is its customer.

#### **5) Establishment of the Reserve Bank of India:**

Though there was a 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 was emphasised by the Hilton Young Commission. Accordingly, the RBI was established in 1935 to perform all the functions of a Central Bank. It was modeled on the pattern of the Bank of England. But it did not have much power of regulation. The period was also critical one due to the great depression and the subsequent Second World War. The RBI could not do much about banking.

### **6) Nationalisation of the RBI and the Banking Regulation Act:**

These two important steps were taken in 1949. Immediately after independence wide powers of regulation and control were given to the RBI and by making use of those powers the RBI was successful in making Indian banking trustworthy. Soon, bank failures became a thing of the past and India's banks progressed under the guidance of the RBI. Many malpractices, deficiencies and drawbacks were sought to be removed by the RBI.

### **7) Nationalisation of Banks in 1969 and 1980:**

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

## **CONSTITUENTS OF THE INDIAN BANKING SYSTEM**

The constituents of the Indian Banking System can be broadly listed as under:

### **(a) Commercial Banks:**

- (i) Public Sector Banks
- (ii) Private Sector Banks
- (iii) Foreign Banks

### **(b) Cooperative Banks:**

- (i) Short term agricultural institutions
- (ii) Long term agricultural credit institutions
- (iii) Non-agricultural credit institutions

### **(c) Development Banks:**

- (i) National Bank for Agriculture and Rural Development (NABARD)
- (ii) Small Industries Development Bank of India (SIDBI)
- (iii) EXIM Bank
- (iv) National Housing Bank

## **CLASSIFICATION OF BANKS**



The banking institutions form an indispensable part in a modern developing society. They perform varied functions to meet the demands of various sections of the society. On the basis of the functions performed and its ownership, the banks can be classified into the following types:

### **On the basis of Functions:**

#### **Commercial Bank:**

Banks, which help for the development of trade and commerce, are called Commercial Banks. 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 as commercial banks.

#### **Industrial Bank:**

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, providing technical advice and managerial service to the industries. For eg: Industrial Development Bank of India (IDBI), Industrial Credit and Investment Corporation of India (ICICI), are known as industrial banks.

#### **Regional Rural Bank:**

These banks are established in rural areas. Its object is to develop the rural economy by providing credit and other facilities for agriculture, trade, commerce, industry and other productive activities in the rural areas.

#### **Exchange bank:**

Exchange banks deal in foreign exchange and specialize in foreign trade. It plays an important role in promoting international trade. It encourages flow of foreign investments into India and helps in capturing international capital markets.

#### **Central bank:**

Every country has a central bank of its own which is called as central bank. It is the apex bank and the statutory institution in the money market of a country. The central bank occupies a central position in the monetary and banking system of the country and is the superior financial authority. In India, the Reserve Bank of India is the central bank of our country.

### **Reserve Bank of India:**

Reserve Bank of India was established in 1935. It is the central bank of India. The following are the main objectives of RBI:

- (a) To manage and regulate foreign exchange.
- (b) To build a sound and adequate banking and credit structure.
- (c) To promote specialized institutions to increase the term finance to industry.
- (d) To give support and planning authorities for the economic development of the country. to government

(e) To control and manage the banking system in India.

(f) To execute the monetary policy of the country.

### **ON THE BASIS OF OWNERSHIP:**

On the basis of ownership banks can be classified as:

#### **Public Sector Banks:**

These types of banks are owned and controlled by the government. The nationalized banks and regional rural banks come under this category.

#### **Private Sector Banks:**

These banks are owned by private individuals and corporations.

#### **Co-operative Banks:**

These banks are operated on cooperative principles. It is a voluntary association of members for self-help and caters to their financial needs on a mutual basis. These banks are also subject to control and inspection by Reserve Bank of India. The main function of co-operative banking is to link the farmers with the money market of the country.

#### **a) Primary Agricultural Co-operative Societies (PACS):**

It is the root of the credit structure. It is also called as village societies and the members belong to the related villages.

#### **Functions:**

- It gives short-term and medium term loans to farmers.
- It helps in distribution of fertilizers and seeds.
- It helps in distribution of consumer goods to their members.
- It helps in milk, egg, sugar production in the village.

#### **b) Central Co-operative Banks (CCB):**

It is the federation of all primary societies at the district level. Therefore it is also called as District co-operative central bank. It supervises, controls and finances the primary credit societies.

#### **Functions:**

- It gives finances to primary credit societies.
- It gives credit to individual customers on the basis of security.
- It accepts deposit and pays high rate of interest than commercial banks.
- It helps in remitting money to their customers.
- It helps in solving problems of primary co-operative societies.

- It controls and supervises the working of primary co-operative societies.

#### **a. State Co-operative Banks (SCBs):**

State Co-operative Bank is the federation of district Co-operative central banks. Each state has one state central co-operative bank. It is also called as Apex Bank in the three-tier structure.

Functions:

- It coordinates the activities of primary and Central Co-operative Banks in the state.
- It mobilizes deposits for the benefit of co-operatives.
- It helps in maintaining a balance among Central Co-operative banks
- It also functions as a commercial bank.

#### **b. Land Development Banks:**

It was earlier called as Land Mortgage Banks. Its structure is not uniform in all the states. In some states it is separate, in some states it is federal. And in some states it is mixed.

**Functions:**

- It gives long-term loans to agriculturalists for making improvements on the land, repaying old debt etc., loans.
- It gives loans to free the mortgaged land and to buy new land
- It also grants loans to cottage and small industries in rural areas.

#### **ON THE BASIS OF SCHEDULES OF RBI:**

##### **Scheduled banks:**

These types of banks are included in the second schedule of the Reserve Bank of India Act 1934. The banks, which fulfill the following conditions, are classified into scheduled banks.

- Its paid up capital and reserves are at least Rs. 5 Lakhs.
- Its operations are not detrimental to the interest of the depositors.
- It is a corporation or co-operative society and not a partnership or a single owner firm.

##### **Non-Scheduled banks:**

The banks, which are not covered by the second schedule of Reserve Bank of India, are called as non-scheduled banks.

#### **INDIGENOUS BANKERS:**

Indigenous bankers are those who do not come under the control of RBI. For example money lenders, marvadis, chettiers, pawn brokers are known as indigenous bankers. They accept deposit and deal in Hundis (It is a credit instrument like promissory note.) The indigenous bankers rely on their own resources or borrow from one another to carry on their business.

## Functions of Indigenous Bankers:

The following are their functions:

- a. They receive deposits for a fixed period at a high rate of interest.
- b. They advance loans against security of land, jewellery, crops, goods, promissory note etc.
- c. They write, sell and buy hundis, which are bills of exchange.
- d. They finance both wholesale and retail traders.
- e. They engage in speculation of food and non-food crops and other articles of consumption.
- f. They act as commission agents to firms.
- g. Some non-professional indigenous bankers run their own manufacturing or service firms.
- h. Some indigenous bankers provide long-term finance by subscribing shares and debentures of large companies.

The borrowers find it easy to get finance from indigenous bankers because of the following reasons:

- Less formality.
- No fixed banking hours.
- Borrowers approach them directly and informally.
- These types of bankers insist on punctuality of repayment.

## MAIN FUNCTIONS OF COMMERCIAL BANKS

The main functions of commercial banks are accepting deposits from the public and advancing them loans. However, besides these functions there are many other functions which these banks perform. All these functions can be divided under the following heads:

1. Accepting deposits
2. Giving loans
3. Overdraft
4. Discounting of Bills of Exchange
5. Investment of Funds
6. Agency Functions
7. Miscellaneous Functions

### 1. Accepting Deposits:

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 their savings with the banks.

For example, fixed and low income group people deposit their savings in small amounts from the points of view of security, income and saving promotion. On the other hand, traders and business men deposit their savings in the banks for the convenience of payment. Therefore, keeping the needs and interests of various sections of society, banks formulate various deposit schemes. Generally, there are three types of deposits which are as

follows:

**(i) Current Deposits:**

The depositors of such deposits can withdraw and deposit money whenever they desire. Since banks have to keep the deposited amount of such accounts in cash always, they carry either no interest or very low rate of interest. These deposits are called as Demand

Deposits because these can be demanded or withdrawn by the depositors at any time they want.

Such deposit accounts are highly useful for traders and big business firms because they have to make payments and accept payments many times in a day.

**(ii) Fixed Deposits:**

These are the deposits which are deposited for a definite period of time. This period is generally not less than one year and, therefore, these are called as long term deposits. These deposits cannot be withdrawn before the expiry of the stipulated time and, therefore, these are also called as time deposits..

**(iii) Saving Deposits:**

In such deposits, money up to a certain limit can be deposited and withdrawn once or twice in a week. On such deposits, the rate of interest is very less. As is evident from the name of such deposits their main objective is to mobilize small savings in the form of deposits. These deposits are generally done by salaried people and the people who have fixed and less income.

**2. Giving Loans:**

The second important function of commercial banks is to advance loans to its customers. Banks charge interest from the borrowers and this is the main source of their income.

Banks advance loans not only on the basis of the deposits of the public rather they also advance loans on the basis of depositing the money in the accounts of borrowers. In other words, they create loans out of deposits and deposits out of loans. This is called as credit creation by commercial banks..

**(i) Cash Credit:**

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

**(iii) Demand loans:**

These are such loans that can be recalled on demand by the banks. The entire loan amount is paid in lump sum by crediting it to the loan account of the borrower, and thus the entire loan becomes chargeable to interest with immediate effect.

**(iv) Short-term loan:**

These loans may be given as personal loans, loans to finance working capital or as priority sector advances. These are made against some security and the entire loan amount is transferred to the loan account of the borrower

**3. Over-Draft:**

Banks advance loans to its customer's up to a certain amount through over-drafts, if there are no deposits in the current account. For this banks demand a security from the customers and charge very high rate of interest.

**4. Discounting of Bills of Exchange:**

This is the most prevalent and important method of advancing loans to the traders for short-term purposes. Under this system, banks advance loans to the traders and business firms by discounting their bills. In this way, businessmen get loans on the basis of their bills of exchange before the time of their maturity.

**5. Investment of Funds:**

The banks invest their surplus funds in three types of securities—Government securities, other approved securities and other securities. Government securities include both, central and state governments, such as treasury bills, national savings certificate etc. Other securities include securities of state associated bodies like electricity boards, housing boards, debentures of Land Development Banks units of UTI, shares of Regional Rural bank etc.

**6. Agency Functions:**

Banks function in the form of agents and representatives of their customers. Customers give their consent for performing such functions. The important functions of these types are as follows:

- (i) Banks collect cheques, drafts, bills of exchange and dividends of the shares for their customers.
- (ii) Banks make payment for their clients and at times accept the bills of exchange of their customers for which payment is made at the fixed time.

**7. Miscellaneous Functions:**

Besides the functions mentioned above, banks perform many other functions of general utility which are as follows:

- (i) Banks make arrangement of lockers for the safe custody of valuable assets of their customers such as gold, silver, legal documents etc.
- (ii) Banks give reference for their customers.
- (iii) Banks collect necessary and useful statistics relating to trade and industry.
- (iv) For facilitating foreign trade, banks undertake to sell and purchase foreign exchange.
- (v) Banks advise their clients relating to investment decisions as specialist.
- (vi) Bank does the under-writing of shares and debentures also.
- (vii) Banks issue letters of credit.
- (viii) During natural calamities, banks are highly useful in mobilizing funds and donations.
- (ix) Banks provide loans for consumer durables like Car, Air-conditioner, and Fridge etc.

**BANK SUBSIDIARIES**

- Bank Controls One or More Subsidiaries
- Subsidiaries Offer Other Services Such as Insurance and Security Brokerage Services
- Profits and Losses of Each Subsidiary Impact Parent Bank

## AGENCY SERVICES OF COMMERCIAL BANKS

Agency Services or Agency functions of commercial banks are elaborated in detail below

1. **Collection of Cheques, Dividends, Interests etc.:** Collecting cheques, drafts, bill of exchange, dividends, interests etc. on behalf of its customers and credit the amount in their account is one of the most important agency services rendered by the banks. Banker accepts standing instructions from the customers and arranges to collect dividend, interest, pension, salaries, bill etc. on behalf of his customers.
2. **Payment of Subscription, Rent, Insurance Premium etc.:** Banks undertake the payment of subscriptions, rent, insurance premium etc. on behalf of the customers and debit the account with the amount. It accepts the standing instructions of the customer and arranges for the payment of such expenses on their behalf. It charges a small amount by way of commission for these services.
3. **Conduct of Stock Exchange Transactions:** Banks purchase and sell various securities such as shares, debentures, bonds etc. of joint stock companies both private and Government on behalf of their customers.
4. **Acting as Executor, Trustees, Attorneys etc.:** Banks act as executors of will, trustees, attorneys and administrators. As an executor it preserves the—Wills of the customers and executes them after their death. As a trustee, it takes care of the funds of the customers. As an attorney, it signs transfer forms and documents on behalf of the customer.
5. **Preparation of Income Tax Returns:** Banks prepare income tax returns for their customers through their tax service departments.
6. **Conducting Foreign Exchange Transactions:** Commercial banks purchase and sell foreign exchange for their customers.
7. **Banker acts as an agent to the customer.** When a customer deposits cheques, drafts, bills or any other promissory notes, the banker collects them and on realization credits the account of the customer. For this activity, the banker is given commission. Banks also act as a correspondent, representative of their customers. Some banks may even get the travelers' tickets, passport etc. for their customers

### Structure of Commercial Banks:

Commercial banks are basically of two types:

1. Scheduled banks
2. Non-scheduled bank

Scheduled banks are those which have been in II Schedule of RBI Act, 1934 and following criteria should be satisfied.

- Minimum paid up capital Rs. 5 lakh

- It must be a corporation as a cooperative society
- Any activity of bank will not adversely affect the interest of depositors.

Scheduled banks consist of public sector banks, private sector banks, foreign banks and regional rural banks.

### **Public Sector Banks:**

Public sector banks are those in which 50% of their capital is provided by Central Government, 15% by concerned State Government and 35% by sponsored commercial banks. In India, there are 27 public sector banks. They include the State Bank of India and its 6 associated banks such as State Bank of Hyderabad, State Bank of Mysore, etc. and 19 nationalised banks and IDBI banks Ltd.

### **Private Sector Banks:**

Private sector banks are those in which majority of share capital is kept by business houses and individuals. After the nationalization, entry of private sector banks is restricted. But some of private banks continued to operate such as Jammu & Kashmir Bank Ltd. To increase the competition spirit and improve the working of public sector banks, RBI permitted the entry of private sector banks in July, 1993.

### **Foreign Banks:**

Foreign banks are those which are incorporated outside India and open their branches in India. Foreign banks perform all the functions like other commercial banks in India. Foreign banks are superior in technology and management than Indian banks. They offer different types of products and services such as offshore banking, online banking, personal banking, etc. They provide loans for automobiles, small and large businesses. Foreign banks also provide special types of credit cards which are nationally and internationally accepted. These banks earn lots of profit and create new ways of investments in the country.

