

Introduction to Banking

Finance is the life blood of trade, commerce and industry. Now-a-days, banking sector acts as the backbone of modern business. Development of any country mainly depends upon the banking system.

Thus, people were in need of a place where money could be saved safely and would be available when required. Banks are such places where people can deposit their savings with the assurance that they will be able to withdraw money from the deposits whenever required. Bank is a lawful organization which accepts deposits that can be withdrawn on demand. It also lends money to individuals and business houses that need it.

Meaning

A **bank** is a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly or through capital markets. A bank connects customers with capital deficits to customers with capital surpluses.

A bank is an institution which deals with money and credit. It accepts from the public, makes the funds available to those who need them, and helps in the remittance of money from one place to another.

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

Oxford Dictionary defines a bank as "an establishment for custody of money, which it pays out on customer's order."

According to **Crowther**, a bank "collects money from those who have it to spare or who are saving it out of their incomes, and it lends this money to those who require it."

In the words of **Kinley**, "A bank is an establishment which makes to individuals such advances of money as may be required and safely made, and to which individuals entrust money when not required by them for use."

According to **John Paget**, "Nobody can be a banker who does not (i) take deposit accounts, (h) take current accounts, (iii) issue and pay cheques, and (iv) collects cheques-crossed and uncrossed-for its customers,"

Prof. Sayers defines the terms bank and banking distinctly. He defines a bank as "an institution whose debts (bank deposits) are widely accepted in settlement of other people's debts to each other."

BANKER AND CUSTOMER RELATIONSHIP

BANKER

Banker is a person doing the banking business is called banker. He must perform following essential functions such as receiving deposits of various kinds, lending money or creating credit, issuing cheques, honouring cheques and collecting cheques.

According to **Dr.H.C Hart** a banker or a bank is a person or company carrying on the business of receiving money and collecting drafts, for customers subject to the obligation of honoring cheques drawn upon them from time to time by the customers to the extent of the amounts available in their current accounts.

CUSTOMER

The term "Customer" has not yet been statutorily defined. Generally, the term customer means a person who has an account with bank. Banking experts and legal judgments in the past, however, used to qualify this statement by laying emphasis on the period for which such account had actually been maintained with the bank.

Customer is a person who utilizes one or more of the services provided by the bank. Through customer the bank gets an opportunity to make earnings and banker provides services.

A person can become a customer,

- (1) If he opens any type of account fixed, current or savings with the bank.
- (2) Such account may be frequently operated or not.
- (3) The transaction between banker and customer should be of banking nature

The emphasis on duration of the bank account is now discarded. According to Dr. Hart, "a customer is one who has an account with banker or for whom a banker habitually undertakes to act as such."

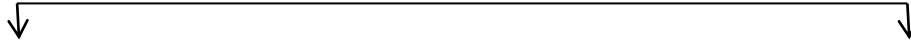
Banker-Customer Relationship

The relationship arises between a banker and a customer with the opening of an account by the customer with a banker. The application for opening an account is considered as a letter of agreement for establishing the banker-customer relationship. The general view is that the banker-customer relationship is mainly that of a debtor and a creditor with certain special features.

However, today the range of banking services is more extensive, and indeed is expanding all the time, so it must be expected that other relationships will arise besides that of debtor and creditor. The nature of the relationship depends upon the type of services rendered by the banker, which has two aspects: one is legal and another is behavioral.

Some of the important relationships they share are depicted below.

Relationship between Bankers and Customer



General Relationship

1. Debtor and Creditor
2. Pledger and Pledgee
3. Licenser and Licensee
4. Bailor and Bailee
5. Relationship of Hypothecator and Hypothecatee
6. Trustee and Beneficiary
7. Agent and Principal
8. Advisor and Client

Special Relationship

A. Rights of a Banker

1. Rights to lien
2. Rights to set-off
3. Rights to appropriate Payment
4. Right to charge interest, Commission, incidental charges
5. Right not to produce the books of accounts
6. Rights under Garnishee order

B. Obligations of a banker

1. Relationship of Debtor and Creditor

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

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

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

2. Relationship of Pledger and Pledgee

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

3. Relationship of Licensor and Licensee

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

4. Relationship of Bailor and Bailee

The relationship between banker and customer can be that of Bailor and Bailee. Bailment is a contract for delivering goods by one party to another to be held in trust for a specific period and returned when the purpose is ended. Bailor is the party that delivers property to another. Bailee is the party to whom the property is delivered. So, when a customer gives a sealed box to the bank for safe keeping, the customer became the bailor, and the bank became the bailee.

5. Relationship of Hypothecator and Hypothecatee

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

6. Relationship of Trustee and Beneficiary

A trustee holds property for the beneficiary, and the profit earned from this property belongs to the beneficiary. If the customer deposits securities or valuables with the banker for safe custody, banker becomes a trustee of his customer. The customer is the beneficiary so the ownership remains with the customer.

7. Relationship of Agent and Principal

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

Buying and selling securities on his behalf, Collection of cheques, dividends, bills or promissory notes on his behalf, and Acting as a trustee, attorney, executor, correspondent or representative of a customer. Banker as an agent performs many other functions such as payment of insurance premium, electricity and gas bills, handling tax problems, etc.

8. Relationship of Advisor and Client

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

SPECIAL RELATIONSHIP BETWEEN BANKER & CUSTOMER

This is related to the mutual rights and obligation of the customer and banker. Following are the right enjoyed by the banker with regard to the customer's account:

A. Rights of a Banker

1. Banker's right to lien

'Lien' is a term used to identify the right to retain a property belonging to a debtor till such time he discharges the debt due to the retainer of the property. Lien is simply a right to possess a property. Line will be lost when the possession of the property is lost.

Lien is the right of one person to retain the property, in his possession, belonging to the other person, until the debt due from the owner of that property is repaid. In other words, it is the right exercised by the creditor over the property of debtor until the debt is repaid.

The lien may be a particular lien or general lien.

Particular lien: This lien refers, to a particular which is retained by the lender or creditor against the specific or particular loan. The particular property will be retained until the particular debt is cleared by the debtor. This lien is enjoyed by people who have sent their labour on such properties and has not yet recovered their labour charges or service charge from the debtors.

General lien: general lien is enjoyed by banker, mercantile agents (factors), attorneys of High Court and policy Brokers General lien is a right of the bankers (creditors) to retain an the properties of debtors (customer's) till the sums due to the bank are recovered. In the absence of any agreement to the contrary, banker may retain any goods and securities bailed to him as a security for general balance of accounts. The Indian Contract Act (U/s171) provides, this right and rights is called General lien

2. Right to charge interest, commission, incidental charges, commitment charges.

- (i) **Interest:** The banker has a right to charge interest on customer's loan account. Normally interest is calculated at every quarter or half year and debited to the customer's loan account. The interest on the first quarter becomes the principal in the next interest charging period and hence interest on interest (compound interest) is charged. This is a right enjoyed by the banker.
- (ii) **Commission:** the banker has an implied right to charge commission for the service he renders to the customers.
- (iii) **Incidental Charges:** incidental charges is a levy imposed by the banker on unremunerative current accounts. Again this is an implied right enjoyed by the banker.

- (iv) **Commitment charges:** this is a charge made by the banker on overdrafts and cash credit accounts. Besides charging interest on the utilized portion of the overdraft, the commitment charge is charged on the unutilized portion of the sanctioned limit which does not earn any profit to the Banker incorporates 'Commitment Charge Clause' in overdraft and commitment charges agreements.

3. Right to set off:

A bankers' right to set off refers to the right of the banker to adjust the amount due to him from a customer on one account against the amount due from him to the customer on another account. It is the right of a banker to combine or adjust the debit and credit balances of two or more similar accounts held by a customer in the same capacity. The right of set off facilitates the banker to know the set amount due to him from the customer and ensures the safety of funds.

For instance X has to pay y Rs.10,000 and y has to pay X Rs.4, 000 to X's account, as Y has to a net balance of Rs 6,000. This adjustment, between the parties is called set- off. The banker, as a debtor has the right of set- off. This right empowers the banker to the banker to adjust the balance at the credit of the customer's account towards the amount due to the banker. If a customer holds two accounts in the same capacity, the account can be adjusted one against one against the other or the accounts can be combined as per the right of set -off.

The right of set-off facilities the banker to know the net amount due to him from the customer and ensures the safety of funds.

When to exercise the right of set-off

- (1) By giving a prior notice to the customer
- (2) By obtaining a letter of set off from the customer when the customer opens more than one account.
- (3) By having the right of automatic set-off under certain circumstances.

The banker gets the right of automatic set off under following circumstances.

- (1) On the death of the customer.
- (2) On the insolvency of the customer
- (3) On the insanity of the customer
- (4) On the receipt of a garnishee order attaching the customer' account.

Automatic set off refers to the right of a banker to adjust the debit and credit balances of two or more accounts held by a customer in the same name and right or capacity without obtaining any letter of set off from the customer or without giving him any pervious notice.

Conditions to be satisfied for the exercise of the right of set-off by a banker

- (1) The debts must be mutual i.e., must be due between the same parties.
- (2) The right of set-off can be exercised only if the mutual debts are determined and certain in amount.
- (3) The right of set-off can be exercised if the customer's account are opened in the same name and capacity.
- (4) The right of set-off can be exercised only in respect of debts which are due and recoverable on the date of set-off
- (5) The right of set-off can be exercised by the banker only in the absence of an agreement to the contrary.

4. Right to appropriate Payments:

When the customers raises more than one loan account, the question of appropriation arises. The payments made by the customer may not be sufficient to clear all debts due by the customer. Similarly, when a customer holds more than one current account and regularly operates these accounts by depositing funds and making withdrawals simultaneously in all the accounts he holds, it will be a problem for the banker to appropriate which funds to which account.

5. Right not to Produce Books of Accounts:

The banker need not produce the original books of Accounts as evidence in the cases in which the banker is not a party. He can issue only the certified copy, of the required portion of the account. But when a banker is a party to the suit, the court can force the banker to produce the original records in support of his claim.

6. Right under Garnishee order:

The term 'garnishee' is derived from the Latin word 'gamire' which means 'to warn'. This order warns the holders of money of judgments debtor, not to make any payments out of it till the court directs. Garnishee order is issued by the court at the request of the judgments creditor.

A garnishee order is an order issued by the court, at the instance of judgment creditor to the garnishee first attaching the funds of the judgment debtor lying with the garnishee and later directing him to pay the same to the judgment creditor if he does not have any objection to do so.

Let us see how a garnishee order can affect the relationship between the banker and the customer. Suppose Mr. A is the customer of SBI. He has taken a loan from his friend Mr. B. But Mr. A fails to repay the loan to Mr. B and as a result Mr. B files a case against Mr. A.

Now Mr. B requests the court to issue an order on the bank of Mr. A directing the banker (SBI) not to make any payment from the available balance in the account of Mr. A. If the court issues such an order, it is known as 'Garnishee Order'. Here, Mr. A (debtor) is known as 'judgement debtor', Mr. B (creditor) is known as 'judgement creditor' and the SBI is known as 'garnishee'.

The garnishee order is issued in two phases. First, 'order nisi' is issued directing the garnishee (banker) not to make any payment from the account of the garnishee debtor. The garnishee is asked to give his reply in the court whether the funds in the account of the garnishee debtor can be appropriated towards the payment of the particular debt in question. If the garnishee has no objection then in the second phase the court issues the 'order absolute' i.e. the garnishee order, to make the payment to garnishee creditor to satisfy the debt from the account of the judgement debtor. Then the banker's obligation to the customer (garnishee debtor) is discharged to that extent.

The banker as garnishee has to discharge the following duties on receipt of the garnishee order.

- 1) He must issue notice to his customer regarding the garnishee order received against his account.
- 2) The banker should also inform, whether the entire amounts is attached or only a part of it is subjected to garnishee order.
- 3) He should advise the customer to open anew account for future operations, as the existing account cannot be operated because of attachment under garnishee order.
- 4) Banker has no right to surrender the amount to the court until the 'order Absolute' is received.
- 5) He can ask the customer to raise any objection against the garnishee order.

Conditions to be satisfied for the operation of a garnishee order served on a banker:

- ✓ The customers' account must be in credit.
- ✓ The account should belong to the customer in his own right and should not be held as a trustee or jointly with another person.
- ✓ If the garnishee order attaches several accounts held by the customer, then all the accounts must be held by him in the same right or capacity.
- ✓ The debt to be attached by a garnishee order must be actually due or accruing due at the time the order to be served.
- ✓ The garnishee order must state the name and the address of the customer accurately.

OBLIGATIONS OF A BANKER (DUTIES)

Obligation to honour customer's cheques:

When a current account is opened by a banker in the name of a customer, there is an obligation on the banker to honour the customer's cheques as long as there are sufficient funds available in the customer's account for meeting the cheques. So whenever the customer demands the repayment of his deposits by issuing cheques there is a contractual obligation on the banker to honour his customers' cheques and repay his deposits. This obligation is provided by statute in section 31 of the Indian Negotiable Instruments Act of 1881.

Conditions to be satisfied to honour the cheques of the customers:

1. **Sufficient funds must be available:** The customer should have credit balance in his account which should be equal to the amount stated in the cheque.
2. **Funds must be properly applicable to the payment of the cheque:**
 - (a) The funds available to the credit of the trust account are applicable only for the purposes covered by the trust.
 - (b) If the banker has received a notice of the assignment of the customer's credit balance to a third party or
 - (c) If certain funds in the customer's account are set-aside for some specific purpose.
Such funds will not be available for the payment of the customer's cheques.
3. **Banker must be duly required to pay the cheque:** The instrument used for drawing the amount should be properly written and fulfill all legal obligations. It should be presented within a reasonable time after its date of issue. In India as per the Banking custom and practice, **a cheque must be presented for payment within 3 months from the date of issue. Otherwise it becomes stale and invalid** and such a cheque need not be honoured.

If a cheque is not properly drawn then the banker need not honour the cheque.

Similarly if a cheque is presented for payment before the date of payment mentioned in the cheque (if the cheque is post dated) the banker is not required to pay the cheque. If a cheque is presented outside business hours the banker is not required to honour the same.

4. **There must be no legal ban preventing the payment of cheque:**

A cheque drawn against an account on which a garnishee order has been issued by the court need not be honoured by the banker. Similarly if there is any order issued by the income-tax authorities attaching the customer's funds in an account, such a cheque need not be honoured.

5. No obligation to honour cheques drawn against the uncleared cheques or bills:

If cheques are drawn by a customer against uncleared cheques or bills i.e. cheques or bills deposited by the customer for collection but not yet collected and credited to the customer's account.

Obligation to maintain secrecy of customers account:

It is a general understanding between the customer and banker that the banker should maintain secrecy regarding the customer's account. It is believed and the fact is also that if the accounts are disclosed to others, the image of the customers will be lost or it would affect the customer's business heavily. Hence, it was the practice of the bankers not to disclose the accounts and banking operations of the customers to others. The court held that 'the banker must not disclose the state of his customer of his affairs except on reasonable and proper occasion'. In case, damages for breach of contracts is awarded if it found that customer's interest has suffered because of the disclosure of the account which is not justified.

Circumstances the banker is justified in disclosure:

1. When there is an express consent of the customer:

A banker is justified in disclosing the state of his customer's account to a third party when there is an express consent of the customer. For instance when the customer has given the name of his banker to a third party for the purpose of trade reference, in such a case as a referee the banker can answer all trade enquiries made by the third party about the customer.

2. When he is compelled by the laws of the country;

For instance,

(a) Under the Banker's Book of Evidence Act of 1891 banker can disclose the state of a customer's account to a court.

(b) Under section 285 of the Income Tax Act of 1961 every banker is required to furnish to the income tax authorities the names, the address and the amounts of interest paid to depositors who get more than Rs 10,000 as interest during any accounting year.

(c) Under Exchange control Act 1947 a banker can give information relating to a customer's account to the exchange control authorities

(d) Under Criminal Procedure Code a banker can disclose the state of a customer's account to the police officials for the purpose of investigation.

(e) Under the Companies Act of 1956 a banker can give information relating to a company's account to the inspectors appointed by the Central Government to investigate the affairs of the company.

(f) Under the Customs Act a banker can give information to the Customs authorities.

(g) Under Gift Tax Act of 1958 information can be given to the gift tax authorities.

(I) Under RBI Act of 1934 the commercial bank has to give credit information of any account to the RBI.

4. When he is under a public duty to disclose: For instance if a banker comes to know from his customer's bank account that his customer is engaged in trading with an enemy country during war or is engaged in anti-social activity he can disclose the state of the customer's account to the government in the interest of the state.

5. When his own interest requires disclosure: For instance when a banker takes legal action against the customer for the Realisation of the amount due he is permitted to disclose the state of the customer's account to his lawyer, the court etc.

6. When an enquiry is received from a fellow banker: When an enquiry is received by a banker from a fellow banker about the state of the customer's account the banker can answer that enquiry as a matter of common courtesy.

KNOW YOUR CUSTOMER (KYC) GUIDELINES

The objective of Know your customer guidelines are to prevent bank from being used, intentionally or unintentionally by criminal elements for money laundering activities. KYC procedures enable banks to know their customers and their financial dealings better, which in turn help them, manage their risk prudently.

The RBI has issued certain guidelines for the management of the commercial banks. These guidelines that bankers follow are known as Know Your Customer (KYC) Guidelines.

The Reserve Bank of India has issued these guidelines with the objectives of

- ✓ Identifying depositors;
- ✓ controlling financial frauds;
- ✓ identifying money laundering and suspicious activities;
- ✓ monitoring of large value cash transactions; and
- ✓ preventing misuse of banking system for committing frauds.

The RBI has issued KYC guidelines for various aspects like, guidelines for new accounts, existing customers, risk management and monitoring procedures, record keeping etc. In this unit we will discuss the KYC Guidelines in respect of new customers and existing customers.

KYC Guidelines for new accounts-

The banker must comply with these guidelines when an individual or a corporation applies for opening account in the bank-

The banker must verify the identity of a customer while opening an account. The new customer while opening an account in a bank may give reference of an existing account holder or the person known to the bank as reference for his identification. The banker can also verify the identity of the customer on the basis of the documents, such as – passport, driving license etc. supplied by the new customer.

The Board of Directors of the banks should establish proper procedure to verify the identification of the new customer and to monitor the suspicious nature of transactions in accounts.

KYC Guidelines for existing accounts

In case of existing customers, it is expected that bank had adopted appropriate KYC norms while opening the accounts. In case of any default, the required norms should be completed at the earliest.

CUSTOMERS AND ACCOUNT HOLDERS

OPEN BANK ACCOUNT

Today Banks have emerged as important financial institutions. Banks provide a safe environment and help us manage our financial transactions. To avail professional banking service it is mandatory for every individual to open a bank account. Opening a bank account is not a difficult task. It takes only seven easy steps to open a bank account. The following are simple steps or procedure to open a bank account.

1. Decide the type of bank account you want to open

There are several types of bank accounts such as Saving Account, Recurring Account, Fixed Deposit Account and Current Account. So a decision regarding the type of account to be opened must be taken.

2. Approach any bank of choice & meet its bank officer

Once the type of account is decided, the person should approach a convenient bank. He has to meet the bank officer regarding the opening of the account. The bank officer will provide a proposal form (Account Opening Form) to open bank account.

3. Fill up bank account opening form - proposal form

The proposal form must be duly filled in all respects. Necessary details regarding name, address, occupation and other details must be filled in wherever required. Two or three specimen signatures are required on the specimen signature card. If the account is opened in joint names, then the form must be signed jointly. Now a days the banks ask the applicant to submit copies of his latest photograph for the purpose of his identification.

4. Give references for opening your bank account

The bank normally required references or introduction of the prospective account holder by any of the existing account holders for that type of account. The introducer introduces by signing his specimen signature in the column meant for the purpose The reference or introduction is required to safeguard the interest of the bank.

5. Submit bank account opening form and documents

The duly filled in proposal form must be submitted to the bank along with necessary documents. For e.g. in case of a joint stock company, the application form must accompany with the Board's resolution to open the account. Also certified copies of articles and memorandum of association must be produced.

