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PG & RESEARCH DEPARTMENT OF COMMERCE

B.COM DEGREE

III SEMESTER

BANKING THEORY LAW & PRACTICE

B.Com

BANKING THEORY LAW & S PRACTICE

SEMESTER III

Unit - I

Origin and Development of banks – Banking Regulations Act 1949 – Definition of Banking – Licensing – Opening of Branches – Importance and Functions of Banks – Inspection, Relationship between Banker and Customer –Special types of Banker's Customers.

Unit - II

Commercial Banks – Universal Banking – Management of Deposits and Advances – Classification and nature of Deposit accounts- Advances – Types of Advances – Lending practice – Principles of sound bank lending.

Unit - III

Central Bank – Reserve Bank of India – Objectives – Organisation – Functions –Monetary Policy – Credit Control measures and their effectiveness.

Unit - IV

Negotiable Instruments – Definition – Features – Promissory Note – Bills of Exchange and Cheque – Holder and Holder in due course – Crossing of a Cheque – Types of Crossing – Endorsement – Negotiation & Dishonour and discharge of Negotiable Instrument – Protection of Collecting Banker and Paying Banker.

Unit - V

E- Banking – Meaning – Benefits – Electronic Transfer – NEFT – ECS –ATM – Debit Card and Credit Card – RTGs _ Mobile Banking – WAP – Tele Banking – Internet Banking – Bank assurance – Banking Ombudsman Scheme – Demat Account.

TEXT BOOK:

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1. Banking Techonology-Dr.A.Rama, A.Arundadevi, New century book house (P)Ltd, Chennai
2. Banking Theory, Law & Practice, Sundaram & Varshney, Sultan Chand & Sons, New Delhi.
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UNIT-I

INTRODUCTION

Banking law in India, as we found today, is the outcome of the gradual process of evolution. The Indian Companies Act, 1913 was not adequate and therefore a separate legislation was passed in 1949 under the name of Banking Companies Act, 1949. This Act was based to a large extent upon the English banking law. Later in 1966, this Act was renamed as Banking Regulation Act. Since its enforcement in 1949, the Act has been amended several times to cater to the needs of the society and also to remove the loopholes. An important amendment was made in 1968 for the purpose of introducing "Social Control" on the banks. To take over the 14 major

Banking as a business has its own distinctive features when compared with all other trade and business. A banking company deals mainly with the money of large number of depositors who do not have any control over the affairs of the bank. Hence, there is a need for proper control over the banks. It is the responsibility of the Government to safeguard the interests of the large number of depositors. Banking Regulation Act, 1949 is the most important Act enacted by the Government to protect the interests of the people. The provisions of this Act are in addition to those of Companies Act, 1956 and any other law like the Contract Act, the Negotiable Instruments Act, the Codes of Civil and Criminal Procedures, etc. The commercial banks in India are also regulated by Reserve Bank of India Act, 1934. commercial banks in India with effect from July 19, 1969, the Banking Companies (Acquisition and Transfer of Undertakings) Act was passed in 1970. To meet the changing requirements of the many enactments such as The Public Financial Institutions Laws (Amendment) Act, 1975, The Regional Rural Banks Act, 1976, the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 etc. have been passed.

DEVELOPMENT OF THE BANKS

In ancient Babylon, Egypt and Greece, banking was carried on. Infact the temples usually served as the place to deposit money. In Rome in the year 210 B.C., an ordinance was issued that set aside a place, for money changes. The word ‘bank’ comes to us from Italian. In the middle ages, the money changers of Italy did their business in the street on a bench, and the Italian word for bench is ‘banco’ from which we derive the word bank.

In venice in 1587, Banco-di-Rialto was first set up. It accepted deposits and permitted the depositors to write cheques against their money. In 1619, Banco Del Giro took over this bank. The bank of Amsterdam was set up in 1609.

The present day bank has three predecessors, namely, the Goldsmith, the merchant and the money lender, Bank of England was set up in 1694 which was later on followed by other central banks of different countries. In India, the first ever bank was established in 1786, called General Bank of India which was followed by bank of Hindustan and Bengal bank in 1809. The Presidency Bank of Bengal was established which was followed by the establishment of presidency Bank in Bombay in 1840 and Presidency Bank in Madras in 1843. In 1921, these three presidency Banks operating in india amalgamated into the Imperial Bnking of Indian. After nationalization in 1955, the Imperial Bank of India was named the State Bank on India.

On 1st July 1969, the forst nationalization of Banks took place wherby 14 Banks were nationalized. On April 15, 1980 the second nationalization took place whereby 6 Banks were nationalized. In Oct 1993, the New Bank of india was merged with the Punjab National Bank, therefore at present, there are only 19 nationalised Banks in the country besides the RBI.

The Reserve Bank of India Act was passed in the year 1934 and after independence Reserve Bank of India was taken over the Government by the passing of the transfer of public ownership Act. The shareholders of RBI were paid compensation.