### **Regional Rural Banks:**

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

## **SOCIAL RESPONSIBILITY OF BANKS IN INDIA**

As per the instruction of the RBI, majority of the banks started their Corporate Social Responsibility. Government reduces the tax only for the banks that have adopted CSR.

**Rural Branch Expansion:** Banks are expanding their branches in rural areas. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a road block to financial inclusion in many states. Apart from this there is inadequate legal and financial structure. Jammu and Kashmir Bank is the top performer in rural branch expansion variable and YES Bank is the least performer in rural branch expansion variable among private sector banks. CITI and Standard Chartered banks don't have any branches in rural areas. Thus overall it can be interpreted from the table 3 that public banks are



leading in rural branch expansion then private sector banks and at last foreign banks.

**Priority Sector Lending:** As described by the Reserve Bank of India, Priority Sector lending means lending to the agriculture, small scale and ancillary industries, new and renewable sources of energy, cottage industries, artisans, food and agro based processing, education, housing and weaker section.

**Environment Protection:** This variable includes all the activities carried out by the banks for the purpose of environment protection or to reduce the environmental harm by adopting different initiatives, replacing traditional activities by eco friendly processes or activities in day to day business. The World Bank has also pressurized the banks not to finance the projects, which are causing harm to the environment either directly or indirectly.

1. Assistance for rain water harvesting tanks
2. Wild animal protection projects
3. Tree plantation drives

### **Financial Literacy:**

As per the Reserve Bank of India, Financial literacy is providing familiarity with and understanding of financial market products, especially rewards and risks, in order to make informed choices. It is the ability to know, monitor, and effectively use financial resources to

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 markets have become increasingly complex and as there is information asymmetry between markets and the common person, leading to the latter finding it increasingly difficult to make informed choices. In India, the need for financial literacy is even greater considering the low levels of literacy and the large section of the population, which still remains out of the formal financial set-up. Credit Counseling can be defined as counseling that explores the possibility of repaying debts outside bankruptcy and educates the debtor about credit, budgeting, and financial management. In view of the above two points the RBI has initiated a scheme for setting up of Financial Literacy and Credit Counseling (FLCC) Centres by the banks. Certain banks have not just opened the FLCC centers but have also taken other measures to promote financial education among people.

### **Farmer's Welfare:**

Indian economy has always been an agriculture based economy. Although the contribution of agriculture to the GDP of the country has decreased in past years, a large portion of population still depends upon agriculture for its survival. However, the agriculture sector is still in a meager state. Some of the major activities done by the banks under the farmer's welfare areas follows:

- Agriculture Debt Waiver & Debt Relief Scheme
- Loan for Solar Water Heating Systems at concessional rate,
- Rural Extension Education Programmers 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.

Thebankplanandimplementseveral educationalprograms

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

Theydomanyactivities relevanttotheHealth

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

- Farmers Training Centers

## **CENTRAL BANK:**

### **NK:**

A central bank is an independent national authority that conducts monetary policy, regulates banks, and provides financial services including economic research. Its goals are to stabilize the nation's currency, keep unemployment low and prevent inflation.

### ***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 the 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.

## **FUNCTIONS OF A CENTRAL BANK:**

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

### **1. Regulator of Currency:**

The central bank is the bank of issue. It has the monopoly of note issue. Notes issued by it circulate as legal tender money. It has its issue department which issues notes and coins to commercial banks. Coins are manufactured in the government mint but they are put into circulation through the central bank. Central banks have been following different methods of note issue in different countries. The central bank is required by law to keep a certain amount of gold and foreign securities against the issue of notes.

### **2. Banker, Fiscal Agent and Adviser to the Government:**

Central banks everywhere act as bankers, fiscal agents and advisers to their respective governments. As banker to the government, the central bank keeps the deposits of the central and state governments and makes payments on behalf of governments. But it does not pay interest on government deposits. It buys and sells foreign currencies on behalf of the government.

It keeps the stock of gold of the government. Thus it is the custodian of government money and wealth. As a fiscal agent, the central bank makes short-term loans to the government for a period not exceeding 90 days. It floats loans, pays interest on them, and finally repays them on behalf of the government. Thus it manages the entire public debt. The central bank also advises the government on such economic and money matters as controlling inflation or deflation, devaluation or revaluation of the currency, deficit financing, balance of payments, etc.

### **3. Custodian of Cash Reserves of Commercial Banks:**

Commercial banks are required by law to keep reserves equal to a certain percentage of both time and demand deposits liabilities with the central banks. It is on the basis of these reserves that the central bank transfers funds from one bank to another to facilitate the clearing of cheques.

Thus the central bank acts as the custodian of the cash reserves of commercial banks and helps in facilitating their transactions. There are many advantages of keeping the cash reserve of the commercial banks with the central bank, according to De Kock.

In the first place, the centralization of cash reserves in the central bank is a source of great strength to the banking system of a country. Secondly, centralized cash reserves can serve as the basis of a large and more elastic credit structure than if the same amount were scattered among the individual banks.

Thirdly, centralized cash reserves can be utilized fully and most effectively during periods of seasonal strains and in financial crises or emergencies. Fourthly, by varying these cash reserves the central bank can control the credit creation by commercial banks. Lastly, the central bank can provide additional funds on a temporary and short term basis to commercial banks to overcome their financial difficulties.

### **4. Custody and Management of Foreign Exchange Reserves:**

The central bank keeps and manages the foreign exchange reserves of the country. It is an official reservoir of gold and foreign currencies. It sells gold at fixed prices to the monetary

authorities of other countries. It also buys and sells foreign currencies at international prices. Further, it fixes the exchange rates of the domestic currency in terms of foreign currencies.

### **5. Lender of the Last Resort:**

De Kock regards this function as a sine qua non of central banking. By granting accommodation in the form of re-discounts and collateral advances to commercial banks, bill brokers and dealers, or other financial institutions, the central bank acts as the lender of the last resort.

The central bank lends to such institutions in order to help them in times of stress so as to save the financial structure of the country from collapse. It acts as lender of the last resort through discounting on the basis of treasury bills, government securities and bonds at the front door.

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

discount houses directly through the back door. The difference between the two methods is that lending at the front door is at the bank rate and in the second case at the market rate. Thus the central bank as lender of the last resort is a big source of cash and also influences prices and market rates.

### 6. Clearing House for Transfer and Settlement:

As bankers' bank, the central bank acts as a clearing house for transfer and settlement of mutual claims of commercial banks. Since the central bank holds reserves of commercial banks, it transfers funds from one bank to other banks to facilitate clearing of cheques. This is done by making transfer entries in their accounts on the principle of book-keeping. To transfer and settle claims of one bank upon others, the central bank operates a separate department in big cities and trade centers. This department is known as the clearing house and it renders the service free to commercial banks.

### 7. Controller of Credit:

The most important function of the central bank is to control the credit creation power of commercial bank in order to control inflationary and deflationary pressures within this economy. For this purpose, it adopts quantitative methods and qualitative methods. Quantitative methods aim at controlling the cost and quantity of credit by adopting bank rate policy, open market operations, and by variations in reserve ratios of commercial banks.

### 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

## 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 1<sup>st</sup> 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 5<sup>th</sup> 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 1<sup>st</sup> 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 to Govt, Bankers Bank, Credit control Measures, lender of last resort, exchange control, clearing house etc.

1. **Issue of Currency:** RBI undertakes issue of currency and the system adopted in India is the minimum reserve system. All the currency notes from Rs. 2, Rs. 5, Rs. 10, Rs. 50, Rs. 100, Rs. 500 and Rs. 1,000 are issued by RBI and they carry the signature of Reserve Bank of India Governor. They are called unlimited legal tender and any amount of payment can be made with these currencies subject to the regulations of Income Tax Act, 1961.

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

2. **Banker to Government:** Reserve Bank of India acts as a banker to the government by maintaining the account of Central government and also that of the State government. It also provides overdraft facility to both State and Central governments. The public borrowings of government are done through Reserve Bank of India. Payments to the government such as income tax are also accepted by Reserve Bank of India.

3. **Bankers' Bank:** The other traditional function of RBI consisting of bankers' bank is done in the following manner:

1. Issuing license to banks and allowing them to open branches under the provision of Banking Regulation Act. RBI also controls the working of commercial banks and undertakes periodical inspection of these banks.
2. In case of violation of the Banking Regulation Act by any of the commercial banks, RBI will order for the closure of these banks.
3. The management of the commercial banks will also be controlled by Reserve Bank of India. All the top level management appointments of commercial banks require prior approval of RBI.
4. The credit requirements of commercial banks are met by discounting and re-discounting eligible securities at the bank rate.

4. **Credit Control functions:** RBI exercises the following credit control measures

- The quantitative weapon of bank rate, open market operation and variable reserve ratio are exercised by Reserve Bank of India.
- The modern weapon of selective credit control is also being exercised by RBI particularly on agricultural commodities.
- These seasonal fluctuations in the money market is balanced by Reserve Bank of India through adequate financing during a period of financial stringency.

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

cash reserve ratio.

By increasing or decreasing this percentage of cash reserve ratio, RBI allows adequate funds for lending purpose by commercial banks. When all the commercial banks are depositing with Reserve Bank of India in the form of cash reserve ratio, a sizable amount of fund is available with RBI. This fund will be extended by RBI to any commercial bank which is facing crisis.

**6. Exchange control function:** In India, we have the exchange control since independence and RBI is given enough power to exercise exchange control. Without the license of Reserve Bank of India no one can deal in foreign exchange. The exchange rate with different foreign currencies is provided by RBI to its authorized dealers consisting of nationalized and other private commercial banks.

All the foreign exchange earnings in the country are kept by RBI in the form of foreign exchange reserve. RBI also has the responsibility of maintaining the value of domestic currency and take adequate measures so that its value does not depreciate abnormally in relation to foreign currencies.

**7. Clearing house:** In all big cities Reserve Bank of India has its branches and clearing house operations are undertaken. Where RBI does not have its branch, the clearing house operations are undertaken by State Bank of India and its subsidiary banks. All the commercial banks in India are members in clearing house and they take part in the clearing of cheques.

## PROMOTIONAL FUNCTIONS

Various promotional functions performed by the Reserve Bank of India are given below

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

**2. Providing Refinance for Exports:** The Reserve Bank of India is providing refinance for export promotion. The Export Credit and Guarantee Corporation (ECGC) and Export Import Bank were established initially by the Reserve Bank of India to finance the foreign trade of India. They finance foreign trade in the form of insurance cover, long-term finance and foreign currency credit. However, they are now functioning separately.

**3. Providing Credit to Agriculture:** The Reserve Bank of India makes institutional arrangements for rural or agricultural finance. For example, the bank has set up special agricultural credit cells. It has promoted regional rural banks with the help of commercial banks. It has also promoted NABARD.

**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 to small-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 specialized branches to provide adequate financial and technical assistance to small-scale industrial branches.

**5. Providing Indirect finance to Cooperative Sector:** The RBI has directed NABARD to give loans to State Cooperative Banks, which in turn lend loans to cooperative sector. Hence, the Reserve Bank of India provides indirect finance to cooperative sector in India.

**6. Exercising Control over Monetary and Banking system of the Country:** The Reserve Bank of India is vested with enormous and extensive powers regarding supervision and control over commercial banks, cooperative banks and also non-banking institutions receiving deposits. The Banking Regulation Act prescribes extensive requirements as a minimum regarding the paid-up capital, reserves, cash reserves and liquid assets.

The operation of the bank, the management, amalgamation, reconstruction and liquidation etc. are thoroughly supervised by the officials of the Reserve Bank of India. Every scheduled

bank is required to furnish to the Reserve Bank weekly statements showing the principal items of liabilities and assets in India.

**7. Making Industrial arrangement for Industrial Finance:** The Reserve Bank of India makes institutional arrangement for industrial finance. For instance, it has brought into existence several development banks such as the Industrial Finance Corporation of India, the Industrial Development Bank of India, which provide long-term finance to industries.

## **MONETARY POLICY OF RESERVE BANK OF INDIA**

### **Introduction**

Monetary policy also known as the credit policy, is the policy which is purely managed by our Central bank of India (Reserve Bank of India) to control the money supply in the economy & amount of credit in the economy.

Monetary policy is governed by RBI. Monetary policy through both monetary and non-monetary measures influences savings, investment, output, income & price level in the economy. To control the money supply RBI uses various instruments. Basically RBI control these rates like Bank Rates, MSF, Repo Rate, Reverse Repo rate, Cash Reserve ratio & Statutory liquidity ratio in order to manage price stability in the economy & to achieve high economic growth.

### **Cash Reserve Ratio**

Every bank maintains a certain % of their total deposits with RBI in the form of Cash and Net demand & Time liabilities. Current CRR is 4%. Every Bank has to pay the amount to RBI every 15 Days.

### **Statutory Liquidity 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 is 20.75%.

### **Indirect Instruments**

Bank rate is also termed as Discount Rate. It is the rate through which RBI charges certain % for providing money to other banks without any security for Long period of time for 90 Days & Current Bank Rate is 6.75%.

### **MSF (Marginal Standing Facility)**

MSF is the rate through which bank can borrow funds for Short time – Overnight basis. Current MSF is 6.75%.

### **Repo Rate**

Repo rate is the rate through which RBI lends money to commercial bank with security for Short period of time in the event of short fall of funds. Current Repo rate is 6.25%.

### **Reverse Repo Rate**

Reverse Repo rate is the rate through which Commercial Bank lends money to Central Bank of India i.e. RBI, for Short period of time. Current reverse repo rate is 5.75%

## **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 of 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:**

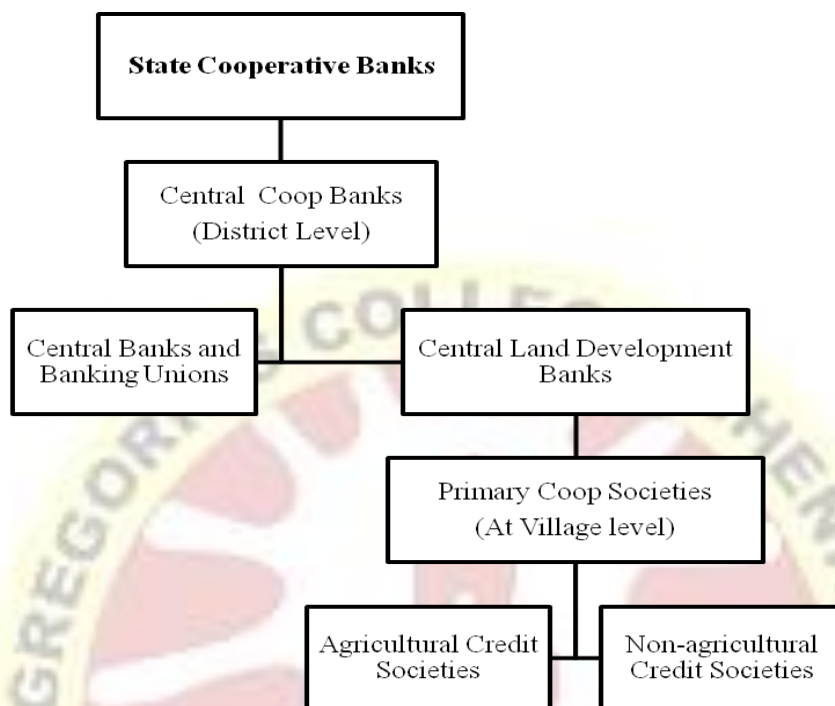
The State Bank of India (SBI) has taken significant initiatives in the fields of technology upgradation and better consumer services.