6. Officer will verify your bank account opening form

The bank officer verifies the proposal form. He checks whether the form is complete in all respects or not. The accompanying documents are verified. If the officer is satisfied, then he clears the proposal form.

7. Deposit initial amount in newly opened bank account

After getting the proposal form cleared, the necessary amount is deposited in the bank. After depositing the initial money, the bank provides a pass book, a cheque book and pay in slip book in the case of savings account. In the case of fixed deposits, a fixed deposit receipt is issued. In the case of current account, a cheque book and a pay in slip book is issued. For recurring account, the pass book and a pay in slip book is issued.

Advantages of Opening Bank Account

1. Bank account facilitates a safe custody of money

The bank is the custodian of cash. As and when the account holders needs the money can withdraw the same depending upon the type of account.

2. Bank account helps in making payments

The bank account holder can make payment to third parties through the savings and current account. The payment may be regarding electricity bills, insurance premium, etc. The bank also makes direct payment on the standing instructions of the customer.

3. Bank account helps in collection of money

The bank can directly collect money of the customer in respect of dividend, salary pension or from debtors. The collected money is then deposited in customer's bank account.

4. Bank account holders get advances and loans

The current account holder can obtain an overdraft facility from his bank. The recurring and fixed deposit account holders can get a loan up to 75% of the amount to their credit. The savings account holders can also obtain loans to purchase computers and such other equipments.

5. Bank account helps in smooth transactions

The bank account makes it possible for the businessmen to conduct their business operations smoothly not only in the domestic trade but also in the foreign markets.

6. Bank account holders get a safe deposit locker

The bank provides safe deposit locker facility to its account holders to keep their valuables like gold jewelry, share certificates, property documents, etc.

Types of Bank Accounts in India

Different types of bank accounts in India are as follows:

1. Saving account:

A savings account is a basic type of bank account that allows you to deposit money, keep it safe, and withdraw funds, all while earning interest. Saving account is used by general public; there are restrictions imposed by the bank on the amount to be withdrawn by the depositor. To withdraw more money he should have to give prior notice to the bank. Banks also pays interest on this account but the rate of interest is lower than the interest payment on the fixed deposits

2.Current account:

This account is generally owned by businessmen who have a higher number of regular transactions with the bank. It includes deposits, withdrawals, and contra transactions. Banks provide overdraft facility to the current account holders.

Overdraft is one type of loan given by the bank to its current account holder. When bank allows the current account holder to withdraw amount over and above the credit balance as per an agreement then it is called as Overdraft Facility. Overdraft is a short term loan but it can be continued from time to time. Banks give this facility after taking security or personal guarantee. This overdraft is a kind of temporary loan and bank charges interest on actual amount which is overdrawn by the customer i.e. account holder. They are allowed to overdraw the amount up to a certain limit by issuing cheques to other parties or for own business use, from their current accounts. Overdraft facility is given generally, for few months.

3.Fixed Deposit or time deposit account:

Cash is deposited in this account for a fixed period of time and customer can also withdraw the amount before the time in the case of any emergency, but they will receive lesser interest. Longer the period of deposit higher is the rate of interest.

Recurring Deposit Account: Under this account, a specified amount is deposited every month for a specified period, such as 12, 24 ,36 or 60 months. This amount cannot be withdrawn before the expiry of the given period except under exceptional circumstances. Interest on the amount deposited is also credited to the account of the depositor. Interest given on this account is higher than other accounts.

4.Demat Account:

Demat account refers to the dematerialized account for individual Indian citizens to trade in listed stocks or debentures in electronic form rather than paper, as required for investors by the Securities and Exchange Board of India (SEBI). In a demat account, shares and securities

are held electronically instead of the investor taking physical possession of certificates. A demat account is opened by the investor while registering with an investment broker (or sub-broker). The demat account number is quoted for all transactions to enable electronic settlements of trades to take place.

5.NRE account:

A Non-Resident External (NRE) account is a bank account that's opened by depositing foreign currency at the time of opening a bank account. This currency can be tendered in the form of traveler's checks or notes.

6.NRO account:

A Non-Resident Ordinary (NRO) account is the normal bank account opened by an Indian going abroad with the intention of becoming an NRI. An NRI can also open this account by sending remittances from his home country or by transferring funds from his other NRO account. It offers the same facilities as an NRE account, except that any repatriation done through this account should be reported to RBI by filling up prescribed forms.

Different Types of Bank Customers

Accounts of Minors:

A type of savings account that is setup by an adult to be used by a minor. This type of banking account does not provide all of the privileges that a normal account would, but does allow the minor to make withdrawals and deposits. Some banks require that the minor's account be linked to a primary account, so that the adult can be held accountable for any improper uses of the account. Normal maintenance fees are usually waived until the minor reaches the age of 18.

Who is a Minor?

As per section 3 of Indian Majority Act, 1875, a minor is a person who has not attained the age of 18 years. A person will become major at the age of 18 whether guardian is natural or appointed by a court of law.

As per sec.4 of "The Guardian and Wards Act, 1890, " 'Minor' means a person who, under the provisions of Indian Majority Act, 1875(9 of 1875) is to be deemed not to have attained his majority".

As per Sec3 of "Indian Majority Act, 1875," every other person domiciled in India shall be deemed to have attained his majority when he shall have completed his age of eighteen years and not before". Thus a 'Minor' is a person who has not completed the age of eighteen years. Where a legal guardian is appointed by a court of law the person attains majority on completion twenty-one years of age and not before (Sec3 of Indian Majority Act, 1875).

According to the Indian Contract Act, 1872, a minor is not capable of entering into a valid contract and a contract entered into by a minor is void. A minor after attaining majority cannot ratify the contract made by him during his minority since agreement made by him as a minor is void.

However, section 26 of NI Act provides that a Minor may draw, endorse, deliver and negotiate a cheque so as to bind all parties except himself. Of Course the minor is not bound by the terms and conditions of Bank Account. A question may obviously arise that in spite of above-mentioned disabilities, why banks are allowing opening an account in the name of Minor. The main reason for this is that in this age of cutthroat competition for deposit mobilization

Who is a Guardian?

As per Sec.4 of "The Guardians and Wards Act, 1890" "guardian" means a person having the care of the person of a minor or of his property or of both his person and property.

Guardians may be categorized into following three types:

- Natural guardian,
- Testamentary Guardian: -Guardian appointed by the will of the minor's father or mother,
- Guardian appointed by a court under the Guardians and Wards Act, 1890.

OPENING OF MINOR'S ACCOUNT:

Generally, banks are unwilling to open deposit account in the name of minor, with mother as a guardian. Probably it may be due to the provisions of Sec. 6 of the Hindu Minority and Guardianship Act, 1956. According to which mother is not a guardian when the father is alive. During his lifetime, father alone is the natural guardian of a Hindu minor.

After examining the legal and practical aspects of problem, the Reserve Bank of India has permitted banks to open fixed, recurring deposit and savings banks accounts, mother as a guardian. Although there is no legal protection provided to the accounts opened in the name of minor with mother as guardian banks have been permitted to open accounts in the names of minors with mother as guardian.

RBI has advised banks to take adequate safeguards in allowing operations in the accounts by ensuring that minors' account opened with mothers as guardians are not allowed to be overdrawn and that they always remain in credit. By not allowing the account to be overdrawn the minor's capacity to enter into contract would not be a subject matter of dispute.

RBI has also advised banks that in cases where the amount involved are large, and if the minor is old enough to understand the nature of the transaction, the banks could take his acceptance also for paying out money from such account.

The account of minor can be opened in any one of the following modes.

- i) By a natural guardian, i.e., father or mother on behalf of the minor:
- ii) By a natural guardian, i.e., father or mother in the joint names of himself/herself and the minor, payable to either or survivor;
- iii) By a person in the name of any minor of whom he or she is the guardian appointed by a competent Court under any enactment for the time being in force;
- iv) By a minor of age 10 and above in his/her single name to be operated upon by himself/herself, provided he/she can put uniform signatures.

Essential requirements for opening Minor's Account:

For opening the account of a minor bank requires:

1. Minor's date of birth. The birth date of is ascertained and verified from the Municipal Birth Certificate or Birth Certificate issued by the School authority where the minor is studying.
2. Recording the date of birth and date of maturity in the Account opening form.
3. Specimen signature card and the ledger folio. Since banks have computerized their operations the date of birth should be recorded in the records maintained on computer.
4. Date of birth to be recorded in the passbook and in all types of account such as Current, Savings Bank, Term Deposit Receipt in case of Term Deposit Accounts or Recurring Deposit maintained by the minor.
5. Relationship proof will be required as per bank's recommendation in case the guardian is not the parent
6. Name added in the Ration Card or any other Address Proof of the Minor
7. PAN Card for the Parent or Guardian who would operate the account on behalf of the minor
8. Some Banks may ask for Photographs of the Minor in whose name the account will be opened

On the minor attaining majority necessary steps are taken to ensure that the account is properly reconstituted if the account of a minor is held jointly with guardian/s or other person/s.

Joint Accounts of Minors:

Joint account in the names of two or more minors either jointly between themselves or with the natural guardian/s or with any other person/s is not opened.

Account of Minor by legal guardian:

A legal guardian authorized by an order from the Court to specifically deal with the property of a minor, can open an account in the name of the minor. All operations on such an account by the legal guardian has necessarily to be for and on behalf of the minor in the capacity of a legal guardian. A legal guardian cannot open account jointly with the minor in his personal capacity.

Accounts of Hindu minors where persons other than the guardians place deposits:

Deposits in the name of a Hindu minor placed by any person other than the natural guardian, as guardian, is accepted only on the condition that the deposit would be payable to the minor on attaining majority. Bank exercises proper care in such accounts.

On minor's attaining the age of majority i.e. 18 years:

On attaining the majority the old Savings Bank account is closed and a new account is opened wherein the name of the person who has attained majority is included as one of the joint Account Holders and fresh operational instructions, specimen signatures etc., are obtained.

JOINT ACCOUNTS HOLDERS

When an account is opened in the name of two or more persons it is known as a Joint Account. The operation of a Joint account is rather very difficult for a banker, unless he gets clear instruction.

The banker should get the signatures of all persons concerned with the account on the account opening form while opening a joint account in several names. The bank should get specific directions in writing about the mode of operation of the account. Any outstanding amount in a Joint account can be recovered by bank from any of them. In case of death of any joint account holder, the balance amount can be withdrawn by the survivor.

Precautions to be taken by Bank

A bank should observe the following precautions in maintaining a joint account:

- a. The application for opening of a Joint account must be signed by all the persons desiring to open joint account.
- b. The banker should get clear-cut instructions about operation of the account. The names of person or persons who will sign withdrawals or cheques should be specifically mentioned.

In absence of such instructions, the banker should honour only those cheques which are signed by all the joint account holders.

- c. The bank should get clear directions about the balance amount to be paid in the event of death of one or more account holders. Generally the balance amount is paid to the survivor or survivors.
- d. In case the bank allows overdraft from this account then a concurrence from all the Joint account holders should be obtained. The bank should make all the parties liable jointly and severally for all the amounts due to the bank. This can be done by including this clause in the agreement.
- e. In the event of insolvency or death the operations of this account should be stopped. The solvent or surviving account holders should be advised to transfer the balance to a fresh account by issuing a cheque.
- f. In the event of any party to the account giving a notice of revocation of authority, the bank should suspend the operation of this account.
- g. Any joint account holder, even if he is not authorised to operate the account, can stop payment of a cheque issued on the joint account. The bank should follow these directions and stop the operations.
- h. A joint account holder who is authorised to operate the account cannot appoint an agent or attorney to operate the account on his behalf. Such an agent or attorney can be appointed by the consent of all the joint account holders.

ACCOUNT OF PARTNERSHIP FIRMS:

According to Section 4 of the Indian Partnership Act, a partnership is the relationship between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.

Persons who have entered into partnership with one another are called individually "partners" and collectively a "firm", and the name under which their business is carried on is called the "firm name".

The Supreme Court has held that the word "persons" in Section-4 contemplates only natural or artificial persons i.e., legal persons. Since a firm is not a person, is not entitled to enter into partnership with another firm or Hindu undivided family or individual. Therefore, banks do not open account where a firm is a partner in another firm. As Joint stock companies and statutory bodies constitute "artificial or legal persons" therefore, they can be partners in a partnership firm.

As per the Indian Partnership Act, minimum number of partners can be two and maximum twenty. The number of partners is restricted to 10, if the partnership firm carries out business of banking. Minors can be admitted as partner only to the benefits of the partnership.

Registration of partnership firm:

A partnership firm can be registered with Registrar of Firms. However, as per law, it is not compulsory to register a partnership firm. Non-registered partnership firm have certain disabilities. Such firms cannot sue others to enforce a right arising out of a contract. A suit filed by an unregistered partnership firm is not maintainable, even after its subsequent registration. Even partners of an unregistered firm cannot sue other partners or his firm, for their rights.

Opening of Account:

A partnership firm can open all types of accounts except savings bank account. Bank opens account of a partnership firm in the name of the firm and not in the names of partners individually or jointly. The account opening form is signed by all the partners in their individual capacity as well as in the capacity of a partner to ensure joint and several liabilities. While opening the account banks verify the partnership deed to examine whether any clause of the deed is detrimental to the interest of bank. Since bank would not like to be bound by the terms of the partnership deed, banks do not accept the partnership deed even if offered.

In case of registered firm, banks obtain registration certificate. The account is opened in the name of the firm and all the partners are required to sign account opening form.

Operations in account:

Bank obtains operational instructions i.e. who will operate the account and how it is to be operated. In case a minor is also a partner in the firm his birth certificate is obtained to ascertain the date of birth, which is recorded in the account opening form.

Who can operate?

- ✓ All partners jointly
- ✓ One of the named partners
- ✓ Two / three of the named partners
- ✓ A third party under a mandate letter or a power of attorney signed by all the partners

A partner authorised to operate the firm's account cannot delegate his authority to another person unless all other partners agree. The authority given to operate the account can be withdrawn by any of the other partners including dormant or sleeping partner by giving notice to the bank. Each partner, whether he/she is operating the account or not, has powers

to countermand payment of the cheques drawn by another partner or by an attorney on behalf of the firm.

Partnership firms with illiterate partners:

Current accounts of partnership firms, where a partner is illiterate and affixes thumb impression, can be opened provided a Magistrate attests the thumb impression affixed on the account opening form.

Implied authority:

A partner acts as an agent of the firm for the purpose of the business of the firm. He binds the firm and also other partners by his acts. An authority to bind the firm by his acts is called the implied authority of a partner.

Operations in the accounts:

Without proper inquiry with the other partners, bank does not accept cheque drawn in favour of the firm for credit to the personal account of a partner. Failure to make proper inquiries would deprive the bank of the protection afforded under Section-131 of the Negotiable Instruments Act on grounds of negligence. Cheques payable to a partner are not be credited to the firm's account without proper inquiry being made with the other partners.

Retirement of a partner:

On notice of retirement of a partner, the bank closes the existing account and opens a new account of the firm with the remaining partners or along with the new partner if admitted to the new firm.

Death of a partner:

Death of a partner dissolves the partnership. However, for the purpose of winding up of the firm, the bank may allow the surviving partner(s) to operate the firm's account, if the account is in credit.

Cheques drawn by a partner before his death and presented for payment are honoured after obtaining confirmation of the surviving partners.

Dissolution of a partnership firm:

Dissolution of a firm amounts to the breaking up of relation of partnership between all the partners. In the event of dissolution banks do not permit operations in the account. A partnership firm may be dissolved by any of the following modes

- (a) By mutual agreement between all the partners.
- (b) By notice of dissolution in case of partnership at will.
- (c) By operation of law or compulsory dissolution of the firm.
- (d) By happening of certain contingencies such as death or insolvency of a partner.

(e) Dissolution by Court of Law in cases like insanity, permanent incapacity, misconduct of a partner affecting business etc.

Precautions considered for Partnership firm

1. An account should be opened in the name of firm only and not in the name of individual partners.
2. An application form all the partners in combine must be received.
3. Banker must also receive: Name and address of the partners, Nature of business, Authorized partners to operate the account.
4. Banker should not allow transfer of money from the firm account to the partner's private or individual account.
5. Banker must examine the borrowing powers before granting over draft. It is desirable to get the consent of all partners before granting loan.

ACCOUNTS OF JOINT STOCK COMPANIES:

A joint stock company is constituted under company Act 1956. Company is an artificial person' with perpetual succession.

It is a voluntary association of persons formed for some common purpose with capital divisible into parts known as share. It has separate legal entity and corporate personality. It is separate from the shareholders constituting it.

The company can own assets; contract debts and can sue and be sued in its own name. The property of the company is not the personal property of its shareholders nor the company's liability is the liability of its shareholders/directors, unless they consent to be personally liable for the company's debts.

Documents required for opening an account:

1. Account opening form
2. Certified copies of memo of association and articles of association
3. Copy of certificate of incorporation
4. Certificate of commencement of Business
5. Up-to-date list of directors with name and address
6. Certificated copy of a resolution of the Board of directors for opening and conducting the account.

Documents obtained by bank or Precautions consider for Joint Stock Companies

For opening an account of a joint stock company bank obtains following documents:

1. Examination of documents

(i) Certificate of incorporation:

The Registrar of Joint Stock Companies issue this certificate. It is a conclusive proof that all the requirements under the Companies Act have been complied with.

(ii) Certificate of commencement of business:

This certificate is essential in the case of public limited companies. A public limited company cannot borrow until this certificate is obtained.

(iii) Memorandum and Articles of Association:

The bank obtains a certified copy of the Memorandum and Articles of Association of the company to satisfy that the conduct of the account is in conformity with the provisions. Certificates signed by the Chairman or one of the authorised directors of the company stating that the Memorandum and Articles of Association are true and up-to date.

(iv) Board Resolution:

A copy of the resolution of the Board of Directors of the company, certified as true by the Chairman of the meeting, requesting the Bank to open an account in its name and specifying the instructions regarding the conduct thereof, is obtained. Instructions in the resolution regarding conduct of the account have to be in strict conformity with the provisions of company's Articles of Association. The resolution is to be countersigned either by the company's secretary or any of the other directors.

(v) List of the present directors:

A list of the present directors of the company is obtained under the signature of the Chairman, accompanied by a certified copy of the resolution of the general body of the shareholders appointing them as directors.

(vi) Reference to the company's previous bankers:

Banks also ascertain the names and addresses of the company's previous bankers, if any, and get a report on the company and its directors and keep it along with the account opening form.

2. Memorandum of Association:

The memorandum of association contains name and address of the registered office of the company, name and addresses of the directors, objectives and powers of the company. Any act done or contract entered into by the company, which is outside the scope of these

objectives becomes ultra vires (i.e. beyond the powers of the company) and, therefore, is not binding on it.

The Memorandum and Articles of Association of the company is studied to find out the extent of the powers of its directors, its powers to borrow and mortgage property or to give guarantees and the provisions relating to the conduct of its bank accounts

3. Articles of Association:

The Articles of Association contain the rules regulations regarding company's internal affairs. It is governing its management and embodying the powers of the directors and officers of the company as well as powers of the shareholders.

The banker should see the articles to find out the powers of the directors regarding borrowing money, mortgaging company's assets for that purpose, drawing, accepting, endorsing negotiable instruments, and the procedure to be followed in all cases.

4. Conversion of cheques payable to companies:

Cheques payable to or endorsed by limited companies should not be collected for the personal accounts of their directors, managers and other employees. Ordinarily, cheques payable to limited companies are to be credited to company's account.

5. Insolvency of a director:

In case one of the directors becomes insolvent or an un-discharged bankrupt, he cannot act as a director of a limited company. The bank does not permit operations in the account by the insolvent director.