BANKING REGULATIONS ACT 1949

MEANING

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

DEFINITION OF THE TERM BANKING

1. According to section 5 (1)(b) of the Banking Companies Act 1949," Banking means accepting for the purpose of lending or investment of deposts of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise".

As per Section 5(b) of the Banking Regulation Act 1949: “Banking” means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdawal by cheque, draft, order or otherwise.”

All banks which are included in the Second Schedule to the Reserve Bank of India Act, 1934 are scheduled banks. These banks comprise Scheduled Commercial Banks and Scheduled Cooperative Banks.

Scheduled Commercial Banks in India are categorised into five different groups according to their ownership and / or nature of operation. These bank groups are:

(i) State Bank of India and its Associates,
(ii) Nationalised Banks,
(iii) Regional Rural Banks,
(iv) Foreign Banks and
(v) Other Indian Scheduled Commercial Banks (in the private sector).

Besides the Nationalized banks (majority equity holding is with the Government), the State Bank of India (SBI) (majority equity holding being with the Reserve Bank of India) and the associate banks of SBI (majority holding being with State Bank of India), the commercial banks comprise foreign and Indian private banks. While the State bank of India and its associates, nationalized banks and Regional Rural Banks are constituted under respective enactments of the Parliament, the private sector banks are banking companies as defined in the Banking Regulation Act.

Bank Nationalization, the Government of India issued an ordinance and nationalized the 14 largest commercial banks with effect from the midnight of July 19, 1969. Within two weeks of the issue of the ordinance, the Parliament passed the Banking Companies (Acquisition and Transfer of Undertaking) Bill, and it received the presidential approval on 9 August 1969.

List of Nationalized Banks in India in 2012:

1. Allahabad Bank
2. Andhra Bank
3. Bank of Baroda
4. Bank of India
5. Bank of Maharashtra
6. Canara Bank
7. Central Bank of India
8. Corporation Bank
9. Dena Bank

10. Indian Bank
11. Indian Overseas Bank
12. Oriental Bank of Commerce
13. Punjab and Sind Bank
14. Punjab National Bank
15. State Bank of Bikaner & Jaipur
16. State Bank of Hyderabad
17. State Bank of India (SBI)
18. State Bank of Indore
19. State Bank of Mysore
20. State Bank of Patiala
21. State Bank of Travancore
22. Syndicate Bank
23. UCO Bank
24. Union Bank of India
25. United Bank of India
26. Vijaya Bank

Reserve Bank of India The Reserve Bank of India is the central bank of the country. Central banks are a relatively recent innovation and most central banks, as we know them today, were established around the early twentieth century. The Reserve Bank of India was set up on the basis of the recommendations of the Hilton Young Commission.

The Reserve Bank of India Act, 1934 (II of 1934) provides the statutory basis of the functioning of the Bank, which commenced operations on April 1, 1935. The Bank was constituted to • Regulate the issue of banknotes • Maintain reserves with a view to securing monetary stability and • To operate the credit and currency system of the country to its advantage.

LICENSING OF COMMERCIAL BANKS (Section 22)

No Commercial bank in India will be allowed to do banking business without obtaining license form the Reserve Bank of India. The Reserve Bank will grant license provided certain terms.

OPENING OF BRANCHES (Section 23)

If any bank wants to open a new branch, it should apply for branch license to Reserve Bank of India. For this purpose, the bank will have to give details of its capital structure and management.

IMPORTANCE OF BANKS

Banks play a very useful and crucial role in the economic life of every nation. They have control over a large part of the supply of money in circulation, and they can influence the nature and character of production in any country. In order to study the economic significance of banks, we have to review the general and important functions of banks. Removing the deficiency of capital formation

In any economy, economic development is not possible unless there is an adequate degree of capital accumulation (or) formation. Deficiency of capital formation is the result of low saving made by the community. The serious capital deficiency in developing economies is reflected in small amount of capital equipment per worker and the limited knowledge, training and scientific advance. At this juncture, banks play a useful role. Banks stimulate saving and investment to remove this deficiency. A sound banking system mobilizes small savings of the community and makes them available for investment in productive enterprises. The important implications of this activity include Banks mobilise deposits by offering attractive rates of interest and thus convert savings into active capital. Otherwise that amount would have remained idle.

1) Provision of finance and credit

Banks are very important sources of finance and credit for industry and trade. It is observed that credit is the lubricant of all commerce and trade. Hence, banks become nerve centers of all trade activities and therefore commerce and trade could function in the presence of sound banking system.

The banks cover foreign trade transactions also. Big banks also undertake foreign exchange business. They help in concluding deferred payments, arrangements between the domestic industrial undertakings and foreign firms to enable the former import machinery and other essential equipment.

2) Extension of the size of the market

Commercial bankers help commerce and industry in yet another way. With the sound banking system, it is possible for commerce and industry for extending their field of operation. Commercial banks act as an intermediary between buyers and the sellers. Goods are supplied on bank guarantees, making it viable for industry and commerce to cultivate and locate markets for their products. The risks are undertaken by the bank. When the risks have been set free by the banks, the industry can look forward to derive economies of the large size of the market.