**Co-operative Banks:**

These banks are operated on cooperative principles. It is a voluntary association of members for self-help and caters to their financial needs on a mutual basis. These banks are also subject to control and inspection by Reserve Bank of India. The main function of co-operative banking is to link the farmers with the money markets of the country.

**a) Primary Agricultural Co-operatives Societies (PACS):**

It is the root of the credit structure. It is also called as village societies and the members belong to the related villages.



**Functions:**

- It gives short-term and medium term loans to farmers.
- It helps in distribution of fertilizers and seeds.
- It helps in distribution of consumer goods to their members.
- It helps in milk, egg, sugar production in the village.

**c) Central Co-operative Banks (CCB):**

It is the federation of all primary societies at the district level. Therefore it is also called as District co-operative central bank. It supervises, controls and finances the primary credit societies.

**Functions:**

- It gives finances to primary credit societies.
- It gives credit to individual customers on the basis of security.
- It accepts deposit and pays high rate of interest than commercial banks.
- It helps in remitting money to their customers.
- It helps in solving problems of primary co-operative societies.
- It controls and supervises the working of primary co-operative societies.

**c. State Co-operative Banks (SCBs):**



State Co-operative Bank is the federation of district Co-operative central banks. Each state has one state central co-operative bank. It is also called as Apex Bank in the three-tier structure.

Functions:

- It coordinates the activities of primary and Central Co-operative Banks in the state.
- It mobilizes deposits for the benefit of co-operatives.
- It helps in maintaining a balance among Central Co-operative banks
- It also functions as a commercial bank.

#### **d. Land Development Banks:**

It was earlier called as Land Mortgage Banks. Its structure is not uniform in all the states.

In some states it is separate, in some states it is federal. And in some states it is mixed.

Functions:

- It gives long-term loans to agriculturalists for making improvements on the land, repaying old debt setc., loans.
- It gives loans to free the mortgaged land and to buy new land
- It also grants loans to cottage and small industries in rural areas.

#### **Comparison Chart**

<b>BASIS FOR COMPARISON</b>	<b>COMMERCIAL BANK</b>	<b>COOPERATIVE BANK</b>
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

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



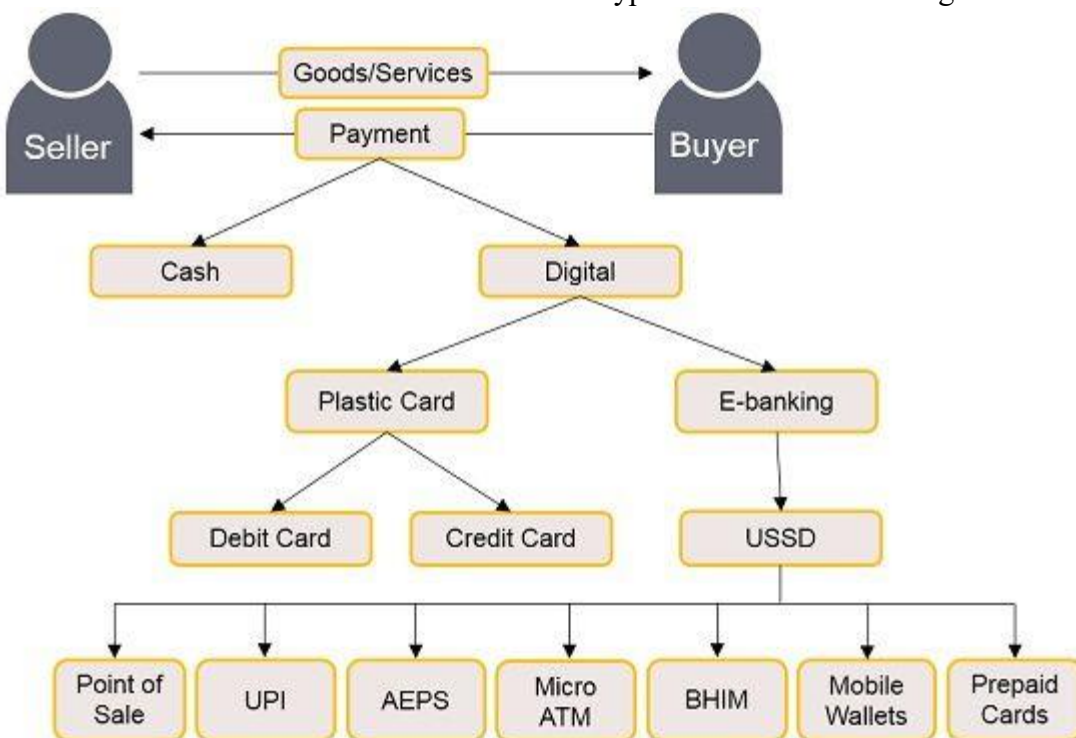
## UNIT- 3 E BANKING

**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 is 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
<b>Presence</b>	Banks exist physically for serving the customers,	Internet banks do not have physical presence as services are provided online.
<b>Time</b>	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.
<b>Accessibility</b>	People have to visit banks only during the working hours.	Internet banking is available at any time and it provides 24 hours access.
<b>Security</b>	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 through internet.
<b>Finance Control</b>	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.	
<b>Expensive</b>	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.
<b>Cost</b>	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.
<b>Customer Service</b>	In 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.
<b>Contact</b>	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&BENEFITSOFCUSTOMERMOBILEBANKING**

#### a) Simplicity:

The m-payment application must be user friendly with little or no learning curve to the customer. The customer must also be able to personalize the application to suit his or her convenience.

#### b) Universality:

M-payments service must provide for transactions between one customer to another customer (C2C), or from a business to a customer (B2C) or between businesses (B2B). The coverage should include domestic, regional and global environments. Payments must be possible in terms of both low value micro-payments and high value macro payments.

#### c) Security, Privacy and Trust:

A customer must be able to trust a mobile payment application provider that his or her credit or debit card information may not be misused. Secondly, when these transactions become recorded customer privacy should not be lost in the sense that the credit histories and spending patterns of the customer should not be openly available for public scrutiny. Mobile payments have to be as anonymous as cash transactions.

**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 safety 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.

**AUTOMATED TELLER MACHINE (ATM)**

An automated teller machine or automatic teller machine (ATM) is a computerized telecommunications device that provides a financial institution's customers a secure method of performing financial transactions in a public space without a human clerk or bank teller.

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 fulfilment 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.

### **NATIONAL ELECTRONIC FUND TRANSFER (NEFT)**

NEFT is a system similar to RTGS with certain differences. RTGS handles big ticket transactions, whereas NEFT handles smaller size transactions. Most branches are using this facility to transfer funds in an efficient manner. Once the applicant for the transfer of funds furnishes full and correct details (correct account details means correct name of the beneficiary, the correct account number, the branch and bank of the beneficiary, and the correct IFS code, etc.) funds can be transferred to the beneficiary's account by the remitting bank. Transfer of funds through NEFT is safe, quick. It reduces the paper work and is cost effective.

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

- NEFT is a fund transfer system which enables a customer of a bank to transfer funds to another customer of another bank having account with any participating bank
- NEFT allows both intra and inter-bank fund transfer within a city and across cities
- Since it is in the form of transfer, without any physical movement of instruments, funds can be transferred quickly
- The beneficiary customer gets funds in his account on the same day or at the earliest on the

- extdaydependinguponthetimeofsettlement
- Boththeoriginatinganddestinationbankbranchesshouldbeon NEFTplatform
- The correct details of IFSC, beneficiary's name, account numbers, etc., should be furnished to the originating bank.
- TheoriginatingbankbranchcankeeptrackofthestatusoftheNEFTtransaction.
- 8. In case for any reason the destination branch is not able to afford credit to the beneficiary's account, destination branch/bank have to return the funds to the originating bank within two hours of completion of the batch through which the transaction was processed 282PP-BL&P
- It is not only easy method of transfer of funds, but also enables the remitters to have user friendly and cost effective transfer of funds

### **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

### GENERAL PRECAUTIONS FOR OPENING ACCOUNTS

#### **Application Form:**

The prospective customer is first of all asked to sign an application form prescribed for that purpose after furnishing all particulars. Different bankers have different printed application forms. They also vary with classes of customers and for kinds of deposits. These application forms contain the rules and regulations of the bank along with the terms and conditions of the deposit. On the back of the application form itself, there is a provision for giving specimen signatures. However, the application form for opening a current account contains many conditions which are not normally found in other cases.

#### **(2) Specimen Signature:**

Every new customer is expected to give three or more specimen signatures. Usually, they are obtained on cards which are filled alphabetically for ready reference. Each bank maintains a signature book for this purpose. Nowadays, banks obtain specimen signatures right on the application forms.

#### **(3) Letter of Introduction:**

It is always on the part of a banker to allow the prospective customer to open an account only with a proper introduction. The usual practice for the banker is to demand a letter of introduction from a responsible person known to both the parties. Failure to get a letter of introduction may land him in trouble and affect his credit. For instance, as soon as a new party opens a current account he should be supplied with a cheque book which may be misused to his best advantage if he happens to be an unscrupulous person. The responsible person who issues the letter must also be cautious because if he supplies any false information about a party, he would be held liable to compensate for the loss, if any, suffered by the banker. If the introduction turns out to be forged the account is treated as having not been introduced at all. A letter of introduction or a letter of reference always protects a banker in the following ways:

#### **(a) Protection against fraud:**

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

#### **(b) Protection against inadvertent overdraft:**

It may so happen that a bank clerk may misread the balance of a customer and pay a cheque. The result will be the emergence of an overdraft. The banker can recover the money only if the customer is a man of good character.



**(c) Protection against an undischarged bankrupt:**

If a new party happens to be an undischarged bankrupt the fact of which is not known to the banker and if the properties deposited by him are not acquired by him, the banker is answerable to the Official Assignee for the transactions. A letter of introduction prevents the occurrence of such events. Moreover, it is the duty of a banker to inform the existence of an account in the name of an undischarged bankrupt and get his current for the operation of such an account.

**(d) Protection against negligence under Sec. 131 of the Negotiable Instrument Act:**

If a broker fails to obtain a letter of introduction at the time of opening a new account, it constitutes negligence on the part of the collecting banker under Sec. 131 of the Negotiable Instruments Act and so, he will lose the statutory protection.

**(e) Protection against giving incorrect information to fellow bankers:**

It is a courtesy among bankers to give reference about the financial position of their customers to fellow bankers. In the absence of a reference letter a banker may not be able to supply correct information.

**(4) Interview:**

At the time of opening of new accounts, it is always advisable to have an interview invariably with the prospective customer so as to obviate the chances of perpetration of any fraud at a later stage.

**(5) Account in cash:**

It is a common practice among bankers to allow a new party to open an account only in cash. In the absence of an express notice, a banker needs to worry about neither the source of money nor the customer's title over the money. On the other hand if the account is opened by depositing a cheque, the risks are greater.

**(6) Mandate in Writing:**

If a new party wants its account to be operated by somebody else, the banker should demand a mandate from his customer in writing. The mandate contains the agreement between the two regarding the operation of the account, the specimen signatures of the authorised person and the powers delegated to the authorised person.

**(7) Verification of Documents:**

If the new party happens to be a corporate body, it is essential that the banker should verify some of the important documents like Memorandum of Association, articles of associations, bye-law copy etc. In other cases, the verification of certain other documents like Trust Deed, Probate, Letter of Administration, etc., may be necessary.

**(8) Conversant with the Provisions of Special Acts:**

Since a banker has to deal with different classes of customers, he has to be thoroughly conversant with certain laws like Indian Companies Act, Indian Partnership Act, Insolvency Act, the various Trust Acts, the Cooperative Societies Act, etc.

**(9) Pay-in-slip Book and Pass Book:**

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

The customer is also supplied with a cheque book which normally contains 10 to 20 blank forms.

A cheque leaf is used for the purpose of withdrawing money. If the customer does not like to have a cheque book, he can make use of the withdrawal form for withdrawing money. The first cheque book is usually branded with the rubber stamp 'N'.

In addition to the above, a customer is also given a passbook which reflects the customer's account in the banker's ledger. It usually contains the rules and regulations of the bank and the terms and conditions of the deposit. Every customer is supposed to have read and understood the conditions. He should comply with them under all circumstances.

**(10) Passport Size Photograph:**

Nowadays, banks insist upon the prospective customer to affix their passport size photographs on the application forms at the time of opening the accounts. This is to prevent impersonation and for easy identification.

**(11) Know Your Customer (KYC) Norms:**

Strict norms have been laid down by the RBI under Sec. 35A of the Banking Regulation Act, 1949 with regard to KYC. The main objective of these norms is to enable banks to know and 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, a better knowledge about customers would enable banks to manage their risks very prudently by avoiding any loan asset becoming non-performing through strict monitoring or by avoiding loans to high risk category of customers. At the same time, it is very important that any KYC policy should not result in denial of banking services to the general public, especially to those who are financially and socially disadvantaged.

For the purpose of this KYC policy, a customer has been defined as a person or any entity that either maintains an account with the bank or has any business relationship with the bank or both. As per KYC norms it is very essential that customers should be allowed to open an account or have any business dealing with the bank only after identifying them and verifying their identity by using reliable documents.

**Elements of KYC Norms:**

Generally, every bank is expected to frame its KYC Norms by taking into account the following elements:

- (i) Customer Acceptance Policy
- (ii) Customer Identification Procedures
- (iii) Monitoring of Transactions
- (iv) Risk Management

**(i) Customer Acceptance Policy:**

One of the KYC Norms policy is to lay down customer acceptance policy by every bank.

Accordingly,

- (a) No accounts should be opened in benami names or fictitious or anonymous names.
- (b) There should be clear categorisation of customers into low, medium and high risk with any suitable nomenclature.
- (c) Necessary documentation requirements should be complied with depending upon the above

perceived risks.

- (d) In case it is not possible to verify the identity or obtain necessary documents, it is advisable not to open an account or even close an existing account.

**(ii) Customer Identification Procedures:**

The following documents are necessary to establish the identity of individuals:

- (a) For identity - Passport, Pan Card, Voter's Identity Card, Driving License, etc.  
 (b) For Permanent Address - Ration Card, Telephone Bill, Electricity Bill, Letter from Employer, 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 allotment letter, copy of any utility service bill etc.

**(iii) Monitoring of Transactions:**

KYC Norms also insist upon banks to ensure strict monitoring of transactions. Banks should pay a special attention to transactions that involve large amounts of cash. Generally, banks are expected to maintain proper record of all cash transactions of Rs. 10 lakh and above either deposits or withdrawals. Suspicious nature of transactions should be reported to the Controlling Office/Head Office immediately.

**(iv) Risk Management:**

Banks may apply monetary limits based on the nature and type of the account. Clear-cut responsibility should be fixed for strict implementation of KYC norms. The internal auditor should check whether KYC norms and procedures are strictly followed and lapses, if any should be brought to light immediately.