6. Winding up of a company:

Winding up of a joint stock company is deemed to have commenced from the date on which petition for such winding up is presented, or in the case of voluntary winding up from the date on which an extra ordinary resolution to this effect is passed. With commencement of winding up of a joint stock company, the Directors cease to have powers to operate on the account and the authority stands vested with the liquidator appointed for the purpose. Therefore banks do not pay cheques signed by the directors after the commencement of the winding up proceedings. Liquidator should furnish evidence of his appointment by sending a certified copy of the Court Order, or a certified copy of the resolution of the general body in case of a voluntary winding up. If required, he may be furnished with details of the company's accounts, securities etc., and should be allowed to operate upon the accounts of the company only for the purpose of winding up of its affairs.

ACCOUNTS OF REGISTERED SOCIETIES, CLUBS AND ASSOCIATIONS:

A club or a society gets legal entity only when it is incorporation under Company's Act, 1956 or under Cooperative Societies Act, 1860. Byelaws of the society, clubs, and association contain rules, regulations or conduct and activities of the association.

While opening account banks obtain:

1. Copy of the byelaws;
2. Copy of resolution passed by the managing committee regarding opening and conduct of account,
3. Certificate of registration in original,
4. A list of the Managing Committee members
5. Copies of resolutions electing them as Committee members duly certified by the Chairman

Bank keeps a copy of the above-mentioned document for its record.

NRI Account

An NRI Account refers to the accounts opened by a Non-Resident Indian (NRI) or a Person of Indian Origin (PIO) with a bank or financial institution which is authorised by the Reserve Bank of India (RBI), to provide various services.

Here are the types of NRI Accounts that you can opt for, to meet your financial requirements.

- Non-Resident External (NRE) Accounts
- Non- Resident Ordinary (NRO) Accounts
- Foreign Currency Non-Resident (FCNR) Accounts

Non-Resident External (NRE) Accounts

The Non-Resident External (NRE) Account allows you to transfer your foreign earnings easily to India. However, this type of account is rupee dominated and can be opened in the form of Current, Savings, Fixed or Recurring Deposits.

It is vital to know that there is no tax levied on the interest earned from these accounts, i.e. they are tax exempt, and they are also easily repatriable, i.e. transferable. These accounts can be jointly opened with close relative Resident Indian on Former or Survivor basis.

Non- Resident Ordinary (NRO) Accounts

The Non-Resident Ordinary (NRO) Account are primarily opened for depositing rupees earned in India. Foreign earnings can also be deposited in this account. When an Indian

citizen goes abroad for a job with an intention to stay there, his resident accounts should be converted into an NRO Account by the bank. Therefore, it is essential to inform the bank about the individual's departure abroad.

Also, it is vital to know that NRO Accounts are rupee dominated and can be opened in the form of Savings, Current, Recurring Deposits or Fixed Deposits. These accounts can be jointly opened with any Resident Indian on Former or Survivor basis.

The difference between NRE & NRO accounts

Basis	NRE Account	NRO Account
Abbreviation	Non Resident External Account	Non Resident Ordinary Account
Meaning	It is an account of an NRI to transfer foreign earnings to India	It is an account of an NRI to manage the income earned in India
Taxability	Interest earned is tax free	Interest earned is taxable
Repatriability	Can repatriate	Can repatriate the interest amount, the principle amount can be repatriated within the set limits
Joint Account	Can be opened by two NRIs	Can be opened by an NRI along with an Indian citizen or another NRI
Deposits and Withdrawals	Can deposit in foreign currency, and withdraw in Indian currency	Can deposit in foreign as well as Indian currency, and withdraw in Indian currency
Exchange Rate Risk	Prone to risk	Not prone to risk

BANKING OPERATIONS

UNIT : 2 COLLECTING BANKER

The term 'Collecting Banker' refers to the function of receiving cheques by a banker from his customers for the purpose of collecting the proceeds and crediting them to the respective customers account, i.e, the banker who is assigned the job of collecting the amount of cheque from another banker, is called the collecting banker.

The collecting banker is a banker who collects cheques drawn upon other bankers for and on behalf of his customer. He is called the collecting banker as he undertakes the work of collection of cheques.

DUTIES AND RESPONSIBILITIES OF A COLLECTING BANKER

- (i) **Exercise Reasonable Care and Diligence in his Collection Work:** when 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 almost care, care when presenting a cheque or a bill for payment. Reasonable care and diligence depends upon the circumstances 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 presentment, 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 loss.
- (iii) **Notice to customer in the case of dishonour of a cheque:** if the cheque, he collects, has been dishonoured, he should inform his customer without any delay. The Negotiable instruments Act has prescribe a reasonable time for giving the notice of dishonour. 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 of acceptance at an Early Date:** As per Sec: 61 of the Negotiable Instruments 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 banker undertakes to collect bills, it is his duty to present them for acceptance at early date. Sooner a bill is presented and got accepted, earlier is its maturity.

- (v) **Present the bill for Payment:** the banker should present 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 Instruments Act a bill must be presented on maturity. As per Sec.21, sight bills are payable on demand. Sec.22 lays down that the maturity of the bills is the date on which it is due for payments, to which, 3 days of grace are added.

CAPACITY OF COLLECTING BANKER

While collecting the instrument on behalf of the customer, the collecting banker acts

- (a) As holder for value**
- (b) Holder in due course**
- (c) As agent for collection**

(a) As holder for value:

The collecting banker is said to be acting as holder for value.

1. When the collecting banker advances money to the customer before the realization of the cheques given for collection.
2. When the collecting banker settles the loan amount due from the customer with the cheque amount given for collection, even before its realization.
3. Where a collecting banker reduces an overdraft with the amount for collection before its realization.
4. Where a part of the amount is given by the collecting banker to the customer even before the realization of the cheque.
5. By allowing the customer to draw the full amount of the cheque before its realization

Holder

The holder is the person whose name is mentioned in the instruments as the payee, or the endorsee, or he must be the bearer thereof. A person who has obtained possession of an instrument by theft, or under a forged endorsement, is not a holder. as he is not entitled to recover the instrument. The holder implies de jure (holder in law) holder and not de facto (holder in fact) holder. An agent holding an instrument for his principal is not a holder although he may receive its payment.

Holder in Due Course

Holder in due course is a person who takes a negotiable instrument for the value receivable by him in good faith and taken due care and caution while taking such instrument and he had

no suspicion or reason to believe any defect existed in the title of the person, from whom he derived title possession of the instrument.

In order to be a holder in due course, a person must satisfy the following conditions:

1. He must be the holder of the instrument.
2. He should have obtained the instrument for value or consideration.
3. He must have obtained the negotiable instrument before maturity.
4. The instrument should be complete and regular on the face of it.
5. The holder should take the instrument in good faith.

For Example, anyone who accepts a third party cheque is a holder in due course.

(b) As agent for collection:

When the banker undertakes to collect the cheques and credits the account of the customer only on realization. Thus, in acting as agent for collection, there is no risk for the collection, there is no risk for the collecting banker whereas in the case of holder for value, the collecting banker has enormous risks, especially when the cheque is dishonored or payment has been made to the wrongful owner of the cheque.

STATUTORY PROTECTION TO COLLECTING BANKER

Statutory protection to collecting banker under Section 131 of the Negotiable Instrument Act According to this Section, "A Banker who has in good faith received payment for a customer of a cheque crossed generally or specially to himself shall not, in case the title to the cheque proves defective incur any liability to the true owner of the cheque by reason only of having received such payment".

The above statutory protection is available to the collecting banker only if he fulfills the following conditions:

1. Collecting for a customer:

A collecting banker must collect the cheque or draft or any other instrument only for a customer. A customer is one who has an account opened with the bank which may be a savings or a current account. A savings account can be opened by any person, only when that person is introduced by another savings account holder of the same branch of the bank.

2. The cheque presented to the bank for collection should be crossed

That is, the banker is collecting the cheque only on behalf of a customer. If a customer gives an open cheque which is uncrossed, the banker will cross the cheque before it is sent for collection.

3. In good faith:

A collecting banker should accept the cheque for collection from the customer on good faith. i.e., there should not be any ambiguity with regard to the ownership of the cheque. If any doubt arises, the banker should clarify the same before the collection of the cheque.

4. Without negligence:

Negligence pertains not only with regard to the instrument but also the manner and the circumstance under which the cheque is given for collection. However, the fact of negligence will be seen under the duties of collecting banker. There are number of instances revealing the negligence of the collecting banker.

5. Agent for collection:

Section 131 gives statutory protection to the collecting banker acts agent for collection and not as holder for value.

PAYING BANKER

The paying banker is the banker whose name is printed on a given cheque. This bank pays the specified amount by the cheque to the collecting banker and withdraws that amount from the customer's account. This is only done if the customer has sufficient funds within their account in order to enable the transaction.

It is also the duty of the paying banker to examine the cheque and ensure that it has been properly signed, the endorsements are correct and that the cheque is generally in order. In the case of bills, it is part of the paying banker's duty from instruction by the customer to pay them. Otherwise the banker is not legally required to do so. The paying banker is considered a party to a given cheque as they are considered the drawee; however a bill is merely left with the banker to take care of and has no part in it.

Meaning of Paying Banker

A Paying banker is one who is a drawee of a cheque. He takes the responsibility of making payment on a cheque to the true owner. Any wrong payment will make the paying banker liable to the true owner of cheque and also to the drawer of the cheque (one who has drawn the cheque).

Payment in due course (Section 10)

Section 10 of the Negotiable Instruments Act, 1881 clearly mentions the manner in which the paying banker should make payment on a cheque when presented to him and demanded payment. Section 10 defines "Payment in accordance with the apparent tenor of the instrument in good faith and without negligence to any person in possession thereof under

circumstances which do not afford a reasonable ground for believing that he is not entitled to receive payment of the amount therein mentioned”.

Precautions of paying banker

1. Proper Form

On receiving the cheque, the paying banker must see that the cheque must be in the proper form as supplied by the banker. The cheque should not be torn or mutilated.

2. Place of presentment of Cheque

The paying banker must see the account against which the cheque has been drawn is maintained in the same branch. If the cheque is drawn against an account which is maintained in some other branch of the bank, the paying banker should refuse to pay the amount.

3. Date of the Cheque

The paying banker must be cautious regarding the time of presentation and payment date of the cheque. A cheque must be presented for payment within the normal business hours of the bank. Moreover, the banker must see the date for payment. Because a cheque can be honoured only on the date of payment as mentioned on the cheque or within three months from that date. At the same time, a cheque without date or a post- dated cheque before the due date cannot be paid.

4. Words & figures

Another aspect that the paying banker must observe is that the amount of the cheque must be written both in figures and in words and they must be similar.

5. Alteration & Over writing

The paying banker must be cautious about the material alteration of the cheque. Material alteration means altering the contents of the cheque to make it invalid. If such material alteration is visible, the banker can make the payment of the cheque only after getting full signature of the customer at the places of material alteration.

6. Verification of Drawer's Signature

Signature of the customer is another important aspect where the banker must exercise due care. The signature of the customer on the cheque must be similar with the specimen signature that he has given at the time of opening the account.

7. Open cheque or crossed cheque

The paying banker must also see whether the cheque is an open cheque or a crossed cheque and accordingly make the payment. The paying banker must also be careful about the validity of the endorsement, if any, on the cheque.

8. Sufficiency of Funds

The banker should see whether the credit balance in the customer's account is sufficient to pay the cheque or not. If there is an over draft agreement, then should see that the limit is not exceeded. The banker should not make part payment of the cheque. The banker should pay either full amount or refuse payment.

Duties and Responsibilities of a Paying Banker

Section 31 of the Negotiable Instruments Act provides that " the drawee of a cheque having sufficient funds of the drawer in his hands, properly applicable to the payment of such cheque must pay the cheque when duly required to do so, and in default of such payment must compensate the drawer for any loss or damage caused by such default."

Obligation of Paying Banker to Honour Cheques

The paying banker is under an obligation to honour cheques subject to the fact that certain conditions are satisfied.

1. There must be sufficient funds in the customer's account and only in the account on which the cheque is drawn. The amounts in the credit of the customer's account in other branches will not be considered.
2. The funds should be properly applicable to the payment of such cheques.
3. The cheque should be properly drawn and should not be irregular or ambiguous.
4. Cheques should be presented during the banking hours of the bank.
5. Cheques should be presented for payment within a reasonable time. They should be presented within three months of their issue. Usually, cheques presented after three months of their issue are considered stale.

Statutory Protection to Paying Banker

1. Protection in case of order cheque :

In case of an order cheque, Section -85(1) provides statutory protection to the paying banker as follows : "Where a cheque payable to order purports to be endorsed by or on behalf of the payee, the drawee is discharged by payment in due course". However, two conditions must be fulfilled to avail of such protection.

(a) Endorsement must be regular : To avail of the statutory protection, the banker must confirm that the endorsement is regular.

(b) Payment must be made in Due Course : The paying banker must make payment in due course. If not, the paying banker will be deprived of statutory protection.

2. Protection in case of Bearer Cheque :

Section -85(2) provides protection to the paying banker in respect of bearer cheques as follows : "Where a cheque is originally expressed to be payable to bearer, the drawee is discharged by payment in due course to the bearer thereof, notwithstanding any endorsement whether in full or blank appearing thereon and notwithstanding that any such endorsement purports to restrict or exclude further negotiation". This section implies that a cheque originally issued as a bearer cheque remains always bearer. In other words it retains its bearer character irrespective of whether it bears endorsement in full or in blank or whether any endorsement restricts further negotiation or not.

So the banks are not required to verify the regularity of the endorsement on bearer cheque, even if the instrument bears endorsement in full. The banker shall be free from any liability (discharged) if he makes payment of an uncrossed bearer cheque to the bearer in due course. If such cheque is a stolen one and the banker makes its payment without the knowledge of such theft, he will be discharged of his obligation and will be protected under Section -85(2).

3. Protection in case of Crossed cheque :

The paying banker has to make payment of the crossed cheques as per the instruction of the drawer reflected through the crossing. If it is done, he is protected by Section -128. This section states "Where the banker on whom a crossed cheque is drawn has paid the same in due course, the banker paying the cheque and (in case such cheque has come to the hands of the payee) the drawer thereof shall respectively be entitled to the same rights, and be placed in the same position as if the amount of the cheque had been paid to and received by the true owner thereof".

It is clear that the banker who makes payment of a crossed cheque is by the Section -128 given protection if he fulfills two requirements (a) That he has made payment in due course under Section -10 i.e. in good faith and without negligence and according to the apparent tenor of the cheque, and (b) That the payment has been made in accordance with the requirement of crossing (Section -126), i.e. through any banker in case of general crossing and through the specified banker in case of special crossing.

Thus, the paying banker is free from any liability on a crossed cheque even if the payment was received by the collecting banker on behalf of a person who was not a true owner. For example, a cheque in favour of X is stolen by Y. He endorses it in his own favour by forging the signature of X and deposits it in his bank for collection. In this case, the paying banker

shall be discharged if he makes payment as mentioned above and shall not be liable to pay the same to X, the true owner of the cheque.

The drawer of the cheque is also discharged since protection is also granted to him under this Section. There is, however, one limitation to the protection granted under this Section. If the banker cannot avail of the protection granted by other Section of the Act, the protection under Section -128 shall not be available to him.

For example, if the paying bankers makes payment of a cheque crossed with (a) Irregular endorsement or (b) A material alteration or (c) Forged signature of the drawer, he loses statutory protection granted to him under the Act for these lapses on his part. Hence he cannot avail of the statutory protection under Section -128, even if he pays the cheque in accordance with the crossing.

Payment in due course

Analysis of section 10 reveals that the following conditions must be satisfied before a payment of a negotiable instrument can be called as a payment in due course.

1. Payment in accordance with apparent tenor:

When a paying banker receives cheques, he has to carefully go through the instructions given by the drawer. For example, if the drawer has issued a cheque dated 10th June 2000, Payment cannot be made before the date. If the cheque is crossed, then the banker cannot make payment across the counter.

2. In good faith:

The paying banker will make payment to a person whose ownership is certain. In other words, the person presenting the cheque creates absolute good faith in the minds of the banker regarding the ownership.

3. Without negligence:

The paying banker has to go through the contents of cheque before making payment. If the cheque contains any alteration, overwriting or cancellation, payment cannot be made. Sometimes, the cheque may also contain " material alteration".

4. To the person in possession:

Paying banker can make payment to a holder in due course only when he is in possession of the instrument. Possession is a must for a holder in due course. For a holder it is not a must.

Thus, a paying banker should make payment only to that person who is in possession and presents the cheque for payment.

5. Circumstances:

Even though the person presenting the cheque may fulfill all conditions, but still creates a doubt in the minds of the paying banker at the time of making payment, the paying banker must get it clarified before making payment. There are instances where the amount of the cheque and the status of the presenting the cheque are inconsistent.

CHEQUES

A cheque, being a Negotiable Instruments can be passed from hand to hand easily and so it has become a popular mode of payments. A cheque is the most economical and safe method of money transaction because the transfer cost is very low and also the possibility of loss is minimum.

A cheque is a document that orders a bank to pay a specific amount of money from a person's account to the person in whose name the cheque has been issued. The person writing the cheque, the drawer, has a transaction banking account (often called a current, cheque, chequing or checking account) where their money is held. 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.

A cheque, is a bill of exchange drawn on a specified banker, expressed to be payable only on demand (Sec.6).

Although a cheque is a bill of exchange, yet it has two additional characteristics, namely:

- (i) A cheque is always drawn on a specified banker with whom the drawer has deposited the money;
- (ii) It is always payable on demand.

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

THE SALIENT FEATURES OF A CHEQUE

1. Instruments in writing

A cheque must necessarily be an instrument in writing. Oral orders therefore do not constitute a cheque. There is no specific rule regarding the writing materials to be used. It may be done by means of a nib, a pencil, a type writer or any other printed character. So also, according to the Negotiable Instruments Act, writing out cheques with lead pencils

also. But, bankers in their own interest, and in the interest of their customers, allow the cheques to be drawn only in ink. In all other cases, fraudulent alterations unauthorized by the drawer are easy to make but difficult to detect.

2. An Unconditional Order

A cheque is an order to pay and it is not request. In the indigenous bill of exchange, words of courtesy with, little monetary implication were generously employed. They are conspicuous by their absence in the modern cheque. It is not essential that the word 'order' must form a part of the writing because the word 'order' must form a part of the writing because the word 'pay' itself denotes a command and words like 'please' or 'kindly' are dispensed with in cheque.

3. On a Specified Banker

A Cheque is always drawn on a particular banker only. Usually the name and address of the banker is clearly printed of the cheque leaf itself. It is advisable that the full name of the banker is mentioned in the cheque. For e.g. instead of "I O B" it must be written "Indian Overseas Bank." A cheque drawn on a particular branch of a particular bank cannot be encashed at another branch of the same bank, unless there is an agreement between the parties.

4. Payee to be certain

In order that a cheque may be a valid one, it must be made payable to the order of a certain specified person or to his agent or the bearer thereof. That is why Sir John Paget rightly points out that "A normal cheque is one in which there is a drawer, a drawee whom the amount the cheque is payable. The payee must, therefore, be a certain person. He may be a human being or an artificial person i.e., a body corporate, e.g., a company, an authority, a trade union etc.

5. A Certain Sum of Money

A cheque is usually drawn for a definite sum of money. Indefiniteness has no place in monetary transaction any phrase like 'less than Rupee One Hundred Only' or Above rupees two hundred only does not give a clear and concrete idea to the parties concerned and it will render the cheque invalid. That is why the modern bankers request their customers to draw the amount both in words and figures even through, the Negotiable Instruments Act is silent on this point. If there is any difference between the amount in figures and words, the bankers can return the cheque, since, the amount is not certain.

6. Payable on Demand

A cheque is always payable only on demand. It is not necessary to use the word 'on demand' as in the case of a demand bill. As per Sec.19 of the Negotiable Instruments Act, unless a time factor is specified by the drawer, the cheque is always payable on demand.

7. To signed by the drawer

The cheque must be signed by the drawer i.e., the drawer normally puts his- signature at the bottom right hand corner of the cheque. The signature must be that of the person in whose name the account is kept or his authorised agent. When the signature differs from the specimen or it is slightly different, the banker need not honour the cheque.