3) Act as an engine of balanced regional development

Commercial banks help in proper allocation of funds among different regions of the economy. The banks operate primarily for profits. When the banks lend their funds for more productive uses, their profits will be maximized. Introduction of branch banking makes it possible to choose between different regions. A region with growth potential attracts more bank funds. But in recent years, the approach of banks towards regional growth has been undergoing a change. Banks help create infrastructure essential for economic development. Thus banks are engines of balanced regional development in the country.

4) Financing agriculture and allied activities

The commercial bank helps the farmers in extending credit for agricultural development. Farmers require credit for various purposes like making their produce, for the modernization and mechanization of their agriculture, for providing irrigation facilities and for developing land.

The banks also extend their financial assistance in the areas of animal husbanding, dairy farming, sheep breeding, poultry farming and horticulture.

5) For improving the standard of living of the people

The standard of living of the people is estimated on the basis of the consumption pattern. The banks advance loans to consumers for the purchase of consumer durables and other immovable property, which will raise the standard of living of the people.

Stimulating human capital formation, facilitating monetary policy formulation and developing entrepreneurs are some of the other roles played by commercial banks in the economic life of every nation.

Generally, banks have come to play a significant role in the development of countries. Here we shall deal with the important services provided by commercial banks and show how banks play a significant role in the economic development of a nation.

6) Banks are necessary for trade and industry: All economic progress in the last 200 years or so has been based on extensive trade and industrialization, which could not have taken place without the use of money. In all large transactions, payments are not made in terms of money but in terms of cheques and drafts. Between countries, trade is financed through bills of exchange which are discounted (i.e., bought)
by banks.

8) Banks help in distribution of funds between regions: Another way by which commercial banks encourage production and enhance national income is by the transference of surplus capital from regions where it is not wanted so much to those regions where it can be more usefully and efficiently employed.

9) Banks create credit and help in business expansion: Fluctuations in bank credit have an important bearing on the level of economic activity. Expansion of bank credit will provide more funds to entrepreneurs and, hence, will lead to more investment.

10) Banks monetize debt: A very important service that banks render to the community is the creations of demand deposits in exchange of debts of other which (viz., short and long- term securities). Commercial banks buy debts of others which are not generally acceptable as money, either because the debtors are not sufficiently known or because their debt is payable only after a period of time.

11) Bank promotes capital formation: Commercial banks afford facilities for saving and thus encourage habits of thrift and industry among people. They mobilize the idle and dormant capital of the community and make it available for productive purposes. Economic developments depend upon the diversion of economic resources from consumption to capital formation.

12) Banks influence interest rates: Bank can influence economic activity in another way also. They can influence the rate of interest in the money market through its supply of funds. By offering more or less funds, it can exert a powerful influence upon interest rates. In a developing country like India, banking facilities are highly inadequate. The vast number of people living in villages and towns do not have any banking facilities and consequently all their savings are wasted.

Thus, banks have come to occupy an important place in the industrial and commercial life of a nation. A developed banking organization is a necessary condition for the industrial development of country.

FUNCTIONS AND SERVICES OF BANKS

Meaning of a Commercial Bank

A commercial bank can be defined as the financial institution that offers banking services to the general public and to companies with the main aim of making profit.

Commercial Banks functions there are two types such as**,**

Primary and Secondary Functions

(I) Primary Functions

1. Accepting Deposits:

It is the most important function of commercial banks. They accept deposits in several forms according to requirements of different sections of the society.

(i) Current Account Deposits or Demand Deposits
(ii) Fixed Deposits or Time Deposits
(iii) Saving Deposits

2. Advancing of Loans:

The deposits received by banks are not allowed to remain idle. So, after keeping certain cash reserves, the balance is given to needy borrowers and interest is charged from them, which is the main source of income for these banks.

Different types of loans and advances made by Commercial banks are:

(i) Cash Credit:
(ii) Demand Loans
(iii) Short-term Loans

(II) Secondary Functions:

1. Overdraft Facility:

It refers to a facility in which a customer is allowed to overdraw his current account upto an agreed limit. This facility is generally given to respectable and reliable customers for a short period. Customers have to pay interest to the bank on the amount overdrawn by them.

2. Discounting Bills of Exchange:

It refers to a facility in which holder of a bill of exchange can get the bill discounted with bank before the maturity. After deducting the commission, bank pays the balance to the holder. On maturity, bank gets its payment from the party which had accepted the bill.

3. Agency Functions:

Commercial banks also perform certain agency functions for their customers. For these services, banks charge some commission from their clients.

Some of the agency functions are:

(i) Transfer of Funds:

Banks provide the facility of economical and easy remittance of funds from place-to- place with the help of instruments like demand drafts, mail transfers, etc.

(ii) Collection and Payment of Various Items:

Commercial banks collect cheques, bills,' interest, dividends, subscriptions, rents and other periodical receipts on behalf of their customers and also make payments of taxes, insurance premium, etc. on standing instructions of their clients.