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 be operated from April 2010 onwards.

A withdrawal form should be accompanied by the passbook. Every cheque book contains a 'Requisition slip' attached to it at the end. When the cheque book is nearing completion he can fill up the Requisition Slip and obtain a fresh cheque book.

**FIXED DEPOSITS:**

A fixed rate of interest is paid at fixed, regular (monthly/quarterly/half yearly) intervals and the principal amount is returned at the end of the maturity period. The interest may be paid in cash to the depositor or may be credited to his savings account, as instructed by him

**Features of Fixed Deposit Account:**

The main features of fixed deposit account are as follows:

- The main purpose of fixed deposit account is to enable the individual to earn a high rate of interest on their surplus funds (extra money).
- The amount can be deposited only once. For further such deposits, separate accounts need to be opened.
- The period of fixed deposits range between 15 days to 10 years.

- A high interest rate is paid on fixed deposits. The rate of interest may vary as per amount, period and from bank to bank.
- Withdrawals before maturity are not allowed.
- The depositor is given a fixed deposit receipt at the time the deposit is made. He shall have to produce it at the time of maturity. The deposit can be renewed for a further period also at the time of maturity.

### **Opening the Account:**

As usual, the prospective fixed deposit holder is expected to fill up an application form prescribed for the purpose, stating the amount and the period of deposit. The application itself contains 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 or reference for opening a fixed deposit account because of the absence of frequent transactions on this account. After all, this account will never show any debit balance and put the banker in trouble.

### **Interest:**

The interest rate offered on the fixed deposit is attractive that it has resulted in a change in 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 deposits from 01.02.1997 onwards. However, in recent times, the RBI has deregulated the interest rates on fixed deposit. The banks are given the freedom to fix their own rates for different periods.

### **Tax Deduction Scheme (TDS) extended to Fixed Deposit:**

Though the interest rates on fixed deposit are attractive, the system of tax deduction at source 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 deterrent factor in the welfare and development of a sound and healthy banking system, it was completely withdrawn by the Governor subsequently. However, it has been reintroduced from the financial year 1995-96. This TDS is applicable to interest payments exceeding Rs.10,000 per financial year.

### **Period of Deposit:**

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

### **Fixed Deposit Receipt:**

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

### **Debtor and Creditor relationship:**

The legal position of a banker in respect of a fixed deposit is that of debtor who is bound to repay the money only after the expiry of a fixed period. The banker continues to be a debtor even after the period is over, though he does not pay any interest after the date of maturity.

#### **Cheques not permitted:**

The customer has no right to draw cheques on this deposit account. Hence, the amount cannot be withdrawn by means of cheques after the period is over. Alternatively, the customer can request the banker to transfer the amount with interest either to a current or savings account and thereafter he can withdraw the amount by means of a cheque.

#### **Surrender of FDR:**

Every bank makes it obligatory on the part of the depositor to surrender the FDR before reclaiming the money on maturity. Therefore, it is essential to get the receipt duly discharged at the time of maturity. When such a receipt is so surrendered by the owner, the banker cannot put forth any excuse to repay the amount.

#### **Loss of FDR:**

Where a deposit receipt is lost, generally the banker demands the customer to sign an indemnity bond with a guarantee. It will protect the banker against losses in future. In extraordinary 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 he gets the payment.

#### **Exemption from Stamp Duty:**

A fixed deposit receipt, though an important document, is exempted from stamp duty under the Indian Stamp Act. This is just to popularize the deposit account. Otherwise, any receipt exceeding Rs. 500 requires to be stamped.

#### **FDR – Not a Negotiable Instrument:**

A deposit receipt is not a Negotiable Instrument. The transferee cannot get a better title than that of the transferor himself. That is why the receipt has been specifically marked 'Not transferable'. However, money in deposit account becomes a debt from the bank and like any other debt this can be assigned.

#### **Fixed Deposit – Subject to Garnishee Order:**

A Garnishee Order is one of court orders attaching a customer's account in the hands of the banker. This order can attach only a present debt and not a future debt. Since the fixed deposit is a present debt payable as a future debt, it can very well attach this account. A Garnishee Order issued in joint names cannot attach an individual account.

#### **Fixed Deposit – Subject to Income Tax Act:**

The officers of the income tax have been vested with wide powers to attach the account of a customer in the hands of a banker for non-payment of income tax under Sec. 226 of the Income Tax Act, 1961. In recent times, the income tax officers have been increasingly using this right to collect income tax arrears from the assessee. In such cases, a banker is bound to comply with their orders.

#### **Simultaneous OD facility to Fixed Deposit Holders:**

A new scheme has been introduced by the SBI called 'CASHKEY' scheme. As per this scheme, simultaneous OD facility in a current account equal to 75% of the amount of deposit made under the 'CASHKEY' scheme are automatically available to term deposit holders who have a minimum initial deposit of Rs. 5,000. This scheme is available at all branches of the SBI.

#### **Lien on FDR:**

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 it is duly stamped and signed by the customer.

#### **Nomination facility:**

The nomination facility has been extended to deposits of all kinds and safety lockers with effect from 29.03.1985 on the recommendations of Talwar Committee. The said nomination can be made in favour of only one individual. Where the nominee happens to be a minor, another individual can be appointed to receive the amount on behalf of the minor.

#### **Fixed Deposit and the Law of Limitation Act:**

The law of limitation does not cover a fixed deposit. The FDR invariably contains a condition for its return to claim the fixed deposit amount. Hence, the period of three years will be calculated from the date on which the FDR is surrendered. Otherwise, the period of three years will have to be calculated from the date of expiry of the fixed deposit account.

#### **Advantages of Fixed Deposit:**

Fixed deposits with the banks are nearly 100% safe as all banks are governed by the RBI's rules and regulations. So, bank deposits are among the safest modes of investment. One can 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 case of loss of a fixed deposit receipt, an indemnity bond has to be executed by the depositor for obtaining a duplicate one.

### **BANKER – CUSTOMER RELATIONSHIP DEFINITION OF A 'BANKER'**

The Banking Regulations Act (B R Act) 1949 does not define the term banker 'but defines what banking is? As per Sec. 5(b) of the B R Act - Banking means accepting, for the purpose of lending or investment, of deposits of money from the public repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise."

As per Sec. 3 Indian Negotiable Instruments Act 1881, the word - banker includes any person acting as banker and any post office savings bank

According to Sec. 2 of the Bill of Exchange Act, 1882, banker includes a body of persons, whether incorporated or not who carry on the business of banking.'

#### **Who is a 'Customer'?**

The term Customer has not been defined by any act. The word 'customer' has been derived from the word 'custom', which means a 'habit or tendency' to do certain things in a regular or a particular manner's. In terms of Sec. 131 of Negotiable Instrument Act, when a banker receives 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 having received such payment. It obviously means that to become a customer account relationship is must. Account relationship is a contractual relationship.

### **BANKER-CUSTOMER RELATIONSHIP:**

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

These relationships confer certain rights and obligations both on the part of the banker and on the customer. However, the personal relationship between the bank and its 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 is fiduciary relationship. The terms and conditions governing the relationship is not be leaked by the banker to a third party.

### **CLASSIFICATION OF RELATIONSHIP:**

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

General Relationship. In addition to these two activities banks also undertake other activities mentioned in Sec.6 of Banking Regulation Act. Relationship arising out of the activities mentioned in Sec.6 of the act is termed as special relationship.

### **GENERAL RELATIONSHIP:**

**1. Debtor-Creditor:** When a 'customer' opens an account with a bank, he fills in and signs the account opening form. By signing the form he enters into an agreement/contract with the bank. When customer deposits money in his account the bank becomes a debtor of the customer and customer a creditor. The money so deposited by customer becomes bank's property and bank has a right to use the money as it likes. The bank is not bound to inform the depositor the manner of utilization of funds deposited by him. Bank does not give any security to the depositor i.e. debtor. The bank has borrowed money and it is only when the depositor demands, banker pays. Bank's position is quite different from normal debtors.

Banker does not pay money on its own, as banker is not required to repay the debt voluntarily. The demand is to be made at the branch where the account exists and in a proper manner and during working days and working hours.

The debtor has to follow the terms and conditions of banks said to have been mentioned in the account opening form. {Though the terms and conditions are not mentioned in the account opening form, but the account opening form contains a declaration that the

terms and conditions have been read and understood or has been explained. In fact the terms and conditions are mentioned in the passbook, which is issued to the customer only after the account has been opened. In the past while opening account some of the banks had the practice of giving a printed handbill containing the terms and conditions of account along with the account open form. This practice has since been discontinued. For convenience and information 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

provided by the bank etc., on their website.

While issuing Demand Draft, Mail / Telegraphic Transfer, bank becomes a debtor as it owes money to the payee/beneficiary.

**2. Creditor–Debtor:** Lending money is the most important activities of a bank. The resources mobilized by banks are utilized for lending operations. Customer who borrows money from bank owns money to the bank. In the case of any loan/advances account, the banker is the creditor and the customer is the debtor. The relationship when person deposits money with the bank reverses when he borrows money from the bank. Borrower executes documents and offer security to the bank before utilizing the credit facility. In addition to opening of a deposit/loan account banks provide variety of services, which make the relationship more wide and complex. Depending upon the type of services rendered and the nature of transaction, the banker acts as a bailee, trustee, principal, agent, lessor, custodian etc.

### **SPECIAL RELATIONSHIP:**

**1. Bank as a Trustee:** As per **Sec. 3** of Indian Trust Act, 1882 A "trust" is an obligation annexed to the ownership of property, and arising out of a confidence reposed in and accepted by the owner, or declared and accepted by him, for the benefit of another, or of another and the owner. ' Thus trustee is the holder of property on behalf of a beneficiary.

As per **Sec. 15** of the Indian Trust Act, 1882 A trustee is bound to deal with the trust-property as carefully as a man of ordinary prudence would deal with such property if it were his own; and, in the absence of a contract to the contrary, a trustee so dealing is not responsible for the loss, destruction or deterioration of the trust-property. ' A trustee has the right to reimbursement of expenses (Sec. 32 of Indian Trust Act.).

In case of trust banker customer relationship is a special contract. When a person trusts valuable items with another person with an intention that such items would be returned on demand to the keeper the relationship becomes of a trustee and trustier. A customer keeps certain valuables or securities with the bank for safekeeping or deposits certain money for a specific purpose (Escrow accounts) the banker in such cases acts as a trustee. Banks charge fee for safekeeping valuables

**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, upon a contract that they shall, when the purpose is accomplished, be returned or otherwise disposed of according to the directions of the person delivering them. The person delivering the goods is called the "bailor". The person to whom they are delivered is called, the "bailee".

Banks secure their advances by obtaining tangible securities. In some cases physical possession of securities goods (Pledge), valuables, bond etc., are taken. While taking physical possession of securities the bank becomes bailee and the customer bailor. Banks also keeps articles, valuables, securities etc., of its customers in Safe Custody and acts as a Bailee. As a bailee the bank is required to take care of the goods bailed.

**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 of a right to enjoy such property, made for a certain time, express or implied, or in perpetuity, in consideration of a price paid or promised, or of money, a share of crops, service or any other



thing of value, to be rendered periodically or on specified occasions to the transferor by the transferee, who accepts the transfer on such terms.

Definition of Lessor, lessee, premium and rent:

(1) The transferor is called the lessor, (2) The transferee is called the lessee, (3)

The price is called the premium,

(4) The money, share, service or other thing to be so rendered is called the rent. ||

Providing a safe deposit locker is an ancillary service provided by banks to customers.

While providing Safe Deposit Vault/locker facility to their customers, a bank enters into an agreement with the customer. The agreement is known as —Memorandum of letting and attracts stamp duty.

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 and give 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 the locker holder defaults in payment of rent. Banks do not assume any liability or responsibility in case of any damage to the contents kept in the locker. Banks do not insure the contents kept in the lockers by customers.

**4. Agent and Principal:** Sec. 182 of The Indian Contract Act, 1872 defines an agent as a person employed to do any act for another or to represent another in dealings with third persons. The person for whom such act is done or who is so represented is called the Principal.

Thus an agent is a person, who acts for and on behalf of the principal and under the latter's express or implied authority and the acts done within such authority are binding on his principal and, the principal is liable to the party for the acts of the agent.

Banks collect cheques, bills, and make payment to various authorities viz., rent, telephone bills, insurance premium etc., on behalf of customers. Banks also abide by the

standing instructions given by its customers. In all such cases bank acts as an agent of its customer, and charges for these services. As per Indian Contract Act agent is entitled to charges. No charges are levied in collection of local cheques through clearing house. Charges are levied only when the cheque is returned in the clearing house.

**5. As a Guarantor:** Banks give guarantee on behalf of their customers and enter into their shoes. Guarantee is a contingent contract. As per sec 31, of Indian Contract Act guarantee is a "contingent contract". Contingent contract is a contract to do or not to do something, if some event, collateral to such contract, does or does not happen. It would thus be observed that bank-customer relationship is a transactional relationship.

## RIGHTS OF THE BANKER

The rights of a banker that the banker can enjoy are as follows

### 1. Right of general lien

One of the important rights of a banker is the right of general lien. Lien means the right of the creditor to retain the goods or securities owned by the debtor until the debt due from him is repaid. There are some exceptional cases in which the right of general lien is not applicable.

These are:

- Safe custody deposit.
- Documents deposited for special purpose.
- Security held in trust.

## **2. Right of set off**

A banker possess the right of set off which enables him to combine two accounts in the name of same customer and to adjust the debit balance in one account with the credit balance in the other. The right of set off can be exercised subject to the fulfillment of the following conditions:

- The accounts must be in the same name in the same right.
- The right can be exercised in respect of debts due only not in respect of future debts or contingent debts.
- The amount of debts must be certain.
- The banker may exercise that right at his discretion.

## **3. Banker's right of appropriation**

If the customer has more than one account or he has taken more than one loan from the banker, the banker has the right to appropriate these loans by the accounts.

## **4. Right to charge interest, incidental charges**

As a creditor, a banker has the implied right to charge interest on the loans granted to the customer.

In the same way incidental charges like service charges, processing fees, appraisal charges, panel charges may be imposed by the banker to the customer.

Deposit are repayable on term and made by the customer but the period of limitation for the refund of bank deposit is three years with effect from the date a customer made a demand for his money.

## **PASSBOOK**

### **Introduction:**

All kinds of deposits are in the nature of running accounts. So, it becomes imperative for a banker to inform his customers of the real position of their accounts from time to time. For this purpose, 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 as 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 the customer's account in the banker's ledger. Thus, it is nothing but a copy of the customer's account in the banker's ledger. All the amounts deposited by a customer are credited and the cheques paid by banks against his account are debited. The balance is shown from time to time. In the place of a passbook, statements of account may also be sent to the customers.

### **Maintenance of a Pass Book:**

A pass book may be maintained in the form of a ledger account with debit entries on the left hand side and credit entries on the right hand side. This method is not popular amongst bankers. Most of the banks follow a tabular form for maintaining the pass book. There is an economy of stationery in this method.