Specimen of a Cheque

दिनांक / Date _____

PAY _____

या धारक को OR BEARER

रुपये RUPEES _____

₹ _____

अदा करें

खाता
A/c No. 11037434990

भारतीय स्टेट बैंक
State Bank of India

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TYPES / KINDS OF CHEQUES**1. Bearer Cheque**

When the words "or bearer" appearing on the face of the cheque are not cancelled, the cheque is called a bearer cheque. The bearer cheque is payable to the person specified therein or to any other else who presents it to the bank for payment. However, such cheques are risky, this is because if such cheques are lost, the finder of the cheque can collect payment from the bank.

2. Order Cheque

When the word "bearer" appearing on the face of a cheque is cancelled and when in its place the word "or order" is written on the face of the cheque, the cheque is called an order cheque. Such a cheque is payable to the person specified therein as the payee, or to any one else to whom it is endorsed (transferred).

3. Uncrossed / Open Cheque

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.

4. Crossed Cheque

Crossing of cheque means drawing two parallel lines on the face of the cheque with or without additional words like "& CO." or "Account Payee" or "Not Negotiable". A crossed cheque cannot be encashed at the cash counter of a bank but it can only be credited to the payee's account.

5. Anti-Dated Cheque

If a cheque bears a date earlier than the date on which it is presented to the bank, it is called as "anti-dated cheque". Such a cheque is valid upto three months from the date of the cheque.

6. Post-Dated Cheque

If a cheque bears a date which is yet to come (future date) then it is known as post-dated cheque. A postdated cheque cannot be honoured earlier than the date on the cheque.

7. Stale Cheque

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

CROSSING OF CHEQUES

Cheques are of two types, open cheques and crossed cheques. Open cheques are those which are paid over the counter of the bank. In other words, they need not be put through a bank account. Open cheques are liable to great risk in the course of circulation.

They may be either lost or stolen and the finder or thief can get it encashed at the bank unless the drawer has in the meantime countermanded payment. With a view to avoiding such risks, and protect the owner of cheque, a system of crossing was introduced.

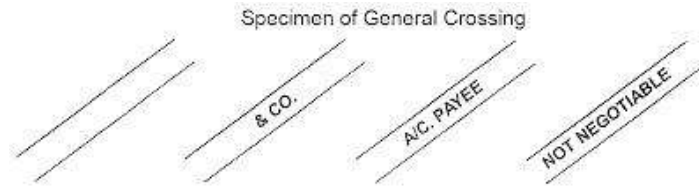
Crossing is a direction to the banker not to pay the cheque across the counter but to pay to a bank only or to particular bank in an account with the bank. Thus crossing provides a protection and safeguard to the owner of the cheque as by securing payment through a banker; it can easily be detected to whose use the money is received. Crossing does not, however, affect the negotiability or transferability of a cheque. But where the words 'not negotiable' are added, the cheque is not negotiable. The practice of crossing is confined to cheques only and cannot be extended to any other instrument.

Kinds of crossing: Crossing is of two type's namely general crossing and special crossing.

1. General Crossing:

In a general crossing, simply two parallel transverse lines, with or without the words 'not negotiable' in between, may be drawn. Such a cheque is crossed generally.

The effect of general crossing is that the payment of the cheque will not be made at the counter, it can be collected only through a banker.



Essential of General Crossing:

1. Two lines are to paramount importance in crossing.
2. The lines must be drawn parallel and transverse, Transverse means, that, they should be arranged in a crosswise direction. They should not be straight lines.
3. The lines are generally drawn on the left hand side so as not to obliterate or alter the printed number of the cheque. Preferably, the line should cut across some of the writings.
4. The words 'And company' or its abbreviation may be written in between the lines. They themselves are not essential, and so, they do not constitute crossing without two parallel transverse lines.
5. So also, the words 'Not negotiable' may be added to a crossing but they themselves do not constitute a crossing.

Significance of general crossing:

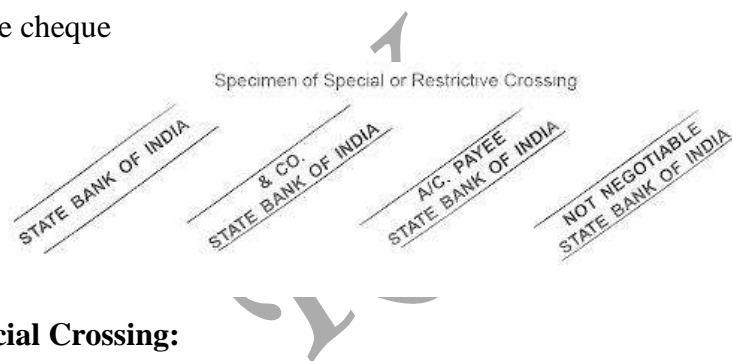
- (i) The effect of general crossing is that it gives a direction to the paying banker.
- (ii) The direction is that, the paying banker should not pay the cheque at the counter. It should be paid only to a fellow banker. In other words, payment is made through an account and not at the counter.
- (iii) If a crossed cheque is paid at the counter contravention of the crossing:
 - a. The payment does not amount to payment in due course. So, the paying banker will lose his statutory protection.
 - b. He has no right to debit his customer's account since, it will constitute a breach of his customer's mandate.
 - c. He will be liable to the drawer for any loss, which he may suffer,
 - d. He will be liable to the true owner of the cheque who may be a third party, irrespective of the fact, that, there is no contract between the banker and the third party. As a general rule, a banker is answerable only to his customer and this liability to a third party here is an exception.

- (iv) The main intention of crossing a cheque is to give protection to it. When a cheque is crossed generally, a person who is not entitled to receive its payment is prevented from getting that cheque cashed at the counter of the paying banker.

2. Special Crossing

A special crossing implies the specification of the name of a banker on the face of the cheque. Sec.124 of N.I. Act 1881 reads. “Where a cheque bears across its face an addition of the name of a banker, either with or without the words “Not Negotiable” that addition shall be deemed a crossing and the cheque shall be deemed to be crossed specially, and to be crossed to that banker”.

Drawing of two transverse and parallel lines is not necessary in case of a special crossing. When a cheque has been specially crossed, the banker upon whom it has been drawn will make the payment only to that banker in whose favour it has been crossed. The effect to special crossing is that the paying banker will be the amount of the cheque only through the bank named in the cheque



Essential of Special Crossing:

- (b) Two parallel transverse lines are not at all essential for a special crossing.
- (c) The name banker must be necessarily specified across the face of the cheque. The name of the banker itself constitute special crossing.
- (d) It must appear on the left hand side, preferably on the corner, so as not to obliterate the printed number of the cheque.
- (e) The two parallel transverse line and the words 'Not negotiable' may be added to a special crossing.

Significance of special crossing:

- ❖ It is also a direction to the paying banker. The direction is that, the paying banker should pay the cheque only to the banker whose name appears in the crossing or to his agent.
- ❖ If a cheque specially crossed to a banker is present by another bank, not in the capacity of its agent, the paying banker is justified in returning the cheque.
- ❖ A special crossing gives more protection to the cheque than a general crossing. It makes a cheque still safer because, a person, who does not have a real claim for it, without find it

difficult to obtain payment. In special crossing, the cheque is specially crossed to the payee's banker.

Difference between General and Special Crossing

General Crossing	Special Crossing
1. Drawing of two parallel transverse lines is a must.	1. Drawing of two parallel transverse lines is not essential.
2. Inclusion of the name of a banker is not essential.	2. Inclusion of the name of a banker is essential.
3. In General Crossing paying banker to honor the cheque from any bank A/C.	3. In Special Crossing paying banker to honor the cheque only when it is presented through the bank mentioned in the crossing and no other bank.
4. General Crossing can be converted into a Special Crossing.	4. 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.	5. In case of Special Crossing the name of a banker may be written within two parallel transverse lines or with the words "And Company" or "Account Payee Only" or "Not Negotiable" the inclusion of these words has become customary.

3. Not Negotiable Crossing:

A person is taking cheque crossed generally or specially, bearing in either case the words 'not negotiable' shall not be able to give a better title to the holder than that of the transferor.

The effect of a not negotiable crossing is that the cheque can be transferred but the transferee will not acquire a better title to the cheque. Thus a cheque is deprived of its essential feature of negotiability.

The objects of "not negotiable" crossing is to protect the drawer against loss or theft in the course of transit.

Significance of not negotiable crossing:

'Not Negotiable' does not mean transferable. Not Negotiable crossing does not affect the transferability; it kills only the 'negotiability'. Negotiability is something different from transferability. As per law, negotiability means transferability by mere delivery or endorsement and delivery plus transferability free from defect.

4. Account Payee Crossing:

Section 123 of Negotiable Instruments Act defines that when a cheque crossed generally bears across its face an addition of the words 'Payee's Account' between the two parallel transverse lines, it is known as Payee's Account Crossing.

Significance of Account Payee Crossing:

A/c payee crossing does not restrict the transferability of cheques. This type of crossing gives a further protection to a cheque. This crossing gives a direction to the collecting banker. The direction is that, the collection banker should not collect it for any person other than the payee. In other words, a collecting banker should ensure that, the cheque is credited only to the account of the payee. Hence such cheque cannot be negotiated further in actual practice, A/c payee crossed cheques cannot be collected to the account of any person other than the payee himself. The safest form of crossing will be a combination of 'Not Negotiable' and A/c payee crossing, which give the fullest protection to a cheque.

6. Double Crossing

When a cheque bears two separate special crossing, it is said to have been doubly crossed. Sec.125 of the Act provides that "where a cheque is crossed specially, the banker to whom it is crossed may be again cross it especially to another banker, his agent for collection".

Sec. 127 of the Act lays down that, "where cheque is crossed specially to more than one banker except when crossed to an agent for the purpose of collection the banker on whom it is drawn shall refuse payment therefore".

Thus, if a cheque is crossed to two or more banks, the paying banker is put in confused position as to whom he should pay. Such ambiguity renders the cheque crossed, can cross it again in favour of another banker for the purpose of collection. It does not render the cheque invalid.

ENDORSEMENT

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'.

“The word endorsement is said to have been derived from Latin ‘en’ means ‘upon’ and ‘dorsum’ meaning ‘the back’. Thus usually the endorsement is on the back of the instrument though it may be even on the face of it. Where no space is left on the instrument, the endorsement may be made on a slip of paper attached to it. This attached slip of paper is called ‘Allonge’.

Definition of Endorsement:

Endorsement has been defined in Sec. 15 of the Negotiable instrument Act 1881 as follows: "where the maker or holder of a negotiable instrument signs the same, otherwise than as such maker, for the purpose of negotiable, on the back or face thereof, or a slip of a paper annexed thereto... he is said to endorse the same, and is called the endorser."

It is quite evident from the above mentioned definition that, the endorsement can be made that either on the back of the instrument or on the face/thereof. But according to Sec. 6 of the Indian securities Act of 1886, an endorsement made on a document, elsewhere than on the back itself, is not valid. In practice, an endorsement must be made on the back of the instrument.

Essentials of a valid Endorsement

An endorsement in order to operate as mode of negotiation must comply with the following conditions, namely:

1. It must be written on the instrument itself and be signed by the endorser. The simple signature of the endorser, without additional words, is sufficient.
2. The endorsement must be of the entire instrument. A partial endorsement, that is to say, an endorsement, which purports to transfer to the endorsee a part only of the amount payable, or which purports to transfer the instrument to two or more endorsees severally (i.e. separately), does not operate as a negotiation of the instrument.
3. Where a negotiable instrument is payable to the order of two or more payees or endorsees who are not partners, all must endorse unless the one endorsee has authority to endorse for the others.
4. Wherein a negotiable instrument payable to order, the payee or endorsee is wrongly designated or his name is misspelt, he should sign the instrument in the same manner as given in the instrument. Though, he may add, if he thinks fit, his proper signature.
5. Where there are two or more endorsements on an instrument, each endorsement is deemed to have been made in the order in which it appears on the instrument, until contrary is provided.

6. An endorsement may be made in blank or special. It may also be restrictive.

Kinds of Endorsement

Important kinds of endorsements are given below:

1. Blank or general endorsement:

If the endorser signs his name only and does not specify the name of the endorsee, the endorsement is said to be in blank Sec. 16(1). The effect of a blank endorsement is to convert the order instrument into bearer instrument (Sec. 54), which may be transferred merely by delivery.

2. Endorsement in full or special endorsement:

If the endorser, in addition to his signature, also adds a direction to pay the amount mentioned in the instrument to, or to the order of, a specified person the endorsement is said to be in full [Sec. 16(1)].

If, for example, A, the holder of a bill of exchange, wants to make an endorsement in full to B, he would write thus: “Pay to B or order, SdA4.” After such an endorsement it is only the endorsee, i.e., B, who is entitled to receive the payment of the instrument and to further negotiate the instrument by his endorsement.

A blank endorsement can easily be converted into an endorsement in full, According to Section 49, the holder of a negotiable instrument endorsed 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 since such holder does not sign himself on the instrument he does not thereby incur the responsibility of an endorser.

3. Partial Endorsement:

Section 56 provides that a negotiable instrument cannot be endorsed for a part of the amount appearing to be due on the instrument. In other words, a partial endorsement which transfers the rights to receive only a part payment of the amount due on the instrument is invalid.

Such an endorsement has been declared invalid because it would subject the prior parties to plurality of actions (one action by holder for part value and another action by endorsee for par value) “and will thus cause inconvenience to them.

Moreover, it would also interfere with the free circulation of negotiable instruments. It may be noted that an endorsement which purports to transfer the instrument to two or more endorses separately, and not jointly is also treated as partial endorsement and hence would be invalid.

Thus, where A holds a bill for Rs 2,000 and endorses it in favour of B for Rs 1,000 and in favour of C for the remaining Rs 1,000, the endorsement is partial and invalid.

Section 56, however, further provides that where an instrument has been paid in part, a note to that effect may be endorsed on the instrument and it may then be negotiated for the balance. Thus, if in the above illustration the acceptor has already paid Rs 1,000 to A, the holder of the bill, A can then make an endorsement saying “Pay B or order” Rs 1,000 being the unpaid residue of the bill.” Such an endorsement would be valid.

4. Restrictive endorsement:

Stating the effect of endorsement, Section 50 provides that “the endorsement of negotiable instrument followed by delivery transfers to the endorsee the property therein with the right of further negotiation.” However, Section 50 permits restrictive endorsement.

An endorsement which, by express words, prohibits the endorsee from further negotiating the instrument or restricts the endorsee to deal with his instrument as directed by the endorser is called ‘restrictive’ endorsement.

The endorsee under a restrictive endorsement gets all the rights of an endorser except the right of further negotiation. In other words, such an endorsement entitles the endorsee to receive the payment on due date and sue the parties for it but he cannot further negotiate the instrument.

Illustrations:

(a) B, the holder of the bill, makes an endorsement on the bill saying “Pay C only.” It is a restrictive endorsement as C cannot negotiate the bill further.²

(b) B, the holder of the bill, makes an endorsement on the bill, saying “Pay C for my use or “Pay C or order for the account of B.” In either case there is a restrictive endorsement as the right of further negotiation by C has been excluded thereby.

The person liable on the bill must pay by drawing a cheque in the name of the holder (or the endorser) B. If he makes the payment to C on C’s own account, he will still be liable to B, the endorser; Hence C cannot endorse the bill further in his own name.

5. Conditional endorsement:

If the endorser of a negotiable instrument, by express words in the endorsement, makes his liability, dependent on the happening of a specified event, although such event may never happen, such endorsement is called a ‘conditional’ endorsement (Sec. 52).

The law permits a conditional endorsement and therefore it does not in any way affect the negotiability of the instrument. Thus, endorsements can validly be made in the following terms:

- (i) “Pay B or order on his marriage;”
- (ii) “Pay B on the arrival of Pearlless ship at Bombay.”

In the case of a conditional endorsement the liability of the endorser would arise only upon the happening of the event specified. But the endorsee can sue other prior parties, e.g., the maker, acceptor, etc., if the instrument is not duly met at maturity, even though the specified event did not happen.

6. Sans recourse endorsement (Sec. 52):

When the endorser expressly excludes his own liability on the negotiable instrument to the endorsee or any subsequent holder in case of dishonour of the instrument, the endorsement is known as ‘sans recourse’ endorsement.

Such an endorsement is generally made by adding the words ‘sans recourse’ or ‘without recourse.’ Thus, “Pay X or order sans recourse” or “Pay X without recourse to me” or “Pay X or order at his own risk” is examples of this type of endorsement.

7. Facultative endorsement:

When the endorser expressly gives up some of his rights under the negotiable instrument, the endorsement is called a ‘facultative’ endorsement. Thus, “Pay X or order, notice of dishonour waived” is a facultative endorsement.

As a result of such an endorsement the endorsee is relieved of his duty to give notice of dishonour to the endorser and the latter remains liable to the endorsee for the non-payment of the instrument, even though no notice of dishonour has been given to him.

DISHONOUR OF CHEQUE

The bank should pay the amount mentioned on the cheque as soon as it is presented. If the amount of cheque is paid by the bank to the payee, the cheque is said to be honored. If the bank refuses to pay the amount of cheque, then the cheque is said to be dishonored. Thus the dishonored of the cheque means the refusal by the bank to pay the amount of cheque to the payee. It is a condition in which the bank does not pay the amount of the cheque to the payee. In fact, when the drawer draws the cheque without following all the rules of issuing cheque or when he/she draws the cheque exceeding the bank balance then the bank dishonors the cheque.

CONDITIONS FOR DISHONOUR OF A CHEQUE BY A PAYING BANKER

1. If the date is not written or written incorrectly or the date given is of three months before or if the advance date is given.
2. If the name of the payee is not written or not written clearly.

3. If the ordered or crossed cheques are transferred without proper endorsement and delivery.
4. If the amount is not written in words and figures or written incorrectly or if the amount written in words and figures does not match with each other.
5. If the alteration made on the cheque is not proved by the drawer giving signature.
6. If the account number is not mentioned or if it is not clear or if it is not mentioned clearly.
7. If the signature is not given or if the signature given in the cheque does not match with the signature given on the signature specification card kept by the bank.
8. If the amount mentioned on the cheque is more than the amount that the drawer has in his bank account or if as per bank's rule the minimum balance in the account of the drawer cannot remain.
9. If the cheque is overwritten.
10. If the cheque is not found in proper condition or it is found wet, torn or spotted.
11. If the drawer has given order to the bank to stop payment of the cheque.
12. If the bank has got the information regarding the death or insolvency or lunacy of the drawer or depositor.
13. If the court of law orders the bank to stop payment of the cheque.
14. If the bank balance remains shortage on account of not collecting the cheque deposited.
15. If the drawer has closed his/her account before presenting the cheque.

Grounds for refusing payment of a customer's cheque

Dishonoring a cheque is different from refusing payment on a cheque. Dishonour takes place when there is defect in the instrument or when there are insufficient funds in the accounts. Refusing payment of a cheque takes place on the happening of certain events. We can see the grounds under which a bank refuses payment.

1. Countermanding of payment:

When a customer after having issued the cheque to third party, instructs the banker to stop payment on the cheque before the instrument is presented, it is called countermanding of payment. It is the responsibility of the customer to inform the banker before the payment is affected.

2. Death of customer:

Notice of death of customer has to be given by the close relative of the deceased. On receipt of the notice, banker will close the account and any cheque received thereafter, payment will be refused.

3. Insolvency of the customer:

When the court adjudged the customer of a bank as insolvent, the account of that customer will be taken over by an official assignee appointed by the court. Hence, any cheque received thereafter will be refused payment.

4. Lunacy(Mental Illness):

When a customer is of unsound mind, his account cannot be operated. But the lunacy of the customer has to be certified by a doctor and the nature of the lunacy must also be stated. If it is of a temporary nature, the account may be suspended till such time the lunacy is cured. But when the lunacy is of a permanent nature, on the advice of the doctor, the account will be closed and cheques received thereafter will be refused payment.

5. Garnishee order:

Here, the court gives order to the bank to close the account of the customer partially or completely and according to that order cheques will be refused payment.

6. Closing of account voluntarily:

When the customer on his own accord, closes the account by giving a written declaration, the bank will close the account. But, the customer has to surrender all the unused cheques and the passbook. The banker will close the account after arriving at the balance. The amount will be paid to the customer.