(iii) Purchase and Sale of Foreign Exchange:

Some commercial banks are authorized by the central bank to deal in foreign exchange. They buy and sell foreign exchange on behalf of their customers and help in promoting international trade.

(iv) Purchase and Sale of Securities:

Commercial banks buy and sell stocks and shares of private companies as well as government securities on behalf of their customers.

(v) Income Tax Consultancy:

They also give advice to their customers on matters relating to income tax and even prepare their income tax returns.

(vi) Trustee and Executor:

Commercial banks preserve the wills of their customers as trustees and execute them after their death as executors.

(vii) Letters of Reference:

They give information about the economic position of their customers to traders and provide the similar information about other traders to their customers.

4. General Utility Functions:

Commercial banks render some general utility services like:

(i) Locker Facility:

Commercial banks provide facility of safety vaults or lockers to keep valuable articles of customers in safe custody.

(ii) Traveller's Cheques:

Commercial banks issue traveler's cheques to their customers to avoid risk of taking cash during their journey.

(iii) Letter of Credit:

They also issue letters of credit to their customers to certify their creditworthiness.

(iv) Underwriting Securities:

Commercial banks also undertake the task of underwriting securities. As public has full faith in the creditworthiness of banks, public do not hesitate in buying the securities underwritten by banks.

(v) Collection of Statistics:

Banks collect and publish statistics relating to trade, commerce and industry. Hence, they advice customers on financial matters. Commercial banks receive deposits from the public and use these deposits to give loans. However, loans offered are many times more than the deposits received by banks. This function of banks is known as 'Money Creation'.

INSPECTION BY RESERVE BANK OF INDIA (Section 35)

Under the Banking Regulation Act, Reserve Bank of india can undetrtake inspection of banks under certain conditions. Banks will send periodical reports to RBI based on which RBI may undertake inspection.

RELATIONSHIP BETWEEN BANKER AND CUSTOMER

Meaning of Banker

Generally a bank performs a multitude of functions and services which cannot be comprehended into a single definition. For a common man, a bank means a storehouse of money, for a businessman it is an institution of finance and for a worker it may be a depository for his savings.

In India, the Banking Regulation Act 1949, under which banks are regulated by the Reserve Bank of India, defines ' ‘banking as an activity of accepting of deposit, which shall be repayable on demand from the depositor’.

Definition of Banker

Dr. Herbert L. Hart, the author of the well known treatise on Law of Banking says, “

“ A Banker is one who in the ordinary course of his business honors cheques drawn upon him by persons from and for whom he receives money on current accounts”.

According to Sir John Paget , Banker is that no person or body, Corporate or otherwise, can be a banker who does not (1) take deposit accounts, (2) take

Current deposits, (3) issue and pay cheques and (4) collect cheques crossed or uncrossed, for his customers”.

Meaning of a Customer

A customer is a person with whom the banker has some regular and formalised banking business. The dealings with the banker should be of a banking nature and regular in order to make a person a customer of the banker.

Definition of a Customer

The term “customer” of a bank has not been defined by any law. As per the views of Sir John Paget, “to constitute a customer there must some recognizable course or habit of dealings in the nature of regular banking business”. According to this definition, to constitute a customer of a bank a person has to satisfy the following conditions.

- There should be a habit of dealings between him and the bank.
- The transactions should be in the nature of regular banking business i.e., frequency of transactions should be there.
- As such , a person does not become a customer of a bank immediately on opening an account . A single and isolated act or transaction cannot constitute a customer.
- There must be some continuity of transactions.
- Since the emphasis is placed on the continuity of transactions. i.e., duration of the bank account, this view is called as “Duration Theory”

RELATIONSHIP BETWEEN BANKER AND CUSTOMER

Banker and customer relationship can be divided into two categories as follows;

1. General Relationship
- ✓ Debtor and Creditor
2. Special Relationship
- ✓ Bailor and Bailee
- ✓ Principal and Agent
- ✓ Trustees and Beneficiary
- ✓ Banker as Adviser
- ✓ Other Relations.

GENERAL RELATIONSHIP

The general relationships includes the following:

1. DEBTORS AND CREDITOR RELATIONSHIP:

The relationship between a banker and customer is mainly that of debtor and creditor. The respective positions depend on the state of account. Normally the banker is debtor and the customer generally keeps some amount in his account with the bank. In other words, customer's accounts generally shows a credit balance. But in three case of an overdraft the banker is a creditor. In the case of a loan account, banker is a creditor and the customer is a debtor.

On the opening of an account the banker assumes the position of a debtor. He is not a depository or trustee pf the customer's money because the money deposited with the banker becomes a debt due from him to the customer. Normally the banker is in the position pf a debtor and the customer is that of a creditor. But when the account is overdrawn, the roles are changed, the banker becoming a creditor and the customer the debtor.

However, this debtor-creditor relationship is subject to the following peculiarities which are not there in similar commercial relationships.