A pass book may also be maintained in the form of a 'loose-leaf ledger card system'. In such a case, entries would have to be made by means of computers. When such a system is followed, it becomes necessary for the banker to send periodical statements regarding the accuracy of the entries made there into the customers for their approval and return. These statements serve the purpose of a pass book.

### **The position in India:**

The position in India is not well defined. This difficulty arises because a customer is not bound to examine his pass book. So, if a customer does not examine the pass book, cannot claim that he has accepted it as a settlement of account. To find an answer to what the real effects of entries in a pass book are, have to carefully analyze the type of entries. The entries in a pass book may be of two kinds viz., (i) a correct entry, and (ii) a wrong entry.

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

**(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 to decide the nature of the wrong entry. The wrong entry may again be either (a) favourable to a customer, or (b) favourable to a banker.

#### **(a) Entries favourable to the Customer:**

Can a customer rely upon a wrong entry favourable to him? The answer is "yes". It is so because all the entries in passbook are made by the banker or his agent. Therefore, a passbook record can be used as evidence against banker. If the customer acts upon them as bona fide so as to alter his legal position, the banker is stopped from rectifying the same.

The wrong entry favourable to a customer constitutes a settlement of account when:

- (i) The customer believes that is true,
- (ii) The customer draws a cheque in good faith and in complete reliance on the larger credit balance,
- (iii) The wrong entry is communicated to the customer
- (iv) In any case, a customer cannot rely upon any fictitious entry made in the passbook by a bank employee

A banker can have this mistake rectified, provided (i) the customer has not been adversely affected, and (ii) the sum has not been withdrawn. Hence, if a banker wants to rectify the mistake, he must immediately inform the customer. Until the matter is settled, the banker should go on honouring the cheques drawn in reliance on the larger credit balance. The principle is, 'longer the duration, lesser the chance of a banker rectifies the mistake'. A passbook belongs to a customer and the entries made in it are statements on which the customer is entitled to depend and act.

### **(b) Entries favourable to the Banker:**

The wrong entry in a pass book may sometimes be favourable to a banker. The mistake is committed by the banker and the customer is not bound by the mistake. However, there is one exception to the above rule. That is, where a customer has so acted as to render the entries as correct by his conduct, then those entries would constitute a settled account. In other words, if the customer, by his conduct, accepts the entries as correct, later on, he cannot question the accuracy of those entries. Whether the customer has rendered the entries as settled ones or not depends only upon the circumstances.

It is quite evident that where a customer has voluntarily taken up the duty of examining his pass book and if he is negligent of verifying those entries, then the liability falls only on the customer. Those entries constitute a settled account.

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

The place of pass book in the Indian Banking System is not well defined. To be on the safer side, a banker should see that the pass book is made up, signed and returned to the customer as often as possible. When a pass book is sent, the date should be noted in the ledger together with the initials of the clerk who is in-charge of it. He is responsible for its accuracy. Whenever an error is discovered, the customer should be informed of it immediately and asked to return the pass book for correction. When a pass book is lost, a duplicate can be given against a payment of Rs.3 with opening entries and with additional charge of Rs.2 per ledger folio and it should be marked 'DUPLICATE'. If a pass book is prepared carefully, it will eliminate many complications.

## **SPECIAL TYPES OF BANK CUSTOMERS**

### **Introduction:**

When a banker opens an account in the name of a customer, there arises a contract between the two. This contract will be a valid one only when both the parties are competent to enter into contracts. Since the banker has to deal with different kinds of persons with different legal status, he ought to be very careful about the competency of the customers. Any carelessness on his part may land him in troubles. Hence, different kinds of customers need different treatments at the hands of the banker.

## **TYPES OF CUSTOMERS**

### **1. MINOR OR INFANT:**

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

The privileges of a Minor guaranteed by Law:

- (i) As per Sec. 11 of the Indian Contract Act, a contract entered into by a minor is void. Hence, a minor's contract is not at all enforceable.
- (ii) Even if he borrows money by falsely representing himself as an adult, he cannot be compelled to repay the loans since the contract is a void one.
- (iii) An adult, who gives a bill of exchange for the debt contracted during the period of his infancy, cannot be sued.
- (iv) It was established that even a guarantee given in respect of a minor's debt is not valid since the primary contract between the banker and the customer is void.
- (v) A minor who borrows money cannot be compelled to repay, unless it is for the necessities of his life as per Sec. 11 of the Indian Contract Act.
- (vi) A minor has the right to get back these securities pledged for the purpose of securing a loan even without repaying the loan, which is not for the necessities of his life.
- (vii) A minor can recover even a third party's securities pledged without repaying the debt.
- (viii) A minor can never be appointed as a trustee.
- (ix) A minor can enjoy the benefits of a partnership firm. But, he is not liable for the debts of the partnership firm. According to Sec. 30 of the Indian Partnership Act, 1932, a minor must expressly repudiate the contract of partnership within six months of his attaining the age of majority. If he does not do so, he will be regarded as having ratified the agreement and will be thereafter, regarded as a full-fledged partner and his liability commences from the date of his joining the firm.
- (x) A minor can act as an agent of an adult who has given the necessary authority to him. Thus, he can draw, endorse and discount a bill and obtain a loan on behalf of the principal provided such powers have been delegated to him in writing.
- (xi) Sec. 26 of the Negotiable Instruments Act permits a minor to draw and endorse any cheque, bill or promissory note. It will be valid against all parties excepting a minor.
- (xii) A minor can be appointed as an executor, but he can commence his work only after his coming of age.
- (xiii) Even a guarantee given by a minor is not valid.
- (xiv) A minor cannot be adjudged as an insolvent either on his own petition or of others.

## 2. A MARRIED WOMAN:

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

### The Present position of Married Women:

- (i) Now, the position of a married woman has considerably improved. She can open and operate an account even without the consent of her husband.
- (ii) She can now own properties in her own name even after marriage.
- (iii) Even though she can own properties, in certain cases the properties would have been settled in such a way that she can enjoy only the income from those properties and the ownership would not have been transferred. If a banker were to lend under those circumstances, he could not attach the property for non-payment of the money.
- (iv) But, under certain circumstances, she can make her husband liable for the overdrafts enjoyed by her. They are:
  - a. If she borrows money for the necessities of her life.
  - b. If she borrows for the necessities of her husband.
  - c. If she acts as an agent of her husband.
- (v) However, the husband can escape from his liability if he proves that, he has already supplied her with the necessities of life and household and he has never allowed her to act as his legal agent.
- (vi) Further, a married woman enjoys certain privileges under the law. They are:
  - a. She cannot be imprisoned for non-payment of a judgment debt, and
  - b. She cannot be made insolvent, unless, she carries on some trade or business.

### 3. LUNATIC:

#### The position of Lunatic under Law:

- (i) A lunatic is a person of unsound mind. He cannot form a rational judgment on matters. Hence, he has no capacity to enter into a contract. According to Sec.12 of the Indian Contract Act, 1872, persons of unsound mind are disqualified from entering into a valid contract.
- (ii) However, this disqualification does not apply: (a) to contracts entered into by lunatics during the period of sanity, or (b) to contracts which are ratified during such periods.
- (iii) In England, the contract with a lunatic is voidable, whereas it is void in India. Obviously, such contracts have inherent defects in India.

### 4. DRUNKARD:

#### The position of a Drunkard under Law:

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

### 5. A PARTNERSHIP FIRM:

A partnership firm is an association of two or more persons called partners who undertake 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 a business carried on by all or any one of them acting for all of them'. A banker can very well deal with these types of customers only when he has a thorough knowledge of the firm and the relevant Act governing the functioning of the firm.

### **Opening of an Account:**

A banker will open an account for a partnership firm only when an application in writing is submitted by any one or more partners. Under Sec.19(2)(b) of the Indian Partnership Act of 1932, 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 partnership firm. If he does so, then it will be a private account and so, it will not bind the other partners. Therefore, it is advisable to open the account only in the name of the firm.

### **Consent of all Partners:**

To be on the safer side, a banker should get a written request from all the partners jointly for opening an account.

### **Partnership Deed:**

Further, the bankers should go through the Partnership Deed and carefully study its objects, capital, borrowing powers, etc. The banker should enquire about the details of the organization, description of the business, the names and addresses of all the partners and their powers. The banker should get a copy of the duly stamped partnership deed. He should further see if it is a registered firm or not. The interest of the banker would be jeopardized, if he has dealings with an unregistered firm.

### **Mandate:**

In the absence of a mandate, the partnership account cannot be operated effectively and easily. So, the bankers should ask for a mandateduly signed by all the partners. The mandate must contain information regarding:

#### **(a) The name of the person who is authorized to operate the account:**

In the interest of the firm and for the safety of the partnership funds, it is advisable that the account is operated by more than one partner. The authority given to operate the account can be revoked by anyone of the partners. Likewise, the cheque drawn by a partner can be countermanded by any other partners so as to secure the safety of the funds.

#### **(b) The extent of authority given to such persons:**

A Banker should know whether the authority given is to include drawing, endorsing and accepting bills, mortgage and sell properties of the firm, overdraw the partnership account and soon. The nature and extent of authority delegated to the authorised person must be put down in writing in clear cut terms.

### **(c) Personal account and a firm's account:**

Usually, a banker has the personal account of a partner side by side with the partnership account. These two accounts are different in nature. Hence, the bankers should not do the following:

- (i) He should not mix one account with another and the right of set off and lien will not be available against each other.
- (ii) A cheque payable to the firm must not be accepted for collection to the private account of the partner without proper enquiry and the consent of all other partners. If a banker does so, it will amount to negligence under Sec.131 of the Negotiable Instrument Act and he will lose the statutory protection.
- (iii) But, if a cheque is drawn against the partnership account and is payable to the personal account of a partner, then the banker should honour the cheque. As he acts in the capacity of a paying banker, the question of wrongful dishonor will arise if he fails to honour such a cheque.
- (iv) With the consent of the partner concerned the banker can have no objection in transferring the funds from the private account of a partner to the partnership account but in any case, the reverse is not permitted.

### **Creation of mortgage:**

According to Sec.19 of the Partnership Act, no partner has an implied power to sell or mortgage the property of his firm. But, Sec.8 of the Transfer of Property Act lays down that the transferor of an immovable property can transfer the title he has in the property. So, the combined effect of 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 made liable.

### **The retirement of the partner:**

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 the partnership account shows a debit balance, and if the banker wants to make the retiring partner liable for his share, the banker should immediately close the account and open a new account to avoid the operation of the rule. Otherwise, any payment made in to the account by the newly constituted firm will automatically discharge the debit balance since the rule is, the first item on the debit side is cancelled by the first item on the credit side. Thus, the retiring partner will escape from his liability.

### **The death of the partner:**

The death of a partner may or may not dissolve the partnership firm. If it does not dissolve the firm, and if the account shows a credit balance, the banker can have no objection to allow the other partners to continue the operation of the account. But, he must have obtained a fresh mandate from the remaining partners. A cheque drawn in the name of a deceased partner can be honoured after getting the confirmation of the other partners. Whether the firm is dissolved or not, if the account shows a credit balance, the surviving partners alone are accountable to the legal representative of the deceased partner for his share in the assets of the firm. However, if the



account shows a debit balance, the banker must immediately close the account and open a new account in order to make the deceased partner liable, for his share and thus to avoid the operation in the rule.

### **The insolvency/insanity of a partner:**

The insolvency of a partner may dissolve a firm. Likewise, the insanity of a partner can be taken as a ground for the court's intervention to dissolve it. In such cases, the banker may allow the other partners to operate the account for the purpose of the dissolution of the firm. The Official Receiver or the Assignee of the insolvent partner cannot interfere in the day-to-day affairs of the firm and all that they can do is to demand an account from the solvent partners and the share of the insolvent in the business. If the account shows a credit balance, the solvent partners are answerable to the insolvent for his legitimate share. A cheque drawn by an insolvent before the commencement of his bankruptcy but presented afterwards can be honoured provided it is confirmed by the other solvent partners. At the time of insolvency of a partner, if the partnership account shows a debit balance, the banker must immediately close the account and open a new account to make the insolvent liable for his share. The banker should make a claim on the estate of the insolvent with the concerned authority.

### **6. A JOINT STOCK COMPANY:**

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

- (i) Before opening an account, the banker should find out whether the company has a legal existence or not. It can be ascertained by referring to the Certificate of Incorporation which is a proof for the birth of the company.
- (ii) Then, the banker should obtain the latest copies of the Memorandum of Association and Articles of Association. These documents will reveal the objects of the company, its capital, its name, the operation of its registered office, its directors and their addresses, its borrowing powers, duties and liabilities of officers and so on. So, the banker must carefully inspect them and gather the necessary particulars.
- (iii) In addition to the above, the banker must get a copy of the prospectus of the company. 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, he can refer the matter to the Registrar of Joint Stock Companies and get it clarified.
- (iv) In case, the company is a new one, the banker should carefully note whether the names of the first directors of the first directors have been mentioned in the document or not.
- (v) If the company happens to be an existing one, the banker should demand copies of recent balance sheet and profit and loss account which will reflect the growth of the company and its financial soundness. After having satisfied himself with these precautionary steps, the banker can safely open an account.

### **7. NON-TRADING COMPANIES:**

Companies Limited by Guarantee are generally promoted for the purpose of promotion of education, science, art, commerce, etc. They do not declare dividends and they do not use the word 'limited' after their names. They do not have any implied powers to borrow. Powers to borrow must be expressly given in the documents. In addition to these, the bankers should take the above mentioned precautions in the case of such non-trading companies too.

## **8. PRIVATE COMPANIES:**

Private Limited Companies are those companies, wherein the number of shareholders is limited to 50 and the transferability of the shares is restricted. In addition to the above precautions, the banker should pay a special attention to the formation of private companies. It is possible that a sole trader might have been heavily indebted and so, he might have converted his business into a Private Limited Company, just to deceive the creditors. In such a case, this transfer of assets will be considered as a fraud perpetrated on the creditors. Hence, such a transfer in itself would amount to a commitment of an act of insolvency. There is every possibility of the sole trader being adjudicated as insolvent on the petition of the creditors. If he is so adjudicated, the official assignor's title will commence not from the date of adjudication, but from the date of the commencement of the first act of insolvency, itself namely, the transfer of business. The banker should, therefore, go into the details and make necessary enquiries to avoid such unpleasant situations. Apart from it, the bankers should observe the other usual precautions as listed above.

## **9. CLUBS, SOCIETIES AND NON-TRADING ASSOCIATIONS: Opening of Accounts:**

Clubs like 'Sports Club', 'Friends Club', etc., and associations and societies may approach a banker for the purpose of opening an account. The banker should first see whether they are registered bodies or not. If they are not incorporated, it will be difficult to make all the members liable for the banking transactions. In the case of registered clubs, the banker can open the account in the name of the club.

But, in practice, most of the associations are only informal associations without legal incorporation. 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 as club account. For instance, 'Krishnamoorthy – Nellore Cricket Club Account'. In that case, that individual is personally liable for the debt of the club. However, it is advisable that the banker gets the guarantee of a person with a good financial background. This will constitute a real primary security.

### **Mandate and Resolution:**

The banker then gets a mandate from the customer along with an authenticated copy of a resolution appointing the banker as the banker to the association or club and requesting the banker to open an account. It also contains the names of the different officials, who are authorised to operate the account, their powers and their specimen signatures. The resolution ought to have been signed by the chairman and countersigned by the secretary.