7. Assigning the entire balance to a third party:

When a customer gives in writing to the bank to assign his entire credit balance to a third parties' account, the bank will close the account automatically.

8. Undesirable customer:

When a customer issues cheques frequently with insufficient funds, these are dishonored causing embarrassment, both to the banker and customer. Such a customer will be intimated by the banker to close the account, failing which the banker on his own will close the account and will send the balance, if any, to the customer.

9. Partnership firms, companies and institutions:

Their account will be operated according to the bye-law. In the case of death of a partner, winding up of companies or dissolution of institutions, the account will be closed.

10. In public interest:

When a banker comes to know that the account holder is building an account by cheating the public, he may close the account by giving notice to the party. The bank does this in the interest of the public and prevents the public from incurring any monetary loss.

The responsibility of a collecting banker is to collect the amount specified on a cheque and/or bill from a paying banker. This amount is then deposited into the customer's account. No

banker is under any legal obligation to collect money from other banks via cheques given by the customer, however most modern banks do perform this service.

Consequences of wrongful dishonor of customer's cheque

If a banker, without justification, dishonours his customer's cheque, the banker makes himself liable to compensate the customer for any loss or damage. The words 'loss or damage' used in Section 31, not only mean the pecuniary loss but also loss of credit or injury to reputation of the customer. Thus, if the customer is a trader or a business man, the damages may be substantial. But, a non-trader is not entitled to recover substantial damages for the wrongful dishonour of his cheque. Thus, a non-trader may be awarded only nominal damages because of the absence of any special loss. In assessing the damages for injury to credit, the Courts give due consideration to various factors, such as financial position and business reputation of the customer and the customs of the trade to which he may belong.

Unit : 4 LENDING OPERATIONS

After accepting deposits from the customer, a bank goes for lending or for investment in different types of securities, such as government, company etc. For deposits received under savings account and fixed deposits, the bank has to pay an agreed interest rate. This, the bank has to pay only from its earnings. On the investments, the bank earns a good return. Similarly, when the bank lends, it earns a higher interest rate. From out of the return on investments and from the interest earned on loans, the bank will be able to offer interest for the deposits, The difference between the interest offered on deposits, and the interest earned on lending will be the profit of the bank.

One of the primary functions of the commercial banks is 'Lending'. A banker should be very cautious in lending, because he is not lending money out of his own capital. The money lent comes from the deposits received from the public. These deposits are mostly repayable on demand. Hence while lending money, a banker should follow a very cautious policy.

SOUND PRINCIPLES OF LENDING:

It is a fundamental precept of banking everywhere that advances are made to customers in reliance on his promise to repay, rather than the security held by the banker. Although all lending involves some degree of risks, it is necessary for any bank to develop sound and safe

lending policies and new lending techniques in order to keep the risk to a minimum. As such, the banks are required to follow certain principles of sound lending.

- (a) **Safety:** When a loan or investment is made, the banker will have to ensure that the money advanced is returned by the borrower along with interest within the stipulated period. This is possible only when the borrower does not face any risk and strictly adheres to the terms and conditions of the loan. For this purpose, the banker will have to choose such type of borrowers who are prompt in repayment of the principal and interest amount.
- (b) **Liquidity:** An asset is said to be liquid when it can be converted into cash within a short notice, without loss. As the bank is investing or lending the depositors' money, it has to take more precaution while doing so. The depositor may demand his/her money at any time and the bank must be in a position to repay the same.
- (c) **Purpose:** A banker would not throw away money for any purpose for which the borrower wants. The purpose should be productive so that the money not only remains safe but also provides a definite source repayment.
- (d) **Profitability:** When a bank is undertaking lending or investment, it has to earn a good return. The bank has profit as its main business motive. So, while lending or investing the depositor's money, the bank must earn higher interest or higher return. If the bank is able to achieve this, it will be deploying its funds in such ventures which give a higher return.
- (e) **Shift ability:** As the bank is giving loan against the security, in case of bad debts, the bank must be able to sell the security and realize the loan amount. In some cases, the bank will not sell the security, but will shift the same to the Central bank which will grant the commercial bank additional fund against the security. Mostly treasury bills can be shifted to Central bank and the commercial bank can raise additional funds.
- (f) **National Interest:** The bank must keep in mind national interest while lending or investing depositor's money. When a country is facing unemployment, the bank must give more loans to employment oriented industries, so that the problem of unemployment can be reduced. Similarly, when a country is faced with food problem, more loans should be given for agriculture so that, food production can be increased.
- (g) **Safety Margin:** While granting loan against security, the bank will have to keep sufficient safety margin. This means that a bank will lend only upto 50 or 60% of the value of security as loan by keeping a safety margin of 4 or 50%. For example, when loan is given against a jewel whose market value is Rest. 10,000/-. the loan amount will be Rest. 6,000/- and the safety margin Rest. 4,000/- now even if the market value of the jewel fluctuates to Rest.

9,000/- or Rs.8,000/- still the banker will be able to realize the loan amount in case the borrower defaults.

(h) Diversification: As the banker lends or invests, he cannot invest all his resources in a single industry or with a single borrower. The banker should not keep all the eggs in the same basket. By choosing a single industry such as iron and steel or sugar, the banker is inviting more risks. It is likely that these industries may face depression and the banker will find it difficult to recover the loan or realize his investment.

(i) Law of Limitation Act:

A lending banker should also bear in mind the Law of Limitation Act. According to this Act, a debt will become a bad one after the expiry of three years from the date of loan. It is applicable to loans and advances granted by banks. Hence, each and every banker should be very careful in renewing the loan, year after year. Otherwise, these loans would become bad subsequently.

KINDS OF LENDING FACILITIES GRANTED BY BANKS

1) Loans:

A loan is an advance granted by the bank to a borrower wherein the entire amount sanctioned is paid to the borrower in lump sum. When it is granted for a period of one year or less it is called short-term loan. If it is for a period of two or more years it is called medium term loan and if it is for more than five years it is called long term loan. A loan is granted against collateral securities or personal securities of the borrower. Interest is charged on the entire amount of the entire of the loan sanctioned, irrespective of the amount actually withdrawn by the borrower.

It is advantageous to the banker to give this form of advance as he can collect interest on the entire amount sanctioned irrespective of the amount withdrawn by the customer but is disadvantageous to the customer, as he has to pay interest even on the unutilized portion of the loan.

2) Overdraft:

It is a form of advance under which the customer is allowed to overdraw his account up to a certain limit. This facility is given only to a current account holder. This is a temporary financial arrangement made for a short period. By the end of the year, the borrower should bring back the current account to credit balance.

It is advantageous to the customer as the interest payable is only on the amount utilized by him and not on the entire limit sanctioned to him. But it is disadvantageous to the banker as

he is required to keep at the disposal of the borrower the full amount of the overdraft sanctioned. So the banker charges commitment charge on the unutilized portion of the cash credit limit at a nominal rate of 1% per annum.

3) Cash credit:

It is a popular type of advance made by the commercial banks. This is sanctioned against the pledge of the goods like agricultural or industrial products or against the guarantee of the individuals.

It is a financial arrangement under which a borrower is allowed an advance under a separate account called cash credit account upto a specified limit called the cash credit limit. The borrower can withdraw the amount in installments as and when he needs and interest is charged only on the amount actually withdrawn and not on the amount sanctioned. Since it is disadvantageous to the banker he generally charges commitment charge on the unutilized portion the cash credit limit.

4) Discounting of bills of exchange:

The banker takes a bill of exchange from the customer and pays him immediately the present value of the bill (i.e. face value of the bill minus discount charges) then on the due date of the bill he receives the face value of the bill from the acceptor of the bill. In case the bill is dishonoured by the acceptor the banker recovers the amount from the customer himself.

Advantages of Discounting of Bills:

- (a) There is certainty of payment on the due dates.
- (b) There is security of payment in the case of bills. This is because even if the bill of exchange is dishonoured by the acceptor the banker can look to the other parties to the bill, i.e. the drawer and the endorser for the payment. Bills are supported by trade documents and transport receipts, which facilitates the banker to realize the value in case of default. Even if the bill is dishonoured by the acceptor, the banker can debit the account of the drawer. That is why it is secured.
- (c) Investment in bills of exchange is for a short period say 30 days, 60 days or 90 days. Therefore the funds of a banker are not locked up for a long period.
- (d) A bill of exchange is a Negotiable Instrument. So the transferee of the bill, i.e. the banker can get a better title than that of the transferor of the bill, i.e. the customer. Hence safety of the bill is assured.
- (e) Bills are liquid in the sense that they can be rediscounted with the RBI or with a fellow banker whenever there is need for cash.

- (f) The value of the bill is fixed and does not change for any reason. The amount advanced against bills remains intact unlike the tangible assets whose values are subjected to change.
- (g) The profit obtained by discounting the bill will be more when compared to the profit gained by lending in the form of overdraft or cash credit.

5) Letter of credit:

It is a sort of loan facility extended by a banking institution to its customers.

They are if two types, (1) personal letter of credit, and (2) commercial letter of credit.

Personal Letter of Credit or Traveler's Letter of Credit: This is issued to a person who will be traveling abroad for a specific period. The required amount is deposited by the customer with the Issuing Bank, which will have an arrangement with a bank where the customer stays and is called a corresponding Bank. The Issuing Bank sends the specimen signature of the customer to the corresponding Bank and request the bank to pay the customer on issue of cheque upto a specified amount which is already debited to customer's account. This amount will be debited to Issuing Bank's account by the Correspondent Bank. A LOC will be given to the customer by the issuing bank to be produced before the Correspondent bank obtaining money as and when required in a far off place. The amount drawn by the customer each time will be noted on the back of LOC by the Correspondent Bank.

When LOC is issued to be produced before only one correspondent bank it is called Direct Letter of Credit. In case it is addressed to more than one correspondent bank it is called Circular letter of Credit.

Commercial Letter of Credit:

Commercial Letter of Credit is the letter of credit issued by a bank in the importer's country, at the request of the importer in favour of the exporter, informing him that the issuing undertakes to accept the bill of exchange drawn by the exporter up to a specified amount.

DIFFERENCES BETWEEN AN OVERDRAFT AND CASH CREDIT

OVERDRAFT	CASH CREDIT
Granted only to a current account holder	Granted to any customer.
It is granted on the existing current a/c itself. No new a/c is required to be opened.	A separate account called cash credit account is required to be Opened in the name of the borrower.
It is a temporary financial accommodation to be made use of by the customer occasionally.	It is a permanent financial accommodation.

It is granted for a relatively shorter period and for a smaller amount than cash credit	It is given only for business purposes.
It is granted either for business or for non-business purposes.	It is generally granted against tangible securities only.
The rate of interest charged is higher than the rate of interest charged on a cash credit.	To a banker this is safer than an overdraft.
It is granted either against tangible securities or the personal security of the borrower.	To a borrower this is more popular than an overdraft as it can be obtained for a larger amount, for a longer period and at a lower rate of interest.

Home / Housing Loan

A home loan is an amount of money that an individual borrows from a bank or money lending company at a certain rate of interest to be paid with the EMI every month. The property is taken as a security by the money lending company for the Home Loan.

There are several steps involved in the sanctioning of a home loan. However, these steps are performed quickly, and your loan can be disbursed in 4 days.

Procedure to get a Home / Housing Loan

Following are the steps involved to avail a home loan –

Step 1. Application

The first step is filling the application with a few details like name, phone number, pin code, type of employment, etc. A representative will get in touch with you to move forward with the application procedure.

Step 2. Document collection

The representative will come at our doorstep to collect the required documents for home loan, which include –

1. Documents of the property to be mortgaged.
2. Identity proof – Aadhaar, PAN, Voter ID, Passport, Driving License, etc.
3. Address proof – Latest utility bill, any identity proof with your permanent address, etc.
4. Latest salary slips or Form 16.
5. Bank account statements.
6. Proof of business existence.

Step 3. Document processing and verification

The lender will process and authenticate your documents. They may contact your office or relevant organisation to confirm your employment or occupation.

In this step, they will also conduct a credit enquiry to check your CIBIL score and credit report.

Your loan application will move to the next step only if all the documents are in order, and your CIBIL score and credit report are satisfactory.

Step 4. Sanction letter

You will receive a sanction letter after successful completion of all the above steps. A sanction letter usually contains the following details –

- Loan amount
- Rate of interest
- Type of interest rate – fixed or variable
- Repayment tenor

A sanction letter may also contain other terms, conditions, and policies of your home loan.

You have to sign a copy of this letter and revert to the lender to accept their offer.

Step 5. Secure fee payment

You have to pay a one-time secure fee after you sign the sanction letter. The lender may ask you to pay this fee even before.

Step 6. Legal and technical check

The lender will perform a legal and technical check before disbursing your loan. They will send representatives to the site for inspection.

Step 7. Loan agreement and disbursal

You will receive the final agreement after the lender has performed all their checks. Finally, the company will disburse your home loan as per the terms.

EDUCATION LOAN

Education loan is a special kind of loan granted by banks under which some amount of money is granted to students at special rates. With the help of education loan, the students can achieve higher and costly studies at cheaper rates.

How to get education loan?

In order to avail education loan; students have to submit following documents in the respective bank:

1. The details of the course in which student have taken admission.
2. Total expenditure of course
3. Marksheet of previous examination passed
4. Full details of scholarship availed, if any
5. Xerox of bank statement of last 6 months
6. Residential proof
7. Income tax statement order
8. Property details

9. Two passport sized photographs

Eligibility for education loan

The eligibility requirements for education loan are:

1. Age limit for education loan varies from bank to bank. Generally it is from 16 to 35.
2. Students should have a good academic record
3. Students should not have year lap during their education
4. Parents should have a definite source of income

Education loan facility is available in each branch of each bank of the country. According to government plans, banks should distribute education loan on the priority basis.

Repayment of education loan

The rules to repay education loan are quite simple. You have to start repayment of loan after six months of completion of course or after joining a job. If, in any case, student is unable to repay the loan, then the responsibility shifts to the guarantor. You can avail tax exemption on repayment of education loan which varies from bank to bank.

VEHICLE LOAN

It is a personal loan, the proceeds of which are used to purchase an automobile. In return, the borrower agrees to pay back the lender the amount of the loan plus interest, usually in monthly payments, until the amount owed is fully paid off.

Commercial vehicle loans are loans offered to borrowers, usually self-employed individuals, trusts, partnership firms, organisations, etc., for the purchase of vehicles for commercial or business purposes. These Car loans are availed by those who are involved in the

transportation business. A commercial vehicle loan can be used to purchase buses, trucks, tippers, tankers, light and small commercial vehicles.

Features of Commercial Vehicle Loans

1. You can get a commercial vehicle loan at a low interest if your profile matches with the criteria put forward by the lenders.
2. The processing time of a commercial vehicle loan is fast with easy documentation and approval.
3. Most of the prominent banks in India provide commercial vehicle loans at affordable rate of interest without any security.
4. Some of the banks assign a personal relationship manager from starting till procurement of the vehicle. He/she will do all documentation and address every issue related to the loan.
5. Once all required documents are submitted, it takes around 7 days for the disbursal of the loan amount.

Documents required for Vehicle loan

- Duly filled application form with attached photograph
- 2 passport-size photographs
- Cheque for processing fee

KYC documents

- Age proof- Aadhaar Card/PAN Card/Voter's ID card/Driving License/Passport (Any one)
- Identity proof- Aadhaar Card/Voter's ID card/Driving License/Passport (Any one)
- Residence proof- Rental agreement/Voter's ID Card/Passport/Ration card/Tel bill or Elec. Bill/Trade License/ Sales Tax Certificate (Any one)
- Signature verification proof-Driving License/PAN Card/Registered Sale Deed/Govt. ID Card (For Govt. employees) (Any one)

Income proof

- Last 3 months Salary Slips
- Latest 6 months bank statement
- Form No.16
- Updated ITR for last 2 years
- Photocopy of official ID

Experience proof

- Valid documents to prove relevant experience (In case of first-time buyers)

Other Documents (As applicable)

- Existing vehicle ownership proof
- Vehicle details & valuation report
- Insurance and RC copy of vehicle
- Fleet list details (In case of small, medium, and large fleet operators/owners)
- Trade references (In case of first-time buyers, fleet operators/owners & experienced borrowers)
- Property ownership proof (In case of farmers)
- Proprietorship decl., partnership deed, (MOA/AOA), board resolution & 2 years audited financials (In case of Private/Limited companies, partnership firms, trusts & societies)
- Loan repayment track (if any)

Vital Aspects of a Commercial Vehicle Loan

1. **Application process-** At first, the borrower needs to fill up an application form online, then furnish all the necessary documents and finally provide the details of the personal guarantor if required.
2. **Loan approval-** The bank will run a check to verify the documents and borrower's eligibility. If the borrower is found to be eligible, the loan will be approved within 2 to 5 working days from the time of documentation.
3. **Processing charges-** Banks ask for a minimal non-refundable amount for processing a commercial vehicle loan. This amount depends on the amount of the loan applied for and generally ranges from 2% to 4% of the loan amount.
4. **Loan Amount/Margin-** The maximum loan amount for commercial vehicles varies from customer to customer based on their individual profile. A borrower can get up funding of up to 100% of the vehicle's chassis.
5. **Repayment tenure-** The repayment tenure for a commercial vehicle loan usually starts from 6 months and goes up to 60 months (5 years). The borrower is allowed to repay the amount in easy monthly EMIs.
6. **Security/collateral-** While certain banks offer loans for commercial vehicles without any security or guarantor, some require a guarantor or co-applicant depending on the borrower's profile and the product.

7. **Pre-payment of loan-** The borrowers can prepay the loan after 6 months of availing it by paying a pre-payment fee of up to 5% of the remaining loan amount. However, part pre-payment of the loan is usually not allowed.

Non-Performing Assets (NPA)

Non-Performing Assets are popularly known as NPA. Commercial Banks assets are of various types.

All those assets which generate periodical income are called as Performing Assets (PA).

While all those assets which do not generate periodical income are called as Non-Performing Assets (NPA).

If the customers do not repay principal amount and interest for a certain period of time then such loans become non-performing assets (NPA). Thus non-performing assets are basically non-performing loans. In India, the time frame given for classifying the asset as NPA is 180 days as compared to 45 days to 90 days of international norms.

Meaning:

Loans and advances given by the banks to its customers are an Asset to the bank.

Just for the sake of simplicity, we can understand that a loan (an asset for the bank) turns as NPA when the EMI, principal or interest component for the loan is not paid within 90 days from the due date. Thus a Bad Loan is an asset that ceases to generate any income for the bank.

As per RBI guidelines, NPA is defined as under:

Non-performing asset (NPA) is a loan or an advance where;

- a) Interest and/ or installment of principal remain overdue for a period of more than 90 days in respect of a term loan,
- b) The account remains 'out of order' in respect of an Overdraft/Cash Credit.
- c) The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- d) The installment of principal or interest there on remains overdue for two crop seasons for short duration crops,
- e) The installment of principal or interest there on remains overdue for one crop season for long duration crops,
- f) The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitization transaction undertaken in terms of guidelines on securitization dated February 1, 2006.

- g) In respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

Net NPA = Gross NPA – (Balance in Interest Suspense account + DICGC/ECGC claims received and held pending adjustment + Part payment received and kept in suspense account + Total provisions held).

Classification of Assets

Now, in order to ensure that banks are not affected due to defaults, RBI has directed the banks to make provisions or set aside money when an account turns bad. Banks should, classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

The assets or loans are classified as:-

1. Standard Assets:

A standard asset is a performing asset. Standard assets generate continuous income and repayments as and when they fall due. Such assets carry a normal risk and are not NPA in the real sense. So, no special provisions are required for Standard Assets.

2. Sub-Standard Assets:

All those assets (loans and advances) which are considered as non-performing for a period of 12 months are called as Sub-Standard assets.

3. Doubtful Assets:

All those assets which are considered as non-performing for period of more than 12 months are called as Doubtful Assets.

4. Loss Assets:

All those assets which cannot be recovered are called as Loss Assets.