Not time barred: The deposit with a bank does not become time barred on the expiry of three years. On the other hand, an ordinary debt becomes a time barred debt after the expiry pf three years. The statute of limitations begins to run only when the amount becomes due.

Creditor must demand payment: The debt due by a banker to his customer differs from ordinary commercial debt, demand for payment by the creditor is not necessary. In other words, the debtor (borrower) himself has to pay money to the creditor. But in the case of debt due from a banker, demand for payment is necessary.

Proper place place and time of demand: When the bank accepts money on a current account, it promises to honour its customer's cheques in so far as the amount is sufficient and available. The obligation to repay the amount is limited to the branch where the account is kept.

Demand to be made in proper manner: Deposits are withdrawal by cheques, drafts, and order or otherwise. Demand for refund must be made by means of cheques or order as permitted by the banker. The amount should never be returned on oral instructions.

SPECIAL RELATIONSHIPS

Bailor and Bailee Relationship:

The Bank becomes a bailee in case of the valuable or securities deposited with him for safe custody. It is his duty to preserve them properly and hand them over to the customer. The banker does not get the ownership of these articles. The ownership remains with the customer. In these case banks are acting as bailee. It is the duty of the bailee to redeliver the same goods to the bailor any profit or surplus that might have occurred from the goods so bailed.

Principal and Agent:

When a banker acts as an agent of his customer and performs a number of a agency functions for the convenience of his customer. When banks undertake to purchase or sell securities, collect cheques, bills, interest, dividends etc., and pay insurance premium on behalf of their customers, banks act as agents. Some banks have established Tax Service departments to take up the tax problems of the customers.

Trustee and Beneficiary:

In certain circumstances, banker acts as a trustees with regard to securities and valuables deposited deposited for safe custody, the banker's position is different. The funds or assets

coming into his hands in the capacity of a trustee must be applied only for the specific purpose. But ordinary, a banker is not a trustee or a bailee of the moneys deposited with him. He is a debtor and possesses complete freedom to use the funds.

Banker as agent and advisor:

When a banker buys or sells securities on behalf of his customer and renders others service, he is acting as an agent of his customer. Similarly, when he collects cheques, dividends, bills or promissory notes on behalf of his customer the banker is acting as agent of the customer concerned.

Other Relations:

The banker is lesser when he lets out safe deposit lockers. When the bank undertakes to render advice to corporate customers on financial matters and to manage their new capital issues, he acts as a manager to the issue. The banker may undertake to make deferred payments or underwrite share capital or loans, or establish letters of credit or even act as an executor or administrators on behalf of his customer. In that case, he assumes the role of a guarantor.

The nature of relationship between the banker and the customer can be explained as follows:

Type of deposits and functions	Nature of relationship	
	Banker	**customer**
1. Deposit account	Debtor	Creditor
2. Loan account	Creditor	Debtor
3. Safe Deposit Lockers	Bailee	Bailor
4. Collection of Cheques/Instruments	Agents	Principal

SPECIAL TYPES OF BANKER'S CUSTOMERS

OPENING OF AN ACCOUNT IN THE NAME OF INDIVIDUAL OR OPENING OF CURRENT AND SAVINGS ACCOUNT

By opening an account with the banker, a customer enters into relationship with a banker. The special features of this relationship impose several obligations on the banker. He should, therefore, be very careful in opening an account in the name of a customer. Though any person may apply for opening an account in his name but the banker reserves the right to do so on being

satisfied about the identity of the customer. The following precautions should be taken in this regard:

1. **Application on the Prescribed Form:**

The request for opening a savings or current account is made on the prescribed form of the bank concerned. Banks provide separate application forms for opening savings and current accounts for individuals, partnership firms and companies. The applicant is required to mention his name, occupation, full address, specimen signature and the name and signature of a referee. He also undertakes to comply with the bank's rules in force from time to time for the conduct of the account.

2. **Introduction of the Applicant:**

Before opening a savings or current account in the name of an intending customer, the banker must get true identity of the former in order to ensure that he is a respectable person. The banker, thus, reserves the right not to open an account in the name of a person whose true identity has not been established or who is considered to be an undesirable person, example, a thief, robber, etc.

3. Specimen Signature:

The applicant is required to give his specimen signature on a prescribed form, generally a card for the purpose of bank's record. The signature cards are preserved by the banker and the signature of the account-holder on the cheques is compared with his specimen signature. If the former differs from the latter, the banker can refuse to honour the cheque. The specimen signature thus protects the banker against forgery. He should be very careful in comparing the signature on the customer given on a cheque with his specimen signature.

4. Opening the account:

After the above formalities are over, the banker opens an account in the name of the applicant. It is essential that the applicant deposits some amount at the time of opening an account. The minimum amount to be initially deposited is Rs.500 in case of a savings bank account with cheque book facility and Rs.250 without cheque book facility.