**Rules of the Club:**

If a copy of the rules of a club or the constitution of an association is available, the banker should get a copy of it and file it for his reference.

**Change in the Officials:**

Should there be any change in the officials of the club or society and in particular in the one who is authorised to operate, the banker must be notified to the change through an authenticated copy of the resolution making the change. It must contain the specimen signatures of the new officials.

**Borrowings:**

These associations do not have an implied power to borrow. However, the rules may permit them to borrow after fulfilling the necessary formalities. For instance, the rules may provide that the club may borrow after getting the necessary sanction from the general body. In that case, the banker will demand a certified copy of the resolution passed in the general body.

**Security:**

To safeguard his position, the banker should grant loan either against the guarantee of a financially sound person or against the property of a club. Usually, the property of club will be vested in the names of the trustees. Hence, the banker must note the powers of the trustees to charge the property for the borrowings of the club.

**A Club Account and a Personal Account:**

If the club account and the personal account of the authorised person exist side by side, the banker should note the following:

- (a) He cannot combine both the accounts
- (b) The right of lien and set off will not be available against each other.
- (c) A cheque payable to the club must not be collected to the private account of the individual operating that account.

**10. EXECUTORS, ADMINISTRATORS AND TRUSTEES:**

An executor is a person to whom the execution of a will is entrusted by the testator (maker of the will). Any alteration or addition in the original will might have been made in a separate instrument called 'Codicil' which also forms a part of the will. If the person named in the will refuses to act or if a person dies intestate (without any will), then the court will appoint a person called administrator. In such cases, the court will issue an order called letter of administration.

The certified copy of the final will is called Probate. Probate is granted only to an executor appointed by a will. A trustee is a person in whose care the control of an estate is placed under an instrument of trust or trust deed. Sometimes, two or more persons may be appointed as executors or trustees. They may approach a banker for the purpose of opening an account.

A banker's position will be safe if the account is opened in their personal capacity. However, they may like to open the account in their official capacity. In that case, a banker should be very cautious and he will generally take the following precautions:

## NEGOTIABLE INSTRUMENTS

### CHEQUE

#### **Introduction:**

A cheque is a document of very great importance in the commercial world. It was originally 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 has been derived from the French word 'Eches' meaning 'chess'. Others are of the view that the origin of 'cheque' can be traced to the notes issued by the Goldsmiths of London in the early periods. The modern cheque is the outcome of many old trial and error forms of cheques. For instance, a cheque had been written on the back side of a cow. Now, all commercial banks issue their own standard printed forms of cheques.

#### **Meaning of Cheque:**

A cheque is a document that orders a payment of money from a bank account. The person writing the cheque, the drawer, usually has an account where their money was previously deposited. The drawer writes the various details including the monetary amount, date, and a payee on the cheque, and signs it, ordering their bank, known as the drawee, to pay that person or company the amount of money stated. Cheques are a type of bill of exchange and were developed as a way to make payments without the need to carry large amounts of money. While paper money evolved from promissory notes, another form of negotiable instrument, similar to cheques in that they were originally a written order to pay the given amount to whoever had it in their possession.

Technically, a cheque is a negotiable instrument instructing a financial institution to pay a specific amount of a specific currency from a specified transactional account held in the drawer's name 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, the payee may endorse the cheque, allowing them to specify a third party to whom it should be paid.

#### **Definition of Cheque:**

According to Section 6 Negotiable Instrument Act, "Cheque is an instrument drawn on a specific banker, ordering to pay a specific amount, to a specific person, after the specific date." A cheque is also a bill of exchange.

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

**Distinction between Cheque and Bill of Exchange:**

S.No.	Cheque	Bill of Exchange
1	A cheque is always drawn on a printed form.	A bill need not be drawn on a printed form
2	The drawee (banker) need not accept a cheque. Accordingly, there is no privacy of contract between the payee and the banker.	Acceptance by the drawee is essential
3	A cheque is always supposed to be drawn against the funds in the hands of the banker.	There is no such supposition
4	A cheque is an instrument for immediate payment	It is drawn for a specified period and so it is intended for circulation. Therefore, it is entitled to days of grace.
5	The liability of the drawer continues for six months.	Unreasonable delay in the presentation will discharge the bill
6	A cheque is free from stamp duty	A bill is subject to a stamp duty
7	It is drawn in sets	Foreign bills are always drawn in sets
8	It may be crossed to ensure safety	It cannot be crossed
9	A cheque may be countermanded	Countermanding of a bill is not possible
10	It is not protested or noted on dishonor	It is usually protested and noted for dishonor
11	In case of dishonor, notice of dishonor to the drawer is not essential	Notice of dishonor must be sent to hold the party liable
12	Statutory protection as given under Sec. 85 and Sec. 131 of the Negotiable Instruments Act applies only to cheques.	Statutory protection is not available in the case of bills

#### Important Features of Cheque:

- i. **Cheque is an instrument in writing:** Oral orders are not considered as cheques. A cheque must be in writing.

- ii. **Cheque contains an unconditional order:** Every cheque contains an unconditional order issued by the customer to his bank. A cheque containing conditional orders is considered invalid and is dishonoured by the bank.
- iii. **Cheque is drawn by a customer on his bank:** A cheque is always drawn on a specific bank mentioned in that. Cheque book facility is made available only to account holder who is supposed to maintain certain minimum balance in the account.
- iv. **Cheque must be signed by customer:** A cheque must be signed by customer, i.e. the account holder. Unsigned cheques or cheques signed by persons other than customers are not regarded as cheque.
- v. **Cheque must be payable on demand:** A cheque when presented for payment must be paid on demand. If cheque is made payable after the expiry of certain period of time then it will not be a cheque.
- vi. **Cheque must mention exact amount to be paid:** Cheque must only be for money. The amount to be paid by the banker must be certain and written in words as well as figures.
- vii. **Payee must be certain to whom payment is made:** The payee of the cheque should be certain whom the payment of a cheque is to be made i.e. either real person or artificial person like Joint Stock Company. The name of the payee must be written on the cheque or it can be made payable to bearer.
- viii. **Cheque must be duly dated by customer of bank:** A date must be duly mentioned by the customer of bank. A cheque is valid for a period of six months from the date of issue.

### **Characteristics of Cheque:**

#### **1) Instrument in Writing:**

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

#### **2) Unconditional Order:**

Cheque must contain definite and an unconditional order to pay. A conditional instrument is invalid. For instance, if the cheque has a receipt form attached to it and the following words

are added, "Provided the receipt form at the foot is duly signed and dated," or if the amount is made payable out of a particular fund, the order will be regarded as conditional and hence the instrument containing such a direction cannot be regarded as a cheque.

#### **3) On a Specified Banker Only:**

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

#### **4) Certain Sum of Money Only:**

The order must be only for the payment of a certain sum of money only. It is clear that orders asking the banker to deliver securities or certain other things cannot be regarded as cheques. It must also be noted that the sum of money to be paid must be certain.

### 5) Amount of Cheque:

It is necessary to mention clearly the amount of money which the drawer desires his bank to pay. The sum is usually stated in words as well as in figures so as to avoid mistakes. No blank space should be left on the cheque before and after the amount stated in words and in figures.

### 6) Payee to be Certain:

In order that an instrument shall be a valid cheque, it should be made payable to or to the order of a certain person or the bearer. The payee must be certain.

### 7) Signature:

The cheque must be signed by the drawer.

### Parties to a Cheque:

Here are three parties involved in a cheque. They are as follows:

#### 1) Drawer:

Drawer is the party who draws the cheque upon a specified banker. He is the maker of the cheque. He is the account holder who draws the cheque for drawing money from his bank account. He is the person who issues cheque directing the bank to pay a certain sum of money to a certain person or to the bearer. Thus, the person who signs the cheque is known as drawer.

#### 2) Drawee:

Drawee is the party upon whom the cheque is drawn. Drawee is the bank. It is the party to whom the drawer gives order to pay the amount to the person named on the cheque or his order to the bearer. When the bank follows the order and pays the amount of the cheque then the cheque is said to be honored. In case of refusal of the order, the cheque is said to be dishonored.

#### 3) Payee:

Payee is the party who presents the cheque for payment. He is the person who receives money from bank. He is the party in favor of whom cheque is issued. The payee is the person whose name is mentioned on the cheque. If the cheque is made payable to self, the drawer himself becomes the payee.

### Types of Cheque:

#### 1) Bearer Cheque:

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 cheque is the drawer. In case of bearer cheque, the wording of the cheque is pay to or bearer. It is not necessary for the payee to personally present the cheque and get the money. He can sign on the back and hand it over to any other person. Any person who holds the cheque lawfully can get payment. The person who presents the cheque is called the bearer. Bank is not bound to verify the identity of the bearer. Thus, any bearer cheque lost or stolen is likely to be presented for payment. There is nothing to pinpoint the identity of the person who accepted payment. Anybody who comes in possession of the cheque can encash it. Thus, bearer cheques are somewhat risky.

## 2) OrderCheque:

An order cheque specifically instructs the bank to ensure that the person mentioned only receives payment. The bank is duly bound to verify the identity of the person and see that the person presenting the cheque is the person whose name is mentioned on the cheque. If the word 'bearer' is struck off, the cheque becomes order cheque. Thus, the order cheque is safer than the bearer cheque. If both the words i.e. 'bearer' and 'order' are cancelled, the cheque becomes non-negotiable, i.e. it cannot be legally transferred to any other person.

## 3) CrossedCheque:

When two parallel lines are drawn on the top left side of the cheque, it is called crossed cheque. 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 credited to the payee's account. He can then withdraw the amount from his account.

A crossed cheque is an express instruction to the banker not to make cash payment. This is the safest type of cheque. This is called general crossing. Sometimes, name of a specific bank and branch is written between the lines. It means the cheque must be presented through that bank only. This is called special crossing. In such case, the amount is paid to the specific bank which in turn credits the amount to the payee's account. The words 'not negotiable' between the lines destroy the negotiability of the cheque.

## 4) Uncrossed/opencheque:

When a cheque is not crossed, it is known as an "Open Cheque" or an "Uncrossed Cheque". The payment of such a cheque can be obtained at the counter of the bank. An open cheque may be a bearer cheque or an order one.

## 5) AntiDateCheque:

If a cheque bears a date earlier than the date on which it is presented to the bank, it is called an "anti-dated cheque". Such a cheque is valid up to six months from the date of the cheque. For example, a cheque issued on 10<sup>th</sup> Jan 2010 may bear a date 20<sup>th</sup> Dec 2009.

## 6) Post-datedCheque:

If a cheque bears a date which is yet to come (future date) then it is known as post-dated cheque. A post dated cheque cannot be honoured earlier than the date on the cheque. For example, if a cheque presented on 10<sup>th</sup> Jan 2010 bears a date of 25<sup>th</sup> Jan 2010, it is a post-dated cheque. The bank will make payment only on or after 25<sup>th</sup> Jan 2010.

## 7) StaleCheque:

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

## 8) MutilatedCheque:

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



cheque is called a mutilated cheque. The bank will not make payment against such a cheque without getting confirmation of the drawer.

### **MICR Cheque:**

MICR (Magnetic Ink Character Recognition) cheque is a modern form of cheque, which minimizes the human efforts and processing time. It is a system that uses a special machine that types characters on the documents using ink containing iron oxide. These characters can be read by people as well as by a computer input devices. Magnetic Ink characters for bank identification number, customer account number and cheque number are preprinted on cheques. When a cheque is presented to the bank, the amount of the transaction is encoded before computer processing.

### **Advantages of MICR cheque:**

- a. The clearing time for the cheque is considerably reduced.
- b. The MICR characters are easily readable and as such it reduces errors.
- c. Settlement between the banks is done fast and as such net position is quickly known.
- d. It reduces the manual sorting and totaling work.

### **Limitations of MICR:**

- a. MICR cheques are expensive, as it requires superior quality paper and special ink.
- b. Customers have to be educated in handling MICR cheques.
- c. Counterfoils are not permitted in the cheque books, which may cause inconvenience to customers.

## **CROSSING OF CHEQUE**

### **Introduction:**

The open cheques are presented by the payee to banker on whom they are drawn and are paid over the counter. It is obvious that an open cheque is liable to great risk in the course of circulation. It may be stolen or lost and the finder can get it cashed, unless the drawer has already countermanded payment. In order to avoid the losses incurred by open cheques getting into the hands of wrong parties the custom of crossing was introduced.

### **Meaning of Cross Cheque:**

A crossing is a direction to the paying banker to pay the money generally to a banker or a particular banker and not to pay to holder across the counter. A banker paying a crossed cheque over the counter does so at his own peril if the party receiving the payment turns out to be not entitled to get payment. The object of crossing is to secure payment to a banker so that it could be traced to the person receiving the amount of the cheque. The crossing is made to warn the banker but not to stop negotiability of the cheque. To restrain negotiability addition of words "Not Negotiable" or "Account Payee Only" is necessary.

### **Crossed Cheque:**

When two parallel lines are drawn on the top left side of the cheque, it is called crossed cheque. 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 credited to the payee's account. He can then withdraw the amount from his account. A crossed cheque is an express instruction to the banker not to make cash payment. This is the safest type of cheque.

This is called general crossing. Sometimes, name of a specific bank and branch is written between the lines. It means the cheque must be presented through that bank only. This is called special crossing. In such case, the amount is paid to the specific bank which in turn credits the amount to the payee's account. The words 'not negotiable' between the lines destroy the negotiability of the cheque.

### Types of Crossing:

#### a) General Crossing:

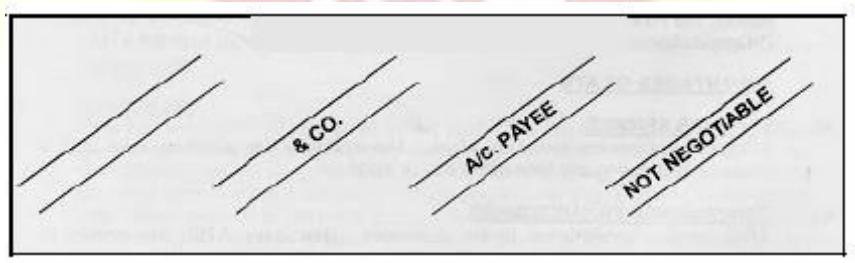
Generally, cheques are crossed when there are two transverse parallel lines, marked across its face or the cheque bears an abbreviation "& Co." between the two parallel lines or the cheque bears the words "Not Negotiable" between the two parallel lines or the cheque bears the words "A/c. Payee" between the two parallel lines.

A crossed cheque can be made bearer cheque by cancelling the crossing and writing that the crossing is cancelled and affixing the full signature of drawer.

Generally, cheques are crossed when:

- There are two transverse parallel lines, marked across its face, or
- The cheque bears an abbreviation "& Co." between the two parallel lines, or
- The cheque bears the words "Not Negotiable" between the two parallel lines, or
- The cheque bears the words "A/c. Payee" between the two parallel lines.