Causes of NPA

NPA arises due to a number of factors or causes like:-

- 1. Speculation:** Investing in high risk assets to earn high income.
- 2. Default:** Willful default by the borrowers.
- 3. Fraudulent practices:** Fraudulent Practices like advancing loans to ineligible persons, advances without security or references, etc.
- 4. Diversion of funds:** Most of the funds are diverted for unnecessary expansion and diversion of business.
- 5. Economic conditions:** Economic condition of a region effected by natural calamities or any other reason may cause NPA.

- 6. Mis-management** - Often ill-minded borrowers bribe bank officials to get loans with an intention of default.
- 7. Internal reasons:** Many internal reasons like inefficient management, inappropriate technology, labour problems, marketing failure, etc. resulting in poor performance of the companies.
- 8. External reasons:** External reasons like a recession in the economy, infrastructural problems, price rise, delay in release of sanctioned limits by banks, delays in settlements of payments by government, natural calamities, etc.

Measures to Solve Problems of NPA

The problems of NPA have been receiving greater attention since 1991 in India. The Narasimham Committee recommended a number of steps to reduce NPA. In the 1990's the Government of India (GOI) introduced a number of reforms to deal with the problems of NPA.

Major steps taken to solve the problems of Non-Performing Assets in India:-

1. Debt Recovery Tribunals (DRTs)

Narasimham Committee Report I (1991) recommended the setting up of Special Tribunals to reduce the time required for settling cases. Accepting the recommendations, Debt Recovery Tribunals (DRTs) were established. There are 22 DRTs and 5 Debt Recovery Appellate Tribunals. This is insufficient to solve the problem all over the country (India).

2. Securitization Act 2002

Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002 is popularly known as Securitisation Act. This act enables the banks to issue notices to defaulters who have to pay the debts within 60 days. Once the notice is issued the borrower cannot sell or dispose the assets without the consent of the lender

3. Lok Adalats

Lok Adalats have been found suitable for the recovery of small loans. According to RBI guidelines issued in 2001. They cover NPA up to Rs. 5 lakhs, both suit filed and non-suit filed are covered. Lok Adalats avoid the legal process. The Public Sector Banks had recovered Rs. 40 Crores by September 2001.

4. Compromise Settlement

Compromise Settlement Scheme provides a simple mechanism for recovery of NPA. Compromise Settlement Scheme is applied to advances below Rs. 10 Crores. It covers suit filed cases and cases pending with courts and DRTs (Debt Recovery Tribunals). Cases of Willful default and fraud were excluded.

5. Credit Information Bureau

A good information system is required to prevent loans from turning into a NPA. If a borrower is a defaulter to one bank, this information should be available to all banks so that they may avoid lending to him. A Credit Information Bureau can help by maintaining a data bank which can be assessed by all lending institutions.

Impact of NPA

The impact of NPA can be summarized as follows:

1. Profitability

NPA means booking of money in terms of bad asset which occurred due to wrong choice of client. Because of money getting blocked the productivity of bank decreases not only by the amount of NPA but NPA lead to opportunity cost also as that much of profit invested in some return earning project/asset. So NPA doesn't affect current profit but also future stream of profit, which may lead to loss of some long-term beneficial opportunity. Another impact of reduction in profitability is low ROI (return on investment), which adversely affect current earning of bank.

2. Liquidity

Money is getting blocked, decreased profit lead to lack of enough cash at hand which lead to borrowing money for short period of time which lead to additional cost to the company. Difficulty in operating the functions of bank is another cause of NPA due to lack of money.

3. Involvement of Management

Time and efforts of management is another indirect cost which bank has to bear due to NPA. Time and efforts of management in handling and managing NPA would have diverted to some fruitful activities, which would have given good returns. Now day's banks have special employees to deal and handle NPAs, which is additional cost to the bank.

4. Credit Loss

Bank is facing problem of NPA then it adversely affect the value of bank in terms of market credit. It will lose its goodwill and brand image and credit which have negative impact to the people who are putting their money in the banks.

PRIORITY SECTOR LENDING

Meaning of Priority Sector

Priority sector refers to those sectors of the economy which may not get timely and adequate credit in the absence of this special dispensation. Typically, these are small value loans to

farmers for agriculture and allied activities, micro and small enterprises, poor people for housing, students for education and other low income groups and weaker sections.

CATEGORIES OF PRIORITY SECTOR

The broad categories of priority sector for all scheduled commercial banks are as under:

(i)Agriculture (Direct and Indirect finance):

Direct finance to agriculture shall include short, medium and long term loans given for agriculture and allied activities directly to individual farmers, Self-Help Groups (SHGs) or Joint Liability Groups (JLGs) of individual farmers without limit and to others (such as corporates, partnership firms and institutions) up to Rs. 20 lakh, for taking up agriculture and allied activities.

Indirect finance to agriculture shall include loans given for agriculture and allied activities to those engaged in distribution of inputs like fertilizers, pesticides, seeds, cattle and poultry feeds etc.,

(ii)Small Scale Industries (Direct and Indirect Finance):

Direct finance to small scale industries (SSI) shall include all loans given to SSI units which are engaged in manufacture, processing or preservation of goods and whose investment in plant and machinery (original cost) excluding land and building does not exceed the amounts. Indirect finance to SSI shall include finance to any person providing inputs to or marketing the output of artisans, village and cottage industries, handlooms and to cooperatives of producers in this sector.

(iii)Micro Credit:

Provision of credit and other financial services and products of very small amounts not exceeding Rs. 50,000 per borrower to the poor in rural, semi-urban and urban areas, either directly or through a group mechanism, for enabling them to improve their living standards, will constitute micro credit.

(iv)Education loans:

Education loans include loans and advances granted to only individuals for educational purposes up to Rs. 10 lakh for studies in India and Rs. 20 lakh for studies abroad, and do not include those granted to institutions;

(v)Housing loans:

Loans up to Rs. 15 lakh for construction of houses by individuals, (excluding loans granted by banks to their own employees) and loans given for repairs to the damaged houses of individuals up to Rs.1 lakh in rural and semi-urban areas and up to Rs.2 lakh in urban areas.

COMMON GUIDELINES FOR PRIORITY SECTOR ADVANCES

Banks should follow the following common guidelines prescribed by the Reserve Bank for all categories of advances under the priority sector.

1. PROCESSING OF APPLICATIONS

a) Completion of Application Forms

In case of Government sponsored schemes such as SGSY, the concerned project authorities like DRDAs, DICs, etc. should arrange for completion of application forms received from borrowers. In other areas, the bank staff should help the borrowers for this purpose.

b) Issue of Acknowledgement of Loan Applications

Banks should give acknowledgement for loan applications received from weaker sections. Towards this purpose, it may be ensured that all loan application forms have perforated portion for acknowledgement to be completed and issued by the receiving branch. Each branch may affix on the main application form as well as the corresponding portion for acknowledgement, a running serial number. While using the existing stock of application forms which do not have a perforated portion for acknowledgement is separately given, care should be taken to ensure that the serial number given on the acknowledgement is also recorded on the main application. The loan applications should have a check list of documents required for guidance of the prospective borrowers.

c) Disposal of Applications

- (i) All loan applications up to a credit limit of Rs. 25,000/- should be disposed of within a fortnight and those for over Rs. 25,000/-, within 4 weeks.
- (ii) All loan applications for SSI up to a credit limit of Rs. 25,000/- should be disposed of within 2 weeks and those up to Rs. 5 lakh within 4 weeks, provided the loan applications are complete in all respects and are accompanied by a 'check list'.

d) Rejection of Proposals

Branch Managers may reject applications (except in respect of SC/ST) provided the cases of rejection are verified subsequently by the Divisional/Regional Managers. In the case of proposals from SC/ST, rejection should be at a level higher than that of Branch Manager.

e) Register of Rejected Applications

A register should be maintained at the branch, wherein the date of receipt, sanction/rejection/disbursement with reasons therefor, etc., should be recorded. The register should be made available to all inspecting agencies.

2. Mode of Disbursement of Loan

With a view to providing farmers wider choice as also eliminating undesirable practices, banks may disburse all loans for agricultural purposes in cash which will facilitate dealer

choice to borrowers and foster an environment of trust. However, banks may continue the practice of obtaining receipts from borrowers.

3. Repayment Schedule

Repayment programme should be fixed taking into account the sustenance requirements, surplus generating capacity, the break-even point, the life of the asset, etc., and not in an "ad hoc" manner. In respect of composite loans, repayment schedule may be fixed for term loan component only.

As the repaying capacity of the people affected by natural calamities gets severely impaired due to the damage to the economic pursuits and loss of economic assets, the benefits such as restructuring of existing loans, etc. as envisaged under our circular RPCD.CO.PLFS.NO. BC 16/05.04.02/2006-07 dated August 9, 2006 may be extended to the affected borrowers.

4. Rates of Interest

The rates of interest on various categories of priority sector advances will be as per RBI directives issued from time to time.

- a) In respect of direct agricultural advances, banks should not compound the interest in the case of current dues, i.e. crop loans and instalments not fallen due in respect of term loans, as the agriculturists do not have any regular source of income other than sale proceeds of their crops.
- b) When crop loans or instalments under term loans become overdue, banks can add interest to the principal.
- c) Where the default is due to genuine reasons banks should extend the period of loan or reschedule the installments under term loan. Once such a relief has been extended, the overdues become current dues and banks should not compound interest.
- d) Banks should charge interest on agricultural advances in respect of long duration crops, at annual rests instead of quarterly or longer rests, and could compound the interest, if the loan/installment becomes overdue.

5. Photographs of Borrowers

While there is no objection to taking photographs of the borrowers for purposes of identification, banks themselves should make arrangements for the photographs and also bear the cost of photographs of borrowers falling in the category of Weaker Sections. It should also be ensured that the procedure does not involve any delay in loan disbursement.

6. Discretionary Powers

All Branch Managers of banks should be vested with discretionary powers to sanction proposals from weaker sections without reference to any higher authority. If there are difficulties in extending such discretionary powers to all the Branch Managers, such powers

should exist at least at the district level and arrangements be ensured that credit proposals on weaker sections are cleared promptly.

7. Machinery to look into Complaints

There should be machinery at the regional offices to entertain complaints from the borrowers if the branches do not follow these guidelines, and to verify periodically that these guidelines are scrupulously implemented by the branches.

8. Amendments

These guidelines are subject to any instructions that may be issued by the RBI from time to time.

Unit : 5 BANKING INNOVATIONS

Information technology is one of the most important facilitators for the transformation of the Indian banking industry in terms of its transactions processing as well as for various other internal systems and processes. The various technological platforms used by banks for the conduct of their day to day operations, their manner of reporting and the way in which interbank transactions and clearing is affected has evolved substantially over the years.

Innovations in Banking in India

Over the years, the banking sector in India has seen a number of changes. Most of the banks have begun to take an innovative approach towards banking with the objective of creating more value for customers, and consequently, the banks. Some of the significant changes in the Indian banking sector are discussed below:

1. Technology for Value Creation

The use of information technology in the Indian banking sector was a corollary of the liberalization process initiated in the country in the early 1990s...

2. Rural India Catching Up

With a majority of the Indian population living in rural areas, rural banking forms a vital component of the Indian banking system. Besides, rural banking operations in India are rather different from urban operations, due to the strong disparity that exists between urban and rural life, and the needs of these two sections of people.

3. Banking Beyond Banking

While traditionally, banking meant 'borrowing and lending', in the latter part of the 20th century, the word took on a different meaning altogether. Banks no longer restricted themselves to traditional banking activities, but explored newer avenues to increase business and capture new markets.

4. The Changing Face of Banking

Many analysts predict still more revolutionary changes in the banking sector in India. The chief of these are likely to be the concept of Universal Banks and the introduction of Smart Card technology.

5. The Other Side

Although the Indian banking sector has made rapid progress particularly in the number of innovations introduced, some analysts are skeptical about the efficacy and practical use of many of these services.

CORE BANKING

Core banking can be defined as a back-end system that processes banking transactions across the various branches of a bank. The system essentially includes deposit, loan and credit processing. Among the integral core banking services are floating new accounts, servicing loans, calculating interests, processing deposits and withdrawals, and customer relationship management activities.

Core banking systems are aimed at empowering existing and probable customers to have a greater freedom of their account transactions. With technological evolutions, transactions are now safer, faster and less cumbersome. The fact that these transactions can be executed remotely, from any part of the world has made core banking systems a significant aspect of banking these days.

Core banking always brings down operational costs considerably, ensuring lesser manpower requirement for execution. It also enables greater accountability of the customers. Software application based platforms make core banking systems user-friendly and more efficient. The benefits of core banking systems are multi-faceted – keeping pace with fast-evolving market, simplifying banking processes and making it more convenient for the customers, and expanding the outreach of the banks to remote places.

UNIVERSAL BANKING

Universal banking is a combination of Commercial banking, Investment banking, Development banking, Insurance and many other financial activities. It is a place where all financial products are available under one roof. So, a universal bank is a bank which offers commercial bank functions plus other functions such as Merchant Banking, Mutual Funds, Factoring, Credit cards, Housing Finance, Auto loans, Retail loans, Insurance, etc.

Universal banking is done by very large banks. These banks provide a lot of finance to many companies. So, they take part in the Corporate Governance (management) of these companies. These banks have a large network of branches all over the country and all over the world. They provide many different financial services to their clients.

Advantages of Universal Banking

Advantages of universal banking

1. **Investors' Trust** : Universal banks hold stakes (equity shares) of many companies. These companies can easily get other investors to invest in their business. This is because other investors have full confidence and faith in the Universal banks. They know that the Universal banks will closely watch all the activities of the companies in which they hold a stake.
2. **Economics of Scale** : Universal banking results in economic efficiency. That is, it results in lower costs, higher output and better products and services. In India, RBI is in favour of universal banking because it results in economies of scale.
3. **Resource Utilisation** : Universal banks use their client's resources as per the client's ability to take a risk. If the client has a high risk taking capacity then the universal bank will advise him to make risky investments and not safe investments. Similarly, clients with a low risk taking capacity are advised to make safe investments. Today, universal banks invest their client's money in different types of Mutual funds and also directly into the share market. They also do equity research. So, they can also manage their client's portfolios (different investments) profitably.
4. **Profitable Diversification** : Universal banks diversify their activities. So, they can use the same financial experts to provide different financial services. This saves cost for the universal bank. Even the day-to-day expenses will be saved because all financial services are provided under one roof, i.e. in the same office.
5. **Easy Marketing** : The universal banks can easily market (sell) all their financial products and services through their many branches. They can ask their existing clients to buy their other products and services. This requires less marketing efforts because of their well-established brand name. For e.g. ICICI may ask their existing bank account holders in all their branches, to take house loans, insurance, to buy their Mutual funds, etc. This is done very easily because they use one brand name (ICICI) for all their financial products and services.

6. **One-stop Shopping** : Universal banking offers all financial products and services under one roof. One-stop shopping saves a lot of time and transaction costs. It also increases the speed or flow of work. So, one-stop shopping gives benefits to both banks and their clients.

Disadvantages of Universal Banking

1. **Different Rules and Regulations** : Universal banking offers all financial products and services under one roof. However, all these products and services have to follow different rules and regulations. This creates many problems. For e.g. Mutual Funds, Insurance, Home Loans, etc. have to follow different sets of rules and regulations, but they are provided by the same bank.
2. **Effect of failure on Banking System** : Universal banking is done by very large banks. If these huge banks fail, then it will have a very big and bad effect on the banking system and the confidence of the public. For e.g. Recently, Lehman Brothers a very large universal bank failed. It had very bad effects in the USA, Europe and even in India.
3. **Monopoly** : Universal banks are very large. So, they can easily get monopoly power in the market. This will have many harmful effects on the other banks and the public. This is also harmful to economic development of the country.
4. **Conflict of Interest** : Combining commercial and investment banking can result in conflict of interest. That is, Commercial banking versus Investment banking. Some banks may give more importance to one type of banking and give less importance to the other type of banking. However, this does not make commercial sense.

OFFSHORE BANKING

The offshore banking refers to the deposit of funds by a company or an individual in a bank that is located outside their national residence. Although the term implies that these banks are located on islands, many offshore banks are found in Cayman Islands, Bermuda, Luxembourg, the Channel Islands, Macau and Panama.

The advantage of offshore banking is that funds are tax exempt, where the banks are located. Offshore banks offer the same services as domestic banks and frequently they offer more anonymity (greater secrecy) than "onshore" banks.

Some of the financial and legal advantages:

- Greater privacy
- Little or no taxation (i.e. tax havens)
- Easy access to deposits (at least in terms of regulation)
- Protection against local, political, or financial instability
- The offshore banking has often been associated with the underground economy, organized crime, tax evasion and money laundering.

Basic requirements to open an account:

The basics of opening an offshore bank account are similar to opening a bank account in your home country. Offshore banks will ask for your personal information, such as your name, date of birth, address, citizenship and occupation. Like your passport, driver's license utility bill and bank statement. Many offshore banks ask about the nature of transactions expected to take place through the account.

The bank will also ask documents depending upon your business activity.

- If you have significant funds from a business or real estate transaction, you may need to provide sales contracts or other relevant documents.
- If you are depositing funds from an insurance contract, you may need to provide a letter from your insurance company.
- If your money comes from an inheritance, the bank may ask for a letter from the executor of the estate testifying to this effect.
- If the money is from your job, a wage slip from your employer.

E SERVICES

E-Banking or Internet Banking

Internet Banking refers to the banking services provided by the banks over the internet. Some of these services include paying of bills, funds transfer, viewing account statement, etc. Banks also deliver their latest products and services over the internet. Internet banking is performed through a computer system or similar devices that can connect to the banking site via the internet. Nowadays, you can also use internet banking on your mobile phones using a Wi-Fi or 3G connection. With the ease of availability of cyber cafes in the cities, it has become quite popular.

Banking is now no more limited in going and visiting the bank in person for various purposes like depositing and withdrawing money, requesting for account statement, stop a payment, etc. You can do all these tasks and many more using the online services offered by the banks. You can also keep a track of your account transactions and balance all the time. Now getting passbooks updated to know the total account balance is a matter of past.

E-banking is also called online banking and internet banking. E-banking is a result of the growing expectations of bank's customers.

The activities clients are able to carry out are can be classified to as transactional and non-transactional.

Non transactional activities

- ✓ Account balance viewing
- ✓ Viewing of previous bank transactions
- ✓ Bank statement downloading
- ✓ Check book ordering
- ✓ Viewing of images of paid cheques
- ✓ M banking and E banking applications downloading
- ✓ Provision of account/ bank statements

Transactional activities

- ✓ Electronic funds transfer
- ✓ Bill payments and wire transfers
- ✓ Loan application and repayments
- ✓ Buying investment products

Advantages of Internet Banking

Internet Banking has several advantages over traditional one which makes operating an account simple and convenient. It allows you to conduct various transactions using the bank's website and offers several advantages. Some of the advantages of internet banking are:

1. Online account is **simple** to open and easy to operate.
2. It is quite **convenient** as you can easily pay your bills, can transfer funds between accounts, etc. Now you do not have to stand in a queue to pay off your bills; also you do not have to keep receipts of all the bills as you can now easily view your transactions.

3. It is **available all the time**, i.e. 24x7. You can perform your tasks from anywhere and at any time; even in night when the bank is closed or on holidays. The only thing you need to have is an active internet connection.
4. It is **fast and efficient**. Funds get transferred from one account to the other very fast. You can also manage several accounts easily through internet banking.
5. Through Internet banking, you can keep an eye on your transactions and account balance all the time. This facility also keeps your **account safe**. This means that by the ease of monitoring your account at any time, you can get to know about any fraudulent activity or threat to your account before it can pose your account to severe damage.
6. It also acts as a great **medium** for the banks to endorse their products and services. The services include loans, investment options, and many others.