5. Operating the bank account:

The word 'operate' in relation to a bank account means that the customer deposits further sums of money and cheques, etc., into the bank and withdraws money according to his need or convenience. A special feature of banking business is that each and every transaction of money

with the customer is supported by a separate slip or document. A customer is, therefore, required to make use of (i) Pay-in-slips for depositing money, and (ii) Cheques for withdrawing money from the bank.

OPENING OF AN ACCOUNT IN THE NAME OF PARTNERSHIP FIRMS:

A partnership is not regarded as an entity separate from the partners. The Indian Partnership Act,1932, defines partnership as the 'relation between persons who have agreed to share the profits of the business, carried on by all or any of them acting for all.' A Partnership firm is thus established by an agreement amongst the partners. This agreement may be oral or written. The object of constituting a partnership firm must be-

i. To carry on business which may be conducted by all the partners or by any of them on behalf of the rest, and
ii. To share the profit of such business amongst themselves.

The partnership deed contains the details of the agreement reached between the partners. The Indian Partnership Act, 1932, lays down the general provisions which govern a partnership business. A banker should take the following precautions while opening an account in the name of a partnership firm:

1. Number of Partners:

The banker should very carefully examine the Partnership Deed, which is the charter of the firm, to acquaint himself with the constitution and business of the firm. The banker should see that the number of partners does not exceed the statutory limit. According to Section 11 of the Companies Act, 1956, a partnership firm consisting of more than 10 persons for the purpose of carrying on banking business and or more than 20 persons for the purpose of carrying on any other business for the acquisition of gain or profit.

2. Title of the Firm's Account:

A firm's account should always be opened in the name of the firm and not in the name or names of the individual partner/partners.

3. Opening of an Account:

An account in the name of a firm may be opened by a banker on receipt of an application from one or more of the partners. Banks, however, insist that all the partners should join to open the firm's account. If any partner has gone out of the country, the rest of the partners can open a

bank account in the name of the firm. Specimen signatures of all the partners should also be taken for the purpose of record. But if any of the partners is deprived of the right to open an account in the firm's name and this fact is within the knowledge of the banker, he should not open the firm's account at the request of such partner.

4. The Partnership Letter or Mandate:

The banker should take a letter signed by all the partners stating:

i. the names and addresses of the partners;

ii. the nature of the business undertaken by the firm; and

iii. the name/names of the partner/partners who will operate the account on behalf of the firm and will have the authority to draw and accept bills etc., and to sell and mortgage the property of the firm.

The banker should honour the cheques signed by all the partners or by those partners who are authorized to operate the account.

5. Revocation of Authority to Operate the Account:

The authority given in favour of particular partner/partners to operate the firm's account may be withdrawn by any of them by giving a notice to the banker. In such a circumstance, the bankers should stop

payment of cheques signed by such partner and pay the cheques which are signed by all the partners. A partner can also stop the payment of a cheque issued by any other partner on the firm's account.

6. A partner authorized to operate the firm's account cannot delegate his authority to another person without the consent in writing of all other partners. If such consent is given by all of them, the authorized partner may execute a Power of Attorney in favour of such other person.

7. If a cheque payable to the firm is endorsed by a partner in his own favour and is deposited by him to be credited to his personal account, the banker should do so after making an enquiry about it from other partners and after being satisfied about it.

OPENING OF AN ACCOUNT IN THE NAME OF TRUST/TRUSTEES

According to the Indian Trusts Act, 1882, a 'trust' is an obligation annexed to the ownership of property, and arising out of a confidence reposed in and accepted by the owner, or declared and accepted by him, for the benefit of another, or of another and the owner (Section 3). The person who reposes the confidence is called the author of the trust. Trustee is the person in

whom the confidence is reposed. The person for whose benefit the trust is formed is called beneficiary. A trust is usually formed by means of a document called the 'Trust Deed'. While Opening an account in the names of persons in their capacity as trustees the banker should take the following precautions:

1. The banker should thoroughly examine the Trust Deed appointing the applicants as the Trustees. The Trust Deed contains the names of the trustees, power vested in them for administering the Trust property and other competent to delegate their powers unless the Trust Deed authorizes them to do so. The banker should thoroughly examine the Trust Deed to ascertain the powers and functions of the Trustees.
2. In case of two or more trustees, the banker should ask for clear instruction regarding the person or persons who shall operate the account. In the absence of such instruction, all the trustees must sign the cheques, etc., because the estate is placed under their joint charge.
3. If one or more of the trustees dies or retires, the authority vested in the remaining trustees depends upon the provisions of the Trust Deed. When all the trustees are deed, new trustees may be appointed by the court.
4. The Insolvency of a trustee does not affect the Trust property and the creditor of the trustee cannot recover their claims from such property.
5. The banker should take all possible precautions to safeguard the interest of the beneficiaries of a Trust, failing which he shall be liable to compensate the latter for any fraud on the part of the trustee.
6. The Trustees may borrow money from the banker and pledge or mortgage the Trust property only if the Trust Deed specially confers such power on them. The banker should, therefore, grant loans to the trustee after

thorough examination of the borrowing powers as given in the Trust Deed. To be on the safer side, the banker should grant an advance for a Trust only when the trustees are respectable persons and give personal guarantee also, apart from creating a charge on the assets of the Trust.