#### Specimens of General Crossing



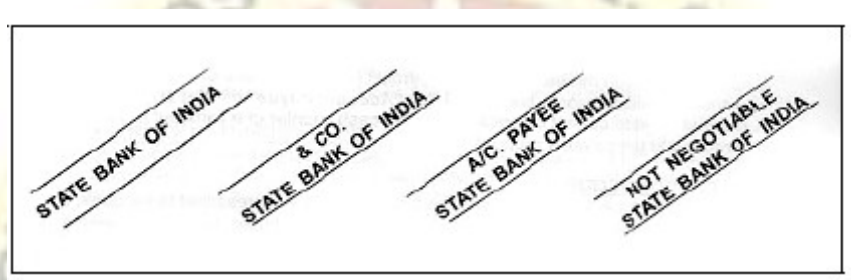
#### b) Special Crossing:

When a cheque is crossed by two parallel lines and the name of the banker is written between the two parallel lines it is called special crossing. There may be words "not negotiable" written between these two lines. The banker on whom it is drawn shall not pay it other than to the banker to whom it is crossed or his agent for collection. It will be paid only when presented by the banker.

### Essentials of Special Crossing:

- ii. Two parallel transversal lines are not at all essential for a special crossing.
- iii. The name of a banker must be necessarily specified across the face of the cheque. The name of the banker itself constitutes special crossing.
- iv. It must appear on the left hand side, preferably on the corner, so as not to obliterate the printed number of the cheque.
- v. The two parallel transversal lines and the words 'Not Negotiable' may be added to a special crossing.

Specimen of Special Crossing



Difference between General Crossing and Special Crossing:

Sl. No.	General Crossing	Special Crossing
1	Drawing of two parallel transversal lines is a must	Drawing of two parallel transversal lines is not essential.
2	Inclusion of the name of a banker is not essential	Inclusion of the name of a banker is essential.
3	In General crossing paying banker honours the cheque from any bank a/c.	In special crossing paying banker honours the cheque only when it is presented through the bank specified in the crossing and no other bank.
4	General crossing can be converted into a Special Crossing	Special crossing can never be converted to general crossing
5	In case of General Crossing the words "And Company" or "& Company" or "Not Negotiable" between the transverse lines to highlight the crossing does not carry special significance.	In case of Special crossing the name of a banker may be written within two parallel transversal lines or with the words "And Company" or "Account Payee Only" or "Not Negotiable" the inclusion of these words has become customary.

**c) Not Negotiable Crossing:**

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 means that the proceeds of the cheque are to be credited to the account of the payee only. This kind of crossing is also called "Restrictive crossing".



Not Negotiable

**d) A/C Payee Crossing:**

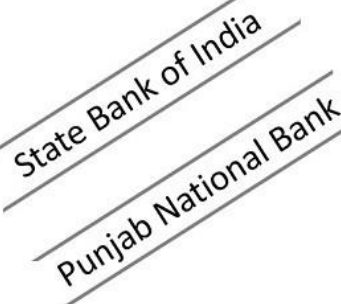
There is no provision in law regarding this type of crossing. But it has been developed in practice. If the words, 'A/c Payee' are added to a crossing, it becomes an A/c Payee crossing.



A/c Payee

**e) Double Crossing:**

Sec. 125 of the Act provides that, 'Where a cheque is crossed specially, the banker to whom it is crossed, may again cross it specially to another banker, his agent for collection.'



State Bank of India  
Punjab National Bank

## 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 the instrument or any paper attached to it with the intention of transferring the rights therein. Thus endorsement is signing a negotiable instrument for the purpose of negotiation. The person who effects an endorsement is called an 'endorser' and the person to whom negotiable instrument is transferred 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 by the instrument to another individual. The ordinary manner in which an individual endorses a check is by placing his or her signature on the back of it, but it is valid even if the signature is placed somewhere else, such as on a separate paper, known as an allonge, which provides a space for a signature.

### Meaning:

In its literal sense, the term endorsement means writing on an instrument. In its technical sense in the Act, it means the writing of a person's name on the face or back of a negotiable instrument or on a slip of paper for the purpose of negotiation. In simple words endorsement means 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. Such signature must be in ink. The indorser must sign his name as exactly as he has signed on the face of negotiable instrument. He must sign for the purpose of negotiation.

### Definitions:

Section 15 of the Negotiable Instrument Act defines "When the maker or holder of a negotiable instrument signs and the same, otherwise than as such maker, for and purpose of negotiation, on the back or face thereof or on a slip of paper annexed thereto, or signs for the same purpose a stamped paper intended to be completed as negotiable instrument, he is said to have indorsed the same, and is called the indorser."

### Parties of Endorsement:

- i) Endorser:** The person making the endorsement.
- ii) Endorsee:** The person to whom the instrument is endorsed.

The essence of a negotiable instrument is easy legal transfer of ownership right. It is assumed that the transfer is done in good faith and for value received. A credit instrument is negotiated, i.e. transferred from one person to another (called holder) by delivery or by endorsement and delivery. When the maker or holder of a negotiable instrument signs his name for the purpose of negotiation on the back or face thereof or on a slip of paper annexed to it, he is said to have endorsed the instrument. A person in whose favour the endorsement is made is called the endorsee.

### Essentials of a valid Endorsement:

**1) Must be on Instrument:**

It must be on the instrument. The endorsement may be on the back or face of the instrument and if no space is left on the instrument, it may be made on a separate paper attached to it called allonge. It should usually be in ink.

**2) Endorsement by Maker or Holder:**

It must be made by the maker or holder of the instrument. A stranger cannot endorse it.

**3) Signature of Endorser:**

It must be signed by the endorser. Full name is not essential. Initials may suffice. Thumb-impression should be attested. Signature may be made on any part of the instrument.

**4) No Specific Form:**

It may be made either by the endorser merely signing his name on the instrument (it is a blank endorsement) or by any word showing an intention to endorse or transfer the instrument to a specified person (it is a blank endorsement) or by any words showing an intention to endorse or transfer the instrument to a specified person (it is an endorsement in full). No specific form of words is prescribed for an endorsement, but intention to transfer must be present.

**5) Delivery:**

It must be completed by delivery of the instrument. The delivery must be made by the endorser 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 is found after his death and then delivered to the endorsee, the latter gets no right on the instrument. If delivery is conditional endorsement is not complete until the condition is fulfilled.

**6) Endorsement of Entire Bill:**

It must be an endorsement of the entire bill. A partial endorsement i.e. which supports to transfer to the endorsee a part only of the amount payable does not operate as a valid endorsement.

**Types of Endorsement:****1) Endorsement in Blank:**

Where an endorsement on a bill of exchange specifies no endorsee, it is an endorsement in blank. A bill so endorsed becomes payable to bearer. The same term applies to the endorsement of cheques. In such a case, so long as the instrument continues in blank, the property in the instrument may pass by mere delivery, in the same manner as an instrument payable to bearer. Any holder may convert a blank endorsement into full endorsement by writing above the endorser's signature a direction to pay the instrument to, or to the order of, himself or some

other person.

Section 54 of Negotiable Instruments Act provides: "Subject to the provisions hereinafter contained as to crossed cheques, a negotiable instrument indorsed in blank is payable to the bearer thereof even although originally payable to order."

## **2) Endorsement in Full:**

If the endorser adds a direction to pay the amount specified in the instrument to, or to the order of, a certain person, then the endorsement is said to be in full. By inscribing his name on the back of an instrument, the endorser guarantees to his immediate endorsee or a subsequent holder in due course, that at the time it left his hands, he had a good title to it and that it was genuine 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 his own name, by writing above the endorser's signature a direction to pay to any other person as endorsee, convert the endorsement in blank into an endorsement in full, and the holder does not thereby incur the responsibility of an endorser. If a negotiable instrument, after having been indorsed 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 through such person.

## **3) Conditional Endorsement:**

Ordinarily, an endorser binds himself to pay upon no other condition than the dishonour of the instrument on due notice of dishonour to him. However, if he likes he may make his own

liability on the instrument subject to a condition, in which case the endorsement is termed a conditional endorsement. Again, he may make his liability dependent upon the happening of a contingent event or make the right of the endorsee to receive the payment in respect of the instrument dependent upon the happening of such an event. The conditions thus added may be either conditions precedent or conditions subsequent. In the former, no right to recover the amount passes to the endorsee, until the fulfilment of the conditions. If it be a subsequent condition, the endorsee's right is defeated on its fulfilment. Thus, if the endorsement is 'Pay to X if he returns from Mumbai within a year', then the right to receive payment becomes absolute only if Mr. X arrives within a year from the date of the endorsement on the instrument. The condition attached to endorsements does not affect the negotiability of the endorsement endorsed.

## **4) Restrictive Endorsement:**

It is the endorsement by which the endorsee's right of negotiating the instrument endorsed is restricted or excluded by express words. Sometimes, a restrictive endorsement may merely constitute the endorsee, as an agent, to endorse the instrument or to receive its contents for the endorser, or for some other specified person. For example, if Mr. A.K. Agrawal, endorses any negotiable instrument payable to order as 'Pay Mr. R.K. Goyal for the account of Mr. S.K. Garg', Mr. A.K. Agrawal will be restricting the negotiability of the instrument thus endorsed.

### 5) Sans Recourse Endorsement:

In terms of Section 52 of Negotiable Instruments Act, an endorser may, by express words in the endorsement, exclude his own liability thereon. This is known as 'Sans Recourse' endorsement, or 'without recourse' endorsement. Thereafter if he again becomes the holder of the instrument, all the intermediate endorsers shall be liable to him. An endorser, who endorses without recourse, cannot be held liable, if the instrument is dishonoured.

An endorser may also lay down a condition that the right of the endorsee to receive the amount would depend upon the happening of an event which may or may not happen. This would be a conditional endorsement. An endorser may endorse the instrument for the specific purpose of collection. Thereafter, all further transferees shall only have a restricted right on the basis of the endorsement.

Section 131 of Negotiable Instruments Act provides that where a banker receives a crossed cheque from a customer for collection, and obtains payment of it on his customer's behalf, the fact that the customer's title to the cheque was defective would not render the banker liable in conversion to the true owner. The banker is only to prove that it collected the cheque in good faith and without negligence.

### 6) Facultative Endorsement:

A facultative endorsement is one by which the endorser, by express words, abandons some rights or increases his liability under the instrument, e.g., by using after signature, words such as 'notice of dishonour dispensed with' or 'waiver of notice of dishonour' or 'notice of dishonour not required'. The effect of facultative endorsement is to make the endorser liable, though otherwise under the Negotiable Instruments Act, 1881, he may not be liable.

**Example:** Pay A or order. Notice of dishonour waived.

### 7) Partial Endorsement:

No writing on a negotiable instrument is valid for the purpose of negotiation if such writing purports to transfer only a part of the amount appearing to be due on the instrument. But where such amount has been partly paid, a note to that effect may be endorsed on the instrument which may then be negotiated for the balance.

As a rule, where part of the amount due on the negotiable instrument is to be transferred by an endorsement such endorsement is a partial endorsement and is invalid. This is because a personal contract cannot be apportioned. Only when the amount is partly paid, and such fact is noted on the instrument, the balance can be negotiated by endorsement.

### Effects of Endorsement:

#### Meaning:

Section 50 of the Negotiable Instrument Act deals with effects of endorsement. The endorsement of a negotiable instrument followed by delivery transfers to the endorsee, the property therein with the right of further negotiation. The endorsement may be, by express words,



restrict or exclude such right, or may merely constitute the endorsee, an agent to endorse the instrument, or to receive its contents for the endorser or for some other specified person.

### **Effect of Endorsement:**

#### **i) Effect of Unconditional Endorsement:**

An unconditional endorsement of a negotiable instrument, also followed by its unconditional delivery, has the effect of transferring the amount (property) in the instrument to the endorsee. In such cases (of unconditional endorsement), the endorsee concerned acquires all the legal rights to negotiate the instrument to any person whom he likes to. Further, he also acquires all the legal rights to file suits against any of the parties whose names appear on it.

#### **ii) Effect of an Endorsement in Blank:**

The effect of an endorsement in blank is that, by virtue of such an endorsement, an order instrument (i.e., the instrument made payable to the order of a specific person) can be converted into a bearer instrument. Thus, the title of such instrument can thereafter be transferred by mere delivery, without requiring any endorsement thereon.

#### **iii) Effect of a Restrictive Endorsement:**

The following are the effects of a restrictive endorsement:

- (a) To restrict or prohibit any further endorsement and negotiation thereafter;
- (b) To constitute the endorsee as the agent of the endorser, to endorse the document; or
- (c) To constitute the endorsee as an agent to receive its contents for some other persons specified therein.

However, in case of an instrument made payable to the joint payees or the endorsees, it must be endorsed by all of them jointly, failing which such endorsement may be held invalid in the eye of law, even if it is endorsed in favour of another person.

#### **iv) Effect of a Forged Endorsement:**

A negotiable instrument, endorsed in full, cannot be negotiated or endorsed any further except where such endorsement is made by the same person to whom it was originally made payable (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 payee or endorsee, the endorsee in such cases will not acquire any title, even in the cases where such

endorsee may be the purchaser for value and in good faith. This is so because a forged endorsement is a nullity in the eye of law.

## **MATERIAL ALTERATION**

### **Introduction:**

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

**Alteration that amounts to a Material alteration:**

To deem an alteration material, it should have satisfied the following conditions:

- It must affect the fundamental character of the instrument.
- It must substantially change the rights and liabilities of the parties to the instrument.
- It should change the legal character of the document.
- It should speak a different language from what it spoke originally.
- It must have taken place without the knowledge of the drawer.
- It must have taken place after the cheque has been issued.

**Effect of Material Alteration:**

According to Sec. 87 of the Negotiable Instruments Act, if a cheque is materially altered, it cannot be regarded as a cheque at all. Therefore, material alteration renders the cheque void. 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 previous material alteration on it.

**Examples of Material Alteration:**

**(i) Alteration of Date:** The date is an important part of a cheque, because, it fixes the period of limitation for obtaining payment. The date may be altered with a view to proposing or postponing payment. Hence, if the date is altered without the consent of the drawer, it amounts to a material alteration. It is so because the original intention of the drawer has been changed due to this unauthorized alteration.

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

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

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

**(vi) Alteration of payee:** If the payee's name is altered without the knowledge of the drawer, it amounts to a material alteration.

**(vii) Alteration by an outsider:** An alteration made by an outsider on a cheque must be considered as an alteration made by the holder himself, as, it is the duty of the holder to preserve the instrument free from such forgeries.

#### **Material alteration and the Banker:**

- (i) Material alteration renders the cheque invalid. So, the paying banker should not honour it.
- (ii) The banker should return the cheque to the drawer with remarks like 'Alteration requires drawer's confirmation'.
- (iii) The drawer should confirm the alteration by means of his full signature. As far as possible, a banker should prefer full signature to initials, as initials can be forged easily.
- (iv) In case the cheque is drawn by two or more persons jointly, material alteration requires the signature of all the drawers.
- (v) In the case of cheques drawn by registered companies and other corporate bodies, material alteration must be confirmed by those persons who are authorized to operate the amount.
- (vi) In the case of a partnership firm, any partner can authorize the alteration.
- (vii) A banker who is honouring a materially altered cheque is not eligible for any legal protection, because, he is said to be negligent in his duty.
- (viii) If a banker honours a materially altered cheque, he has no authority to debit the drawer's account. So, he should bear the loss.