Disadvantages of Internet Banking

Though there are many advantages of internet banking, but nothing comes without disadvantages and everything has its pros and cons; same is with internet banking. It also has some disadvantages which must be taken care of. The disadvantages of online banking include the following:

1. Understanding the usage of internet banking might be difficult for a beginner at the first go. Though there are some sites which offer a demo on how to access online accounts, but not all banks offer this facility. So, a person who is new, might face some difficulty.
2. You cannot have access to online banking if you don't have an internet connection; thus without the availability of internet access, it may not be useful.
3. Security of transactions is a big issue. Your account information might get **hacked** by unauthorized people over the internet.
4. **Password security** is a must. After receiving your password, do change it and memorize it otherwise your account may be misused by someone who gets to know your password inadvertently.
5. You cannot use it, in case; the bank's server is down.
6. Another issue is that sometimes it becomes difficult to note whether your transaction was successful or not. It may be due to the loss of net connectivity in between, or due to a slow connection, or the bank's server is down.

Popular services covered under E-Banking

The popular services covered under E-banking include:-

1. Automated Teller Machines,
2. Credit Cards,
3. Debit Cards,
4. Electronic Funds Transfer (EFT)
5. National Electronic Funds Transfer (NEFT)
6. Real Time Gross Settlement(RTGS)
7. Mobile Banking,

Automated Teller Machine (ATM)

ATMs are electronic machines, which are operated by a customer himself to deposit or to withdraw cash from bank. For using an ATM, a customer has to obtain an ATM card from his bank. The ATM card is a plastic card, which is magnetically coded. It can be easily read by the machine.

To operate an ATM card, the customer has to inset the card in the machine. He has to enter the pass word (number). If the authentication or pass word (number) is correct, the ATM permits a customer to make entries for withdrawal or for deposit. On completion of the transaction, the customer's card is ejected from the ATM.

Advantages of Automated Teller Machines (ATMs)

1. ATM provides 24 hours service

ATMs provide service round the clock. The customer can withdraw cash upto a certain a limit during any time of the day or night.

2. ATM gives convenience to bank's customers

ATMs provide convenience to the customers. Now-a-days, ATMs are located at convenient places, such as at the air ports, railway stations, etc. and not necessarily at the Bank's premises. It is to be noted that ATMs are installed off-site. (away from bank premises) as well as on site (installed within bank's premises). ATMs provide mobility in banking services for withdrawal.

3. ATM reduces the workload of bank's staff.

ATMs reduce the work pressure on bank's staff and avoid queues in bank premises.

4. ATM provide service without any error

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

5. ATM is very beneficial for travellers

ATMs are of great help to travellers. They need not carry large amount of cash with them. They can withdraw cash from any city or state, across the country and even from outside the country with the help of ATM.

6. ATM may give customers new currency notes

The customer also gets brand new currency notes from ATMs. In other words, customers do not get soiled notes from ATMs.

7. ATM provides privacy in banking transactions

Most of all, ATMs provide privacy in banking transactions of the customer.

Disadvantages of ATMs

1. ATMs may be unreliable especially when they are down. In case of system failure, there is nothing you can do until they are restored.
2. What happens if you forget your PIN? You will have to engage in hassles with the management before a new one is issued usually after some days.
3. In case of serious theft, you may lose the ATM card. The thieves can further hack the ATM card and be able to withdraw cash from your account.
4. The ATM machine does not guarantee a 100% availability of cash. In some cases, it may run low of cash and you will have to wait until it is restored by the management.
5. The cost of levied to an individual using an ATM could be higher although this vary with the banks.

DEBIT CARDS

A debit card is a plastic card that resembles credit card. Debit cards are directly linked to a cardholder's bank account. Whenever a card holder withdraws money from an ATM or uses the debit card for making payments, his/her account balance is automatically reduced.

Advantages of debit cards

Consumers are increasingly using their debit cards for everyday purchases instead of cash and checks, because they're convenient, easy to use, can be an effective budgeting tool, and provide benefits that cash and checks don't offer:

1.Prepaid card

Debit card acts as a type of prepaid card. It is so, since it already has a sufficient amount of cash balance in its holder's bank account. It permits to carry on the value of the transaction (i.e. purchases) to the extent of available balance in its holder's bank account.

2.Nominal fee

Bank issuing a debit card charges an annual fee for the issuance and maintenance of card. This fee charged is very nominal in nature. Generally, bank charges the fee on a per annum or yearly basis. Such a fee gets automatically debited (deducted) from the debit-cardholder's bank account.

3.Alternative to cash

Debit card acts as an alternative mode of payment for executing various cash-related financial transactions. It can be used for the purchases of goods and receipt of services. In its presence, there is no need to carry a large amount of cash. Thus, it helps to avoid carrying huge amount of cash while traveling and minimize risk of loss due to theft, damage, etc.

4.Immediate transfer of funds

Debit card ensures immediate transfer of funds in the merchant's or dealer's bank account. Such a transfer of funds takes place almost instantly at the moment of purchases of goods and receipts of services. With its use, there is no need to visit bank's office premise and do a manual transfer of cash in the merchant's or dealer's bank account.

Thus, it saves precious time and gives ease, safety, and comfort to its holder in his or her's finance-related activities.

5.Instant withdrawal of cash

The debit card facilitates instant withdrawal of cash from any nearest ATM. This helps its holder to avoid a personal visit to bank's office premise and wait in a long time-consuming queue.

In short, it also acts as an ATM card to meet its holder's cash-related needs, anytime and anywhere.

6.Easy to manage

Debit card is very easy to carry, handle and manage while traveling to outstations or overseas. Being small, thin, and flat and having a negligible weight it easily fits in any pocket. It can be handled very freely even with just two fingers. Managing it is also not a big problem.

- ✓ A cardholder must just take enough care to see to it that:
- ✓ Debit card is always covered with a thick plastic cover to avoid scratching of its sensitive surface.
- ✓ It doesn't come in contact with contaminated water and heat.
- ✓ It doesn't get folded accidentally; this helps to prevent its breakage.
- ✓ It is placed safely in a convenient location which one remembers. This helps to avoid it getting misplaced and lost due to negligence.

Disadvantages of debit cards:

1. One needs to have enough money in his or her bank account to cover for the amount of purchase done.
2. One has less protection if the debit card is lost or stolen as compare to credit card.
3. Since money is debited instantly at the time of purchase, one has less protection if something goes wrong with the purchase because bank won't put money back into account if purchased items are not delivered, or don't work.

CREDIT CARDS

Credit cards are considered a boon for the ready convenience they confer on the user- you don't have to worry about carrying enough cash when you go shopping or to a restaurant. Just flash your card, sign and walk out. Thus the age of plastic money has finally come to India. The credit card has become a matter of status.

A credit card in simple words is a plastic card which can be used as substitute for cash. It is widely used by people for make payment whether it is a small sum involving buying a movie ticket or big sum like purchasing some furniture or payment at hospitals. Banks issue it to their customers to enable them to purchase on credit. These cards store the information relating to customers account.

Types of credit card

1. **Credit card:** It is a normal card whereby a holder is able to purchase without having to pay cash immediately. Generally a limit is set with the amount of money a cardholder can spend. Interest is charged on the outstanding amount.
2. **Charge card:** Charge card is intended to serve as a convenient means of payment for goods purchased at member establishments rather than a credit facility. There is no interest charged. Eg: Andhra bank card.
3. **Instore cards:** Retailers / Companies issue the instore card. These cards have currency only at the issuers outlet for purchasing products of the issuers companies. Eg: 5 Star Hotels, Resorts.
4. **Corporate Credit card:** These are issued to private and public limited companies. The transactions made by add-on card holders are build to the main card and debits are made to the company's account.
5. **Smart card:** A smart card technology is also widely used by bankers to market their products. Smartcard is a chip based card. It is a microchip which will store a monetary

value. The transaction is made using a card the value is debited the balance comes down automatically. Once the monetary value comes down to nil, the balance is to be restored allover again. It provides communication security as it verifies whether the signature is genuine or not. The card also recognizes different voices and compares with the recorded original voice.

Parties to credit card holders:

1. **Issuer:** The banks are other card issuing institutions.
2. **Card Holder:** Individuals, corporate bodies etc.
3. **Member establishments:** Shops and service Organizations. Eg, Departmental stores, Petrol bunks.
4. **Member affiliates:** In case of tie-up arrangements with master card international, visa international, these organizations allow card holders of one bank to use their cards in member establishments of another bank.

Characteristics or features of credit card

1. Alternative to cash

Credit card is a better alternative to cash. It removes the worry of carrying various currency denominations to pay at the trade counters. It is quite easy and way fast to use a credit card rather than waiting for completion of cash transactions.

As an alternative, credit card helps a cardholder to travel anywhere in the world without a need to carry an ample amount of cash. It also reduces the possible risk of money theft and gives its user a complete peace of mind.

2. Credit limit

The credit cardholder enjoys the facility of a credit limit set on his card. This limit of credit is determined by the credit card issuing entity (bank or NBFC) only after analyzing the credit worthiness of the cardholder.

- The credit limit is of two types, viz.,
- Normal credit limit, and
- Revolving credit limit.

Normal credit limit is usual credit given by the bank or NBFC at the time of issuing a credit card.

Revolving credit limit varies with the financial exposure of the credit cardholder.

3. Aids payment in domestic and foreign currency

Credit card aids its cardholder to make payments in any currency of choice. In other words, it gives its holder a unique facility to make payments either in domestic (native) currency or if necessary, also in foreign (non-native) currency, that too as and when required.

Credit card reduces the cumbersome process of currency conversion. That is, it removes the financial complexities often encountered in converting a domestic currency into a foreign currency. It is because of this feature, a credit cardholder can possibly make payments to merchants present in any corner of the world.

4. Record keeping of all transactions

Credit card issuing entities like banks or NBFCs keeps a complete record of all transactions made by their credit cardholders. Such a record helps these entities to raise appropriate billing amounts payable by their cardholders, either on a monthly or some periodic basis.

5. Regular charges

Regular charges are basic routine charges charged by the credit card issuing entity on the usage of credit card by its cardholder. These charges are nominal in nature.

The regular charges are primarily classified into two types, viz.,

- a. Annual charges, and
- b. Additional charges.

Annual charges are collected on per annum or yearly basis.

Additional charges are collected for other supplementary services provided by the credit card issuing entity. Such services include, add-on-card (an additional credit card), issue of a new credit card, etc.

6. Grace period

The grace period is referred to those minimum numbers of additional days within which a credit cardholder has to pay his credit card bill without any incurring interest or financial charges.

7. Higher fees on cash withdrawals

Credit-card issuer makes charges on cash withdrawals made through credit card at the ATM outlets and other desks. Generally, cash withdrawal fees are quite higher than fees charged by the bank or NBFC for the other regular credit transactions. On cash withdrawn done through a credit card, interest is charged from the same day. That is, interest is charged since the day on which cash is withdrawn. Usually, no grace period is provided for cash transactions.

8. Additional charges for delay in payment

The credit card payment is supposed to be made within a due date as mentioned on the bill of a credit card. If payment is not paid on time, then a credit-card issuer charges some additional

costs, which are resulted due to delay in payment. These charges are charged to compensate (recover) the interest cost, administration cost and any other related costs bared by the credit card issuing entity.

9. Service tax

Service tax is included in the total amount charged to the credit cardholder. This mandatory service tax imposed by the government also increases the final end cost bared by a credit cardholder. Many credit card providers (issuing entities) have policies of reversing the service tax charged on the purchase of gas, fuel and other similar goods.

10. Bonus points

The competition among the credit card providers is unbending (adamant). Offering various incentives is usually a trendy (fashionable) way to improve the sale of the products in the ordinary course of business. Following this trend, credit card providers also give bonus points on the financial value of the transactions compiled by their customers.

11. Gifts and other offers

At a later stage (i.e. after crossing pre-determined number of bonus points) accumulated bonus points are redeemed either by converting them into gifts, cash back offers, or any other similar compelling offers. To collect many bonus points, the credit cardholder has to carry out a considerable number of transactions through his credit card.

Advantages of Credit Cards

A credit card allows you to borrow money to pay for things. There will be a limit to how much you can borrow called your credit limit. At the end of each month you can either pay off the full amount you owe or pay defined minimum proportion of the bill by a due date. The future credit card user should carefully study every credit card deal and revise his or her payment possibilities to suit. There are a lot of advantages.

1. Credit card reduces need to carry cash or checks. A credit card means you don't need to carry huge amounts of cash around and risk losing it.
2. If you make an unforeseen, large purchase, credit allows you to buy it at once and settle up later. Besides it gives you the opportunity to spread the cost of a large payment over several months.
3. As well as convenient, accessible credit, credit companies offer consumers flexible rewards schemes in which points earned by purchasing goods with the card can be redeemed for further goods and services.
4. A credit card means you can make purchases abroad without having to worry about local currency. They have now spread worldwide.

5. Using credit cards can help you build a positive credit history. Having a good credit history is also very important, when the credit card owner is applying for loans, rental or even jobs.
6. Many credit cards offer some type of insurance if your purchase is stolen. Some credit companies provide extended warranties on certain types of purchases.
7. In general, credit cards enhance our personal responsibility and independence.
8. Many of these advantages are found in the fine print of your statement that came with the credit card. Make sure you understand how everything works because the benefits differ from card to card.
9. Of course this only works because many people do not pay their balance at the end of the month. If nobody carried a balance, the banks would be out of money and they unquestionably would not offer any of those reward schemes that give you free miles or hotel rewards.

Disadvantages of credit cards:

1. The biggest disadvantage is that they are inviting cardholders to spend more money that they don't yet have. It is far too easy to spend more than you can afford using a credit card. Most credit cards do not ask you to pay off your balance each month. While this may feel like "free money" at the time, you will absolutely must to pay it off. The longer you wait, the more money you will lose with interest which accrues every day until you pay the balance.
2. Credit cards can be stolen, as can cash. They may be physically stolen or someone may steal your credit card number from a website, over the phone etc. The good news is that, unlike cash, if you find your card has been stolen and you inform your credit company instantly, you will not pay for purchases that somebody else has made.
3. Credit cards issue a monthly spending limit. While they are mostly high, if you exceed it, you may face even bigger charges.
4. So if a credit card is not used wisely Free Articles, people can get into debt or even bankruptcy

Difference between Debit Card and Credit cards

We all in our daily lives make use of both debit and credit cards, though both Debit and Credit Cards are electronic plastic cards that are used as a substitute for cash. But there are many differences between the two of them.

	Credit Card	Debit Card
About	Credit cards are lines of credit. When you use a credit card, the issuer puts money toward the transaction. This is a loan you are expected to pay back in full (usually within 30 days), unless you want to be charged interest.	Any time you use a debit card to buy something, money is deducted from your account. With a debit card, you can really only spend the money you have available to you.
Connected To	Not required to be connected to a checking account.	Checking or Savings Account
Monthly Bills	Yes	No
Application Process	Somewhat difficult, depending on one's credit score and other details.	Easy, with basically no barrier to receiving a debit card.
Spending Limit	The credit limit set by the credit issuer. Limits increase or stay the same over time as a borrower's creditworthiness changes.	However much is in the bank account connected to the card.
Interest Charged	If a credit card bill is not paid in full, interest is charged on outstanding balance. The interest rate is usually very high.	No interest is charged because no money is borrowed.
Security	Credit cards in the U.S. are not very secure in and of themselves because many still use dated card security technology. However, consumers are not held liable for this poor security.	A PIN makes them secure so long as no one steals the card number and PIN, and as long as you don't lose the card itself. If the card/info is stolen, debit cards are very insecure.
Fraud Liability	Low. Rarely held liable for fraudulent activity. If you are, you are only held liable for a maximum of \$50.	High. If someone steals your card and makes purchases, that money is removed from your bank account. Investigating this damage takes time. The longer you wait to report the fraud, the more likely you will be held liable for your own losses.
Credit History	Responsible credit card usage and payment can improve one's credit rating. Credit cards typically report account activity to at least one of the three major credit bureaus on a monthly basis.	Does not affect credit history.

Overdraw Fees	Low. Some credit card companies allow overdrawing amount over the maximum credit line with a fee.	High "overdraft" fees. Possible to overdraw amount over the account limit.
PIN	In the U.S., this is uncommon, but PINs are being phased in.	Usually

Electronic Funds Transfer (EFT)

Electronic funds transfer, often abbreviated as EFT, is a system of transferring money from one bank account directly to another without any banknotes/coins changing hands. EFT refers to the computer based systems used to perform financial transactions electronically initiated through the exchange or transfer of money either within the same financial institution or across multiple institutions using an electronic terminal (ATM, Point-of-Sale, Credit Card, etc), the telephone or the computer. It is also used for both credit transfers (such as payroll payments) and debit transfers (such as mortgage payments). Transactions are processed by the bank for payments where funds are transferred electronically from one bank account to the billing company's bank and usually takes less than a day after the scheduled payment date. The cost for an EFT may vary among the commercial banks.

The growing popularity of the EFT for online bill payment is paving the way for a paperless environment where cheques, stamps, envelopes and paper bills are obsolete. The benefits of the EFT include reduced administrative costs, increased efficiency, simplified bookkeeping and greater security.

Advantages of using the Electronic Fund Transfer:

- ✓ It is easy and convenient.
- ✓ It is fast and secure.
- ✓ It is efficient and less expensive than paper cheque payments and collections.

Disadvantages of using the Electronic Fund Transfer:

- ✓ If you enter the target account number incorrectly, there is no way to reverse the transaction since the bank would process the transaction under the belief that the information you provided is accurate.
- ✓ Once an amount is transferred, the bank cannot reverse a transaction.

RTGS (Real Time Gross Settlement):

It is a system to transfer funds from one bank to another bank on a 'real time' and 'gross basis'. The settlement in 'real time' means payment transaction is not subjected to any waiting

period. The transaction is settled as soon as processed. 'Gross settlement' means the transaction is settled on one to one basis, without bunching or netting with any other transaction.

Once processed, the payment is final and irrevocable. This system of electronic transfer takes place with the help of Central Bank of the country. The electronic payment system is maintained or controlled by the Central Bank of the Country.

In India, Reserve Bank of India (RBI, Central Bank of the Country) maintains this payment network. RTGS is the fastest possible money transfer system. Core Banking enabled banks and branches are assigned an Indian Financial System Code (IFSC) for RTGS and NEFT purposes.

This is an eleven digit alphanumeric code and unique to each branch of bank. The first four alphabets indicate the identity of the bank and remaining seven numerals indicate a single branch. This code is provided on the cheque books which are required for transaction along-with recipient's account number. Customers can access RTGS facility between 9 a.m. to 4.30 p.m. on week days and 9.30 a.m. to 1.30 p.m. on Saturday. This timing may also vary from bank to bank, depending upon the timings of the branches.

NEFT (National Electronic Funds Transfer):

NEFT refers to an online system for transferring funds from one financial institution to another within India. The system was launched in November 2005 and was to inherit every bank that was assigned to the SEFT clearing system. There is no minimum or maximum limit for fund transfer in NEFT system. The persons or parties which have bank accounts, generally use this facility.

This facility is open even to those, who do not have bank account. The persons without bank accounts can deposit cash at the NEFT-enabled branch with instructions to transfer funds using NEFT. A separate Transaction Code (No. 50) has been allotted in the NEFT system to facilitate walk-in-customers to deposit cash and transfer funds to the beneficiary.

Comparison between RTGS and NEFT:

- (i) The main difference between the two is that RTGS is on gross settlement basis, NEFT is on net settlement basis.
- (ii) RTGS completes transactions in real-time while NEFT completes transactions in cycles.
- (iii) The transfer in RTGS is completed on a one to one basis, while NEFT is on a deferred net basis, where transfers are bundled and deferred for a specific time.

(iv) RTGS is a high value transfer system, handling funds worth Rs, 1, 00,000 and above, while NEFT transfers smaller amounts below Rs. 10,000.

DEMAT

DEMAT Account Meaning:

A Demat account is similar to a bank account with the difference being that instead of money, it is the securities that have been deposited in electronic form. Securities are in the form of shares, bonds or debentures. As per the Depository Act, 1996, Demat Accounts are mandatory if you have more than 500 units in securities.

When opening a Demat account where physical securities are converted to electronic form, one may have a lot of questions in mind about the features and benefits of such accounts as well as the charges applicable.