OPENING OF AN ACCOUNT IN THE NAME OF JOINT STOCK COMPANIES

Modern businesses are generally organized as joint stock companies incorporated under the Companies Act, 1956. A joint stock company is an artificial person with perpetcual

succession brought into existence under the provisions of the Companies Act. Legally, a company is considered as an entity separate from its members and hence it possesses all power to enter into valid contract. It can own property in its own name, carry on lawful business and incur liabilities in its name. While opening an account in the name of accompany, the banker must satisfy himself about the following:

1. **Examination of Documents:**

As a company is an artificial person, its constitution, powers and objectives, rules and regulations, etc., are contained in the following important documents. The banker should thoroughly and carefully examine these documents:

- ✓ Certificate of incorporation and Certificate of Commencement of Business
- ✓ Memorandum of Association
- ✓ Articles of association

2. **Copy of the Board's Resolution:**

Along with the application to open an account in the company's name, the banker should obtain a certified copy of the resolution passed by the Board of Directors of the company containing the following in regard to the opening of a bank account:

- ➢ Appointing the bank concerned as the banker of the company;
- ➢ Naming the person or persons who are authorized to operate the bank account on behalf of the company;
- ➢ Stating the names of the persons who are authorized to execute the documents on behalf of the company, or in whose presence the seal of the company will be affixed on the documents;
- ➢ Authorizing the advance and stating all details of such advance, eg., limit, security, rate of interest, etc., and
- ➢ Stating the names of the persons who are authorized to deposit the title deeds in case of equitable mortgage.

3. **The Borrowing Power of the Company:**

All joint stock companies engaged in trade or industry have the implied power to borrow money for the purpose of carrying on their businesses. The borrowing power of the company may be restricted by its Memorandum of Association.

4. Registration of Charges under the Companies Act:

Section 125 of the Companies Act, 1956, requires that every charge created by a joint stock company, falling within the following categories, must be registered with the Registrar of Joint Stock Companies within 30 days of its creation, otherwise it shall be void against the liquidator or any creditor of the company:

- a charge for the purpose of a securing any issue of debentures;
- a charge on uncalled share capital of the company;
- a charge on any immovable property or any interest therein;
- a charge on any book debts of the company;
- a charge, not being a pledge, on any movable property of the company;
- a floating charge on the undertaking or any property of the company including stock-in- trade;
- a charge on calls made but not paid;
- a charge on a ship or any share in a ship; and
- a charge on goodwill, a patent or a licence under a patent, a trade mark, or a copyright, or a licence under a copyright.

5.Directors' Personal Account:

The banker of a company having personal accounts of the directors of the company must handle the latter with care. If a director, who is authorized to operate the company's account and to endorse cheques on its behalf, deposits cheques drawn in favour of the company to be credited to his personal account, the banker should first enquire the purpose for which such cheques are intended to be credited to his personal account and on being satisfied about the genuine reason, credit them to his account.

UNIT II

COMMERCIAL BANKS

ROLE OF COMMERCIAL BANKS

Commercial banks have come to play a significant role in the development of countries. Here we shall deal with the important services provided by commercial banks and show how banks play a significant role in the economic development of a nation.

(1) Banks are necessary for trade and industry: All economic progress in the last 200 years or so has been based on extensive trade and industrialization, which could not have taken place without the use of money. In all large transactions, payments are not made in terms of money but in terms of cheques and drafts. Between countries, trade is financed through bills of exchange which are discounted (i.e., bought) by banks.

(2) Banks help in distribution of funds between regions: Another way by which commercial banks encourage production and enhance national income is by the transference of surplus capital from regions where it is not wanted so much to those regions where it can be more usefully and efficiently employed.

(3) Banks create credit and help in business expansion: Fluctuations in bank credit have an important bearing on the level of economic activity. Expansion of bank credit will provide more funds to entrepreneurs and, hence, will lead to more investment.

(4) Banks monetize debt: A very important service that banks render to the community is the creations of demand deposits in exchange of debts of other which (viz., short and long- term securities). Commercial banks buy debts of others which are not generally acceptable as money, either because the debtors are not sufficiently known or because their debt is payable only after a period of time.

(5) Bank promotes capital formation: Commercial banks afford facilities for saving and thus encourage habits of thrift and industry among people. They mobilize the idle and dormant capital of the community and make it available for productive purposes. Economic developments depend upon the diversion of economic resources from consumption to capital formation.

(6) Banks influence interest rates: Bank can influence economic activity in another way also. They can influence the rate of interest in the money market through its supply of funds. By offering more or less funds, it can exert a powerful influence upon interest rates. In a developing country like India, banking

facilities are highly inadequate. The vast number of people living in villages and towns do not have any banking facilities and consequently all their savings are wasted.

Thus, banks have come to occupy an important place in the industrial and commercial life of a nation. A developed banking organization is a necessary condition for the industrial development of country.