#### **Statutory Protection in the case of a Materially altered cheque:**

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

- He is liable to pay,
- Such an alteration is not apparent, and
- The banker has made the payment in due course

#### **IMMATERIAL ALTERATION**

##### **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 not render a cheque invalid.

Examples:

- (i) Conversion of a bearer cheque into an order cheque.
- (ii) Alteration made with the consent of parties.
- (iii) Alteration made to carry out the common intention of the original party, i.e., where the drawer of a cheque omits to use the word 'or order' in the cheque.
- (iv) Where the word 'rupees' has been mentioned twice, and then, one is cancelled.

#### **Alteration authorized by the Act:**

There are certain alterations, which, though material, do not render the cheque invalid because, they are permitted by the Act.

Examples:

- (i) Sec. 20 of the Negotiable Instruments Act permits anyone to fill up the blanks of the instrument.
- (ii) Sec. 49 of the Act permits any holder to convert a blank endorsement into full endorsement.
- (iii) Sec. 86 of the Act permits anyone to accept a bill subject to certain conditions. (iv) As per Sec. 125 of the Act, any holder can cross a cheque.

#### **Devices to arrest material alteration:**

To prevent unauthorized alterations, modern banks adopt many techniques, which will go a long way in protecting the interest of both the banker and the customer. Some of the recent techniques have been listed below:

- (a) The cheque is made of a special kind of paper which prevents the use of chemicals.
- (b) The body of all cheques are printed over with a design or usually with words to show more clearly, if an erasure takes place.
- (c) The paper used for a cheque may be made with a 'fugitive' surface, i.e., a paper which loses its surface if any attempt is made to rub out what is written thereon.
- (d) The use of machines like 'protectographs' and 'perforating machine' safeguards a banker to a larger extent.

#### **PAYING BANKER**

##### **Introduction:**

A banker on whom a cheque is drawn should pay the cheque when it is presented for payment. This cheque-paying function is a distinguished one of a banker. This obligation has been imposed on him by Section 31 of the Negotiable Instruments Act. A banker is bound to honour his customer's cheques, to the extent of the funds available and the existence of no legal bar to payment. Further, the cheque must be in order and it must be duly presented for payment at the branch where the account is kept. The paying banker should use reasonable care and diligence in paying a cheque, so as to abstain from any action likely to damage his customer's credit. If the paying banker wrongfully dishonours a cheque, he will be asked to pay heavy damages. At the same time, if he makes payment in a hurry, even when there is no sufficient balance, the banker will not be allowed to debit the customer's account. If

he does so, it will amount to sanctioning of overdraft without prior arrangement, and, later on, the customer can claim it as a precedent and compel the banker to pay cheques in the absence of sufficient balance. His position is very precarious and is in between the devil and the deep sea.

### **Precautions before honouring a Cheque:**

In order to safeguard his position, the paying banker has to observe the following precautions before honouring a cheque:

#### **1. Presentation of the cheque:**

First of all, a paying banker should note whether the presentation of the cheque is correct. It can be found out by paying attention to the following factors:

##### **(a) Type of the cheque:**

Before honouring a cheque, he must find out the type of which it belongs. Cheques may generally be of two types – open or crossed. If it is an open one, the payment may be made at the counter. If it is crossed, the payment must be made only to a fellow banker. If it is specially crossed, the payment must be specifically made to that banker in whose favour it has been crossed. If there are 'A/c Payee' and 'Not Negotiable' crossings, the paying banker need not worry, as they are the directions only to the collecting banker. If the paying banker pays a cheque contrary to the crossing, he is liable to the drawer and to the true owner and this payment cannot be regarded as a payment in due course. Therefore, he must pay special attention to the type of a cheque.

##### **(a) Branch:**

Then the paying banker should see whether the cheque is drawn on the branch where the account is kept. If it is drawn on another branch, without any prior arrangement, the banker can safely return the cheque.

##### **(b) Account:**

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

##### **(c) Banking hours:**

The paying banker should also note whether the cheque is presented during the banking hours on a business day. Payment outside the banking hours does not amount to payment in due course.

##### **(d) Mutilation:**

If the cheque is torn into pieces or cancelled or mutilated, then the paying banker should not honour it. He should return the cheque for the drawer's confirmation. In case a cheque is torn accidentally, the drawer must confirm it by writing such words as 'Accidentally torn by me' and affixing his full signature. A cheque torn into two or more pieces is generally returned with a remark 'Mutilated'.

#### **2. Form of the Cheque:**

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

out whether it is regular or not.

**(a) Printed form:**

The cheque must be in the proper form. It must satisfy all the requirements of law. The customer should draw cheques only on the printed leaves supplied by the bankers, failing which, the banker may refuse to honour it.

**(b) Unconditional order:**

The cheque should not contain any condition. If it is a conditional one, the paying banker's position will become critical and he may not honour it.

**(c) Date:**

Before honouring a cheque, the bank must see whether there is a date on the instrument. 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 presented after six months, from the date of its issue is a stale one. If a cheque is post-dated, he should honour it only on its due date.

**(d) Amount:**

The banker should see whether the amount stated in the cheque, both in words and figures, agree with each other. If the amount is stated only in figures, the banker should return it with a remark 'Amount required to be stated in words'. However, if the amount is stated only in words, the banker may honour it. Suppose, there is a difference in the amount stated in words and figures, then the banker can take any one of the following courses available to him:

- (i) He can dishonour the cheque with a memorandum 'words and figures differ', or
- (ii) He can honour the amount stated in words, or
- (iii) He can honour the smaller amount.

**(e) Material alteration:**

A paying banker should be very cautious in finding out the alterations that may appear on a cheque. If there is any material alteration, the banker should return it with a memorandum "alteration requires drawer's confirmation". If the alteration is confirmed by the 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 be liable.

**3. Sufficient balance:**

There must be sufficient balance to meet the cheque. If the funds available are not sufficient to honour a cheque, the paying banker is justified in returning it. So, before honouring a cheque, he must check up the present state of his customer's account. For this purpose, he must compute the balance in the account of his customer. In computing the balance, the previous agreement, if any, for OD should be taken into account. He should not disclose the state of affairs of his customer's account to anybody. He must not offer a part of the amount of the cheque, if the balance is insufficient to meet the full amount of the cheque.

**4. Signature of the Drawer:**

Paying banker is to compare the signature of his customer found on the cheque with that of his specimen signature. If he fails to do so and if he pays a cheque, which contains a forged 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 the signature has been too skillfully forged for the banker to find it out, even then the banker is liable. However, if the customer facilitates the forgery of his signature by his conduct, then the banker will be relieved from his liability.

#### **5. Endorsement:**

Before honouring a cheque, the banker must verify the regularity of endorsement, if any, that appears on the instrument. It is more so in the case of an order cheque, which requires an endorsement before its delivery.

#### **6. Legal Bar:**

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

#### **7. Minor precautions:**

A paying banker should look into the following minor details also, before honouring a cheque:

(a) He must see whether there is any order of the customer not to pay a cheque.

He must see whether there is any evidence of misappropriation of money. If so, the cheque should be returned.

(b) He must see whether he has got any information about the death or insolvency or insanity of his customer. Failure to note those instructions will land him in trouble.

### **CIRCUMSTANCES FOR DISHONOR OF CHEQUES**

A paying banker is under a legal obligation to honour his customer's mandate. He is bound to do so under his contractual relationship with his customer. A wrongful dishonor will have the worst effect on the banker. However, under the following circumstance, the payment of a cheque must be refused:

#### **i. Countermanding:**

Countermanding is the instruction given by the customer of a bank requesting the bank not to honour a particular cheque issued by him. When such an order is received, the banker must refuse to pay the cheque. Countermanding, in order to be really effective, must be in writing. The written mandate should contain all the details of the cheque, viz., date, number of the cheque, name of the payee and the amount. Without these details, the banker would find it difficult to oblige the customer. The mandate must be signed by the customer. In the case of a company, any director can stop payment of a cheque.

#### **ii Upon the receipt of notice of death of a customer:**

Death puts an automatic end to the contractual relationship between a banker and his customer. When a banker receives written information from an authoritative source regarding the death of a particular customer, he should not honour any cheque drawn by that deceased customer. 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 been actually made after his death.

#### **iii Upon the receipt of notice of insolvency**

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

of petition upon which he can take necessary action.

#### **IV Upon the receipt of notice of insanity:**

Where a banker receives notice of a customer's insanity, he is justified in refusing payment of the cheque drawn by him. The banker should make a careful note, when the lunacy order is received. It is advisable that the banker should act upon a definite proof of the customer's insanity like a doctor's certificate, a court order, etc.

#### **V Upon the receipt of notice of Garnishee Order:**

Garnishee Order refers to the order issued by a court attaching the funds of the judgment debtor in the hands of a third party. The term 'Garnishee' refers to the person who has been served with the order.

#### **VI When a breach of trust is intended?**

In the case of a trust account, mere knowledge of the customer's intention to use the trust funds for his personal use is a sufficient reason to dishonor his cheque.

#### **VII Defective title:**

If the person who brings a cheque for payment has no title or his title is defective, the banker should refuse to honour the cheque presented by him.

#### **VIII other grounds:**

A banker is justified in dishonouring a cheque under the following circumstances if a cheque is:

- (a) A conditional one
- (b) Drawn on an ordinary piece of paper
- (c) A stale one
- (d) A post-dated one
- (e) Mutilated Drawn on another branch where the account is not kept
- (f) Presented during non-banking hours
- (g) If the words and figures differ
- (h) If there is no sufficient funds
- (i) If the signature of the customer is forged
- (j) If the endorsement is irregular
- (k) If a crossed cheque is presented at the counter



## **COLLECTING BANKER**

### **Meaning:**

A collecting banker is one who undertakes to collect the amount of a cheque for his customer from the paying banker. A banker is under no legal obligation to collect cheques drawn upon other banks for a customer. But, every modern banker performs this duty,

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 cheques except through some banker. In rendering such services, a banker should be careful, because he is answerable to a number of persons with whom he has no contractual relationship and any negligence or carelessness on his part may land him in difficulties.

### **Banker as a Holder for Value:**

In collecting a cheque, the banker can act in two capacities, namely: (1) as a holder for value, and (2) as an agent for collection. The banker would be regarded as a holder for value:

- (a) If he allows his customer to withdraw money before cheques paid in for collection are actually collected and credited,
- (b) If any open cheque is accepted and the value is paid before collection, and/or
- (c) If there is a reduction in the overdraft account of the customer before the cheque is collected and credited in the respective account.

In all these cases, the banker acquires a personal interest.

### **The Rights of a Banker as a Holder for Value:**

If the banker acts as a holder for value, his rights will be the same as those of a holder in due course. The title of the holder in due course is superior to that of the true owner. If the instrument contains a forgery, then the title of the true owner will be superior. So, if there is forgery, the collecting banker will have to refund the amount to the true owner. But he can recover the money from the last endorser. If the customer is unable to meet the liability, then the banker will have to bear the burden. If the cheque is paid in due course, all the parties will get discharged.

### **Banker as an Agent:**

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 a holder for value. He has to act only as an agent of the customer. This is so because; he cannot have a title better than that of the customer himself. So, a collecting 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 to some other person, to the account of his customer, he will be held liable for 'conversion' of money received.

### **Conversion:**

'Conversion' is a wrongful interference or meddling with the goods of another. For example, taking or using or destroying the goods or exercising some control over them in a way that is inconsistent with the owner's right of ownership. The term 'goods' includes bill of exchange, cheque or promissory note. Conversion may be committed innocently.

Conversion is a wrong that renders the person committing it personally liable. This liability exists even when a person acts merely as an agent.

### **Banker's Liability:**

Hence, if a collecting banker, however, innocent he may be, has converted the goods of another, he will be held personally liable. This liability exists because the banker is acting as an agent and not as a holder of value. If it is so, no banker will be in a position to collect cheques for his customer. In those days, the position of a collecting banker was far from satisfactory. Therefore the statutory protection was granted by Section 131 of the Negotiable Instruments Act against conversion. Section 131 of the Negotiable Instruments Act, 1881 corresponds to Section 82 of the Bills of Exchange Act, 182.

### **Basis of Negligence:**

The word 'negligence' has no definite meaning in banking law. It has been very widely interpreted by courts of law frequently to the detriment of banker. It is flexible and is ever expanding in its scope as new circumstances arise.

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 collecting banker wants to claim protection under Sec. 131, he has the burden of proving that he has acted without negligence. It is so because, the true owner's case is complete, as soon as conversion is proved *prima facie* against the banker.

There has been considerable difference of opinion, as to, what constitutes negligence for the purpose of Sec, 131. It should be noted that negligence under this Section is more or less artificial, as there is no contractual relationship between the collecting banker and the true owner of the cheque.

For a proper understanding, negligence can be studied under the following heads:

1. Gross negligence
2. Negligence connected with the immediate collection of cheque
3. Negligence under remote grounds
4. Contributory negligence

### **DUTIES OF A COLLECTING BANKER**

#### **(i) Exercise reasonable care and diligence in his collection work:**

When a banker collects a cheque for his customer, he acts only as an agent of the customer. As an agent, he should exercise reasonable care, diligence and skill in collection work. He should observe utmost care when presenting a cheque or a bill for payment. Reasonable care and diligence depends upon the circumstance of each case.

#### **(ii) Present the cheque for collection without any delay:**

The banker must present the cheque for payment without any delay. If there is delay in presentation, the customer may suffer losses due to the insolvency of the drawer or insufficiency of funds in the account of the drawer or insolvency of the banker himself. In all such cases, the banker should bear the loss.

#### **(iii) Notice to customer in the case of dishonor of a cheque:**

If the cheque, he collects, has been dishonoured, he should inform his customer without any delay. The Negotiable Instrument Act has prescribed a reasonable time for giving the

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

**(iv) Present the bill for acceptance at an early date:**

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 liable thereon from the date of acceptance. Moreover, in the case of a bill of exchange payable after sight, acceptance is absolutely essential to fix the date of maturity. If a banker undertakes to collect bills, it is his duty to present them for acceptance at any early date. Sooner a bill is presented and got accepted, earlier is its maturity.

**(v) Present the bill for payment:**

The banker should present the bills for payment in proper time and at proper place. If he 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 payment on maturity. As per Sec.21, sight bills are payable on demand. Sec.22 lays down that the maturity of the bill is the date on which it is due for payment, to which, 3 days of grace are added. Thus, the rules for calculating the maturity dates are given in Secs.23,24 and 26 of the Negotiable Instrument Act.

**(vi) Protest and note a foreign bill for non-acceptance:**

In case of dishonor of a bill by non-acceptance or non-payment, it is the duty of the collecting banker to inform the customer immediately. Generally, he returns the bill to the customer. In the absence of specific instructions, collecting bankers do not get the inland bills noted and protested for dishonor. If the bill in question happens to be a foreign bill, the banker should have it protested and noted by a Notary Public and then forwarded it to the customer.

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 cover 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.