Features of a Demat Account

1. Transfer of shares

To transfer shares, an Investor has to fill up Delivery Instruction Slip (DIS) or Receipt Instruction Slip (RIS), to sell or buy securities. These are equivalent to cheque books and contain all the detailed instructions for the transaction to take place smoothly.

2. Dematerialization and Rematerialization of Securities

Dematerialized securities are securities that are not on paper and a certificate to that effect does not exist. A Bank or any other Depository Participant where one has a Demat account can easily convert securities into electronic or physical form on request, with the submission of a Demat Request Form and a Remat Request Form respectively. Dematerialization refers to the conversion of securities into electronic form and conversion of electronic form securities into physical form is called Rematerialization.

3. Hypothecation for Loans

Investors can take a loan against securities (shares, debentures, bonds, mutual fund units) that are held in their Demat accounts. The securities are offered as collateral to the lender by the borrower.

4. Freezing a Demat Account

As per the need or preference, an investor can freeze his account for a specific time period. Freezing of Demat accounts is a good option if one does not want any unexpected debits or credits in the account. Moreover, it can also be used for a specific quantity of shares on the account.

5. Various modes of access

Since Demat accounts are electronic in nature; one can access their Demat account via the internet through smartphone or personal computer

6. SPEED-e facility

Made available by NSDL, this facility allows instruction slips to be sent electronically instead of submitting paper slips to the Depository Participant. The Depository Participants are the agents governed by Depositories through which one can operate the Demat account.

Demat Advantages

1. The biggest benefit is that you do not need to hold securities in physical form rather they are kept in electronic form and therefore the risks of losing shares due to theft, fire, flood and earthquake are eliminated.
2. One can have instant transfer of stocks from one account to another and therefore the whole process of buying and selling becomes fast which in turn increases the efficiency and effectiveness of stock market as a whole.
3. Since they are held in electronic form there is no stamp duty on transfer of securities which reduces the transaction costs associated with buying and selling of shares.
4. Demat account is not only for equity shares but you can keep mutual funds, gold exchange traded fund, preference shares in it which makes it easier for individuals to keep track of their investments as they do not have to check several accounts, they just have to check their demat account for knowing about their portfolio.
5. An individual having demat account can even trade for 1 share also which was not the case when you hold them in paper form.

Demat Disadvantages

1. The biggest limitation is that in order to have a demat account one needs to be internet savvy and therefore people who are not that literate with internet will find it hard to operate their demat account and therefore they tell their brokers or sub brokers to transact on behalf of them which sometimes lead to fraud and mismanagement of funds by the sub brokers.
2. Another limitation is that since stocks are dematerialised individuals tend to keep looking the stock price more often than they would have if stocks were in paper form and therefore they end up doing trading instead of investment, however this limitation is not of demat account but of individuals as they are not patient enough still many people blame it on demat account when they are asked why they are in a hurry to sell shares.

Various constituents and concepts in depository system or Players involved in dematerialization

1) Depository:

Depository is an organization or a system where securities/shares are held in electronic form. A depository is similar to a bank. The bank transfers money without handling money. A depository transfers securities/ shares without handling securities/share. A bank facilitates safe keeping of money. The depository facilitates safe keeping of securities/ shares. A bank holds funds in an account: The depository holds securities/shares in an account. The bank transfers funds between accounts on the instructions of account holders. The depository transfers securities/ shares between accounts on the instruction of account holders. The bank contacts the customer directly. The depository contacts the customer through depository participant: Transfers of shares are made through mere computerized book entry in the depository. This becomes possible because shares are dematerialized. Only those securities which are held in the form of share certificate in ones name can be dematerialized. The depository acts through the depository participant. It provides its services to investors through its depository participant.

2) Depository Participant (DP) :

Depository Participant (DP) is the representative of the depository. Depository participant acts as an intermediary between investors and depositories. An investor has no direct access to the depositories. He has to trade his securities through the depository participant. The depository participants have an identity number for identification. It has to maintain accounts of securities of each investor. The depository participant gives intimation about holdings from time to time by sending a statement of holding or giving a pass-book. If an investor desires the services of depository, he has to open an account with depository through depository participant.

At present there are two depositories. They are

- ✓ National Securities Depository Limited (NSDL)
- ✓ Central Depository Services Limited (CDSL)

According to SEBI guidelines financial institutions, banks, stock brokers can act as depository participant.

3) Beneficial owner :

An investor is known as 'beneficial owner'. He, is the person in whose name demat account is opened. His name is recorded with the depository. He enjoys the rights and benefits of a member such as to get dividend, to get bonus shares, to vote at meeting.

4) Issuer company :

It is a company which makes an issue of securities. It must register itself with a depository.

5) Dematerialization :

It is the process in which share certificates are converted into electronic form.

6) Fungibility :

The shares in depositories are fungible. They don't have distinctive number for identification.

7) Rematerialisation :

Rematerialisation is the process by which shares in electronic form are reconverted into physical form.

8) International Securities Identification Number (ISIN) :

It is an identification number given to a security of an issuer company at the time of admitting such security in the depository system.

PROCEDURE OF DEMATERIALISATION OF SECURITIES

When an investor opts for depository mode he has to approach depository participant. The depository participant : is the authorized agent of depository. The investor should surrender his share certificate to the company through depository participant. On confirmation from the company, the depository participant arranges to credit his account with equivalent number of shares.

Following steps are involved in the procedure of dematerialization :-

1. Opening client's demat account :

The investor has to open demat account when he wants to dematerialize the share. The procedure of opening demat account is simple. The procedure is as follows

- a. The investor has to fill in the account opening form. The form is in printed form. The form is available with the Depository Participant (DP).
- b. The investor has to sign DP client agreement. It states the rights and duties of DP. It also states the rights and duties of client (Investor).
- c. The DP gives the client a unique identification (client ID) in the depository system. The client ID must be quoted in all correspondence with DP. The DP gives Delivery Instruction Slip (DIS) for trading.

2. Submission of Demat Request and Scrip Certificate by investor :

The investor intending to dematerialize his securities sends a duly filled in and signed Demat Request Form (DRF) in triplicate along with share (scrip) certificate to the Depository Participant.

3. Forwarding of DRF and scrip certificate to company's Registrar :

The D.P. verifies the documents such as DRF in triplicate and scrip certificate received from the investor. The D.P. gives back the third copy of DRF to the investor. The DRF is duly stamped by the DP as acknowledgement. The DP puts a cross remark "SURRENDERED FOR DEMAT" on the face of scrip certificate. An original copy of DRF along with scrip certificate is forwarded by DP to company's registrar.

4. Forwarding a copy of DRF to depository :

The second copy of DRF is forwarded by DP to its depository.

5. Confirmation of receipt of DRF by Depository :

The depository sends a letter confirming the receipt of DRF to the company's registrar or its share transfer, agent.

6. Updating the records by company :

On receipt of confirmation from the depository, the secretary of company verifies the signatures of investors on DRF with the specimen signatures in the company record. He verifies the DRF contents with the details of register of members. Then the secretary convenes a meeting of Shares Transfer Committee and presents the matter before the meeting. The meeting passes a resolution to dematerialize the shares and the secretary updates the records of the company. He cancels the certificate number and distinctive numbers of shares in the records of company. He gives client's ID number in its place. He mentions the name of concerned depository against shares dematerialized.

7. Confirmation of dematerialization to the depository :

When the secretary has updated the company record, he sends a copy of minutes of meeting with confirmation of dematerialization to the depository directly or through share transfer agent.

8. Updating of records by depository :

On receipt of confirmation of dematerialization, the depository credits the account of investor electronically. It enters the client's ID number and other details of investor in its record.

9. Confirmation by the depository :

The depository sends the confirmation of demat of securities to its concerned DP

10. Updating the records of DP :

On receipt of confirmation from depository the DP updates the records of investors and gives him the credit for dematerialized shares in its records of beneficial owners.

11. Confirmation of dematerialization by DP :

Finally the DP informs the investor and sends him a statement of account.

Secretarial duties in issuing securities in dematerialized form

1. The secretary of Issuer Company has to perform the following duties in respect of issuing securities in electronic form.
2. The secretary has to ensure that the draft prospectus has been filed with the SEBI through an eligible Merchant Banker, at least 21 days prior to the filing of prospectus with the Registrar of Companies. SEBI suggests changes in the draft prospectus. The issuer company carries out such changes in it before filing prospectus with the Registrar of Companies.
3. The secretary has to ensure whether the company's scrips come under compulsory dematerialized trading or not.
4. If the dematerialized trading is compulsory, the secretary has to see that the company enters into an agreement with the depository.
5. The secretary has to see that the company has made an application for listing of securities on the stock exchanges.
6. The secretary has to ensure that the company gives an option to the subscriber or the shareholder or the investor to receive security certificate in dematerialized form with a depository.
7. The secretary has to intimate details of allotment to the depository immediately.

Key Terms

- Depository : Depository is an organization or a system where Securities/ shares are held in electronic form.
- Depository participant : Depository participant acts as intermediary between an investor and a depository.
- Beneficial owner : An investor is known as beneficial owner.
- Issuer Company : It is a company which makes an issue of securities.
- Dematerialization : It is the process in which share certificate are converted into electronic
- Rematerialisation : It is the process in which shares in electronic form are converted into physical form.

E-WALLET

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.

Features of E-wallet

1. Instant Payments between Wallets

Instant payment means the money transfer between the payer wallet and the payee wallet happens within seconds, instead of within hours or business days.

2. Payments to and From Bank Accounts

A mobile wallet should allow a seamless money transfer to any bank account, including your own accounts in the same bank as well as transfers to another person's accounts in different banks.

3. Bill Payments

This is one of the critical mobile wallet features because people today prefer to pay every bill online - utilities, mortgages, loans, rent, tuition, to name a few. As digital cash is here, mobile wallets are becoming an important part of daily life and they should be able to provide an effortless bill payments solution - be it a prepaid or postpaid payment service.

4. Management of Physical and Virtual Card Operations

Digital wallets can store a user's credit/debit card data, which can be used to make money transactions at any time. In this way the e-wallet simplifies the user's finances conveniently aggregating all their cards in one central space.

People today have a range of credit and loyalty cards. That's why your mobile wallet app needs to be ready to manage multiple card operations such as block/unblock, change pin, change limits, applying for new cards, etc.

5. Merchant Payments via Contactless Technologies (NFC or QR code scanning)

Needless to say, in our digital world, more and more merchants start realizing the need for deploying various technologies that accept digital wallets. Retail clients can make in-store payments using mobile wallets via contactless methods like near-field communication (NFC) and QR-code.

6. Security

When you provide mobile financial services, security comes first. Money transactions have to be safe and secure from end to end.

Mobile wallets can be secured with plenty of robust technologies, such as point-to-point encryption, tokenization, passwords, biometrics, out-of-band authentication, one-time password (OTP) via SMS, security questions.

7. Easy and Fast Self-Registration

As mobile wallets are all about saving people's time, efforts, and nerves, self-registration should be absolutely easy and fast to accomplish.

8. Rewards, Coupons, Discounts

The power of coupons and rewards is well-known among marketers and sales teams. Mobile wallets are an ideal environment to provide deal-seeking consumers with these benefits in a relevant context.

9. Split Bill

When it comes to modern features simplifying people's everyday tasks, splitting the bill is a no-brainer. And simplicity can be a powerful competitive advantage for your mobile wallet app.

This functionality allows users to split the payment when going to dinner with their friends, for example. It happens within the same app, as easy as selecting the phone numbers of the friends involved.

10. Loan Origination

Loan origination is one of the mobile wallet features that meet the growing demand for convenient, real-time banking. The loan origination process via a smartphone needs to be mobile-friendly, fast, and automated as much as possible.

Loan origination involves collecting customer application details, integration with bank systems, instant approval supported by credit bureau integration, and more.

11. Analytical Dashboards and Diagrams

An analytical dashboard allows digital wallet holders to view and analyze their personal financial operations through reports, figures, and diagrams.

12. Backup Facility

A backup facility is a vital mobile wallet feature which allows users to restore wallet data. Backup is often automatically embedded within wallet apps for user data safety.

The best option is to provide several different methods to protect user data, such as: sync data to the Dropbox cloud, sync data to iCloud, built-in email wallet backup feature, sync data via a local WiFi connection, etc.

Bharat Interface for Money (BHIM)

Bharat Interface for Money (BHIM) is an initiative to enable fast, secure, reliable cashless payments through your mobile phone. BHIM is based on Unified Payment Interface (UPI) to facilitate e-payments directly through bank. It is interoperable with other Unified Payment Interface (UPI) applications, and bank accounts. Unified Payment Interface (UPI) is an instant payment system built over the IMPS infrastructure and allows you to instantly transfer money between any two parties bank accounts. BHIM is developed by the National Payment Corporation of India (NPCI).

Prerequisites to use BHIM

1. Smartphone with Internet access
2. An Indian bank account
3. Your mobile number should be linked with your bank account. For doing so, please contact your bank.
4. Your account has to be UPI activated or you need to have a debit card. To know if your bank supports UPI, click [here](#).
5. Download the Bharat Interface for Money app (for Android phones), Bharat Interface for Money app (for Apple iOS phones).

Services offered

Through Bharat Interface for Money you can make following type of transaction

- Request or Send Money via Payment Address
- Send Money to Aadhaar Number

- Request or Send Money to Mobile number
- Send Money through MMID , Mobile No.
- Send Money through IFSC code, Account No.
- In addition, you can use the scan and pay option for Merchant payments.

Money Transfer

You can send money using the BHIM Money app from your UPI enabled bank account. If your beneficiary's bank account is also linked to UPI, you can simply use their mobile number or Payment Address to transfer. If not, you can use IFSC code, Bank account or MMID, Mobile number to send money.

Process to be followed

From the BHIM Money app Home screen,

1. Click Send Money Option
2. Enter or select the receiver's mobile number or Payment Address (you can select from your contact list or enter it) or Aadhaar number
3. Enter the amount you want to send
4. Your default bank a/c gets selected
5. Enter UPI PIN and Send
6. Alternately, you can also scan a QR code and pay via the 'Scan & Pay' option.
7. Once you complete a transaction, you should see a success status on the Bharat Interface for Money screen and receive an SMS from your bank. In some cases due to operator issues it can take longer time. In case you have not received your confirmation within an hour please contact our customer support at your bank.

Request money

1. From the BHIM Money app Home screen,
2. Select Request Money
3. Enter or select the receiver's mobile number or Payment Address (you can select from your contact list or enter it) or Aadhaar number
4. Enter the amount you want to request
5. Click Send
6. This transaction will remain pending until the payment is received. You will be notified when the money is transferred to you.

PAYTM

Paytm, owned by One97 Communications, is a digital payments platform that allows you to transfer cash into the integrated wallet via online banking, debit cards, and credit cards, or even by depositing cash via select banks and partners. Using the money in the Paytm wallet, you can pay for a number of goods without using cash.

Among the transactions you can make on Paytm are recharges for mobile phones, metro cards, DTH cable, data cards, etc, as well as postpaid payments for mobile phones, landline/ broadband, electricity, water and gas bills, etc. You can also book tickets for buses, trains, flights, movies, hotel rooms, etc. and pay for Uber cab rides using the platform. Additionally, you can buy goods on the company's e-commerce platform using the wallet, and even make offline payments at over 8 lakh merchants, Paytm claims.

PAYTM WALLET

Paytm Wallet, as mentioned above, is the digital payment instrument where you can transfer money from your bank account or credit card to use for transactions on the platform. You need to set up an account using your mobile phone number and email ID to setup a Paytm account and transfer cash to the wallet. You can add up to Rs. 10,000 in a month in the Wallet; if you want to increase the monthly limit, then you can get the KYC (Know Your Customer) processor done. With this, you can have up to Rs. 1 lakh in the Paytm Wallet at any point of time.

Benefits of using Paytm wallet-

- It is fast & safe,
- No need to carry debit or credit card means fewer chances for being fraud,
- Easily return money to the same bank when you need,
- Transfer money from Paytm to bank account as low as 2.04%,
- Get Cashback on most of the store using Paytm wallet (but it's promotional, can be removed such offer any time),
- Less documentation at your home to Upgrade paytm wallet limit (Now available for all cities)
- Good wallet limit for KYC customer (25k) & Non-KYC customer (20k) both.
- Easy & automatical refund to Paytm wallet in case of product cancellation at partners store.
- Transfer money to the bank at any time at nominal charges (currently 2.04%)

GOOGLE PAY

Google Pay is a digital payment app for India. Earlier this app was known as Google Tez. It is recently renamed as Google Pay.

A Google pay is a digital payment app. It is a simple way to send and receive money to anyone using a mobile app. Money payment will take place from the sender's account number.

This app will work even if the receiver is not on Google Pay. It is a zero fee affair. Apart from sending and receiving money, you can do online shopping, mobile recharge and a lot of other stuff. This app works with all Banks that support BHIM UPI.

Benefits of Google Pay

1. Quick and Easy way to send and receive money.
2. Multiple cashback and rewards benefits.
3. Encryption and multiple layers of security by Google to secure transaction.
4. Pay Utility bills, recharge your mobile and do online shopping using this app.
5. No additional cost of usage.
6. This app can also be used for business purpose. Integration is very easy by API and no fee is involved.

PHONEPE

PhonePe is a mobile payment platform using which you can transfer money using UPI, recharge phone numbers, pay utility bills, etc.

PhonePe works on the Unified Payment Interface (UPI) system and all you need is to feed in your bank account details and create a UPI ID. There is no need to recharge the wallet, because the money will be directly debited from your bank account at the click of a button in a safe and secure manner. The best thing about UPI is that it is a 24/7 service and can be used even on bank holidays and weekends.

Benefits of Phonepe

1. Safe to use
2. User-friendly
3. Available in many local Indian languages such as Hindi, Kannada, Tamil, Malayalam, Assamese, Gujarati, etc
4. Available round the clock
5. Immediate money transfer
6. Instant discounts and cashbacks on transactions
7. No hassle of remembering bank account details such as IFSC code

2.4: BANKING OPERATIONS AND INNOVATION

OBJECTIVE

The objective of this course is to familiarize the students with the operations and innovations in Banking Sector.

Unit 1:

16 Hrs

A). BANKER AND CUSTOMER RELATIONSHIP

Introduction – Meaning of Banker & Customer; General and Special relationships between Banker & Customer, (Rights and Obligations of Banker & Customer).

B). CUSTOMERS AND ACCOUNT HOLDERS

Types of Customer and Account Holders – Procedure and Practice in Opening and Operating accounts of different customers – Minor, Joint Account Holders, Partnership Firms, Joint Stock Companies, Clubs, Non-Resident Account – NRI & NRE Accounts.

Unit 2: COLLECTING BANKER

08 Hrs

Meaning – Duties and Responsibilities of Collecting Banker; Holder for Value; Holder in Due Course; Statutory Protection to Collecting Banker.

Unit 3: PAYING BANKER

12 Hrs

Meaning – Precautions – Statutory Protection to the Paying Banker; Cheques – Crossing of Cheques – Types of Crossing; Endorsements – Meaning, Essentials and Kinds of Endorsement; Dishonor of Cheque – Grounds for Dishonor.

Unit 4: LENDING OPERATIONS

12 Hrs

Principles of Bank Lending, Kinds of lending - Loans, Cash Credit, Overdraft, Bills Discounting, Letters of Credit. Types of securities and Methods of creation of charge, Secured and Unsecured Advances; Procedure - Housing, Education and Vehicle loan's; Non-Performing Asset (NPA): Meaning, circumstances & impact; Government Regulations on Priority lending for commercial banks.

Unit 5: BANKING INNOVATIONS

08 Hrs

New Technology in banking, Core Banking, Universal Banking and Offshore Banking; E-Services – Debit and Credit Cards - Internet Banking – ATM - Electronic Fund Transfer (NEFT, RTGS, IMPS), DEMAT, E-Wallet – Meaning, Types of E-Wallet's & Procedure of making E-Payments: BHIM, PAYTM, GOOGLE PAY (TEZ), PHONE PE (Concepts only)