Meaning of a Commercial Bank

A commercial bank can be defined as the financial institution that offers banking services to the general public and to companies with the main aim of making profit.

UNIVERSAL BANKING IN INDIA: -

Various types of banks have developed to suit the economic development and requirements of the country. The principal banking institutions of a country may be classified into the following types.

1) Central Bank
2) Commercial Banks
3) Industrial or Development Banks
4) Exchange Banks
5) Co-operative Banks
6) Land Mortgage Banks
7) Indigenous Banks
8) Savings Banks
9) Supranational Banks
10) International Banks.

1) Central Bank

Central bank is the bank of a country or a nation. Its main function is to issue currency known as "Bank Notes", Central Bank of India act as a leader of the banking system and money of the country by regulating money &credit. These banks are the bankers of the bank and the ultimate custodian of a nations foreign exchange reserves. The main aim of the central bank is not to earn profit, but to maintain price stability. It acts as a great engine of growth of a state in India, die RBI was established in 1935 and this bank has since been functioning as the central bank of the country.

2. Commercial bank

A bank, which undertakes all kinds of ordinary banking business, is called a Th2y receive short and medium term deposits from the public is grant short-term loans and advances. They supply working capital to industries and enable them to carry on production and manufacturing activities. They grant loans & advances on the stocks of agricultural commodities, industrial goods etc. they discount internal & foreign bills and thereby finance the international trade.

They also perform certain agency services such as collection of cheque, dividends, interest on investments, issue of drafts, letter of credit, traveller's cheque, investment advisory services etc.

3.1ndustrial Banks or Financial Institutions: -

The industrial banks provide long-term loans and supply credit to industrial concerns by subscribing to the shares and debentures floated by the companies. They play an important role for the growth of industries._ They provide long-term loans & credits for periods varying between 5 and 15 years for industries to acquire fixed assets. In India, we have several industrial finance corporations in addition to the industrial development bank of India.

4. Exchange banks: -

Exchange banks are also commercial banks engaged in the foreign exchange transactions. They also receive deposits and lend money. They deal in foreign bills of exchange, import and export of bullion and participate in the financing of foreign trade. Now a day, many Indian banks deal in foreign exchange with special authorization from RBI and known as Authorized Dealers In Foreign Exchange.

5. Co-operative banks: -

They are organised on co-operative principles of mutual help and assistance. They grant short-term loans to the agriculturists for purchase of seeds, harvesting and for other cultivation expenses. They accept money on harvesting deposit from and make loans to their members at a low rate of interest.

6. Land-Mortgage banks: -

They are agriculture development banks. The land-mortgage banks supply long-term loans for a period to 15 years for development of land to improve agricultural yields. 1-hey grant loans for permanent improvement in lands. The agriculture finance corporation was the first Indian institution to set up finance for development agriculture. The TABARD was established by the Government to promote rural development.

7. Indigenous bank: -

The Central Banking Enquiry Commission defined an indigenous banker as an for individual on firm acceptin deposits acid dealing in indigenous lending of money to the needy. Indigenous bankers are unorganised operators in receiving deposits and lending money. The Mar-vans, the Jams, etc., are the leading

indigenous bankers 4 charge high rates of interest. In the rural areas, they skill provide substantial finance. to agriculturists and small traders

8. Savings banks.

Savings banks are institutions, which collect the periodical savings of the general public. The main aim bank is to promote saving -habits among the middle & lower income sections of the society. In India, commercial banks have savings account. The RBI determines the rate of interest. Interest rate on saving account with post offices is determined by Government of India.

9. Supranational Banks:

Special banks have been created to deal with certain international matters. World bank and Asia Development Banks are example. They generally provide finance at concession interest rates and for long-to needs.

10. International banks: -

International banks are those, which are operating in different countries. The registered office is situates one country; they operate through their branches in oldies countries.

MANAGEMENT OF DEPOSITS AND ADVANCES

Commercial Banks functions there are two types such as**,**

Primary and Secondary Functions

(III) Primary Function:

3. Accepting Deposits:

It is the most important function of commercial banks. They accept deposits in several forms according to requirements of different sections of the society.

(i) Current Account Deposits or Demand Deposits

(ii) Fixed Deposits or Time Deposits

(iii) Saving Deposits

4. Advancing of Loans:

The deposits received by banks are not allowed to remain idle. So, after keeping certain cash reserves, the balance is given to needy borrowers and interest is charged from them, which is the main source of income for these banks.

Different types of loans and advances made by Commercial banks are:

(i) Cash Credit:

(ii) Demand Loans

(iii) Short-term Loans

(IV) Secondary Functions:

5. Overdraft Facility:

It refers to a facility in which a customer is allowed to overdraw his current account upto an agreed limit. This facility is generally given to respectable and reliable customers for a short period. Customers have to pay interest to the bank on the amount overdrawn by them.

6. Discounting Bills of Exchange:

It refers to a facility in which holder of a bill of exchange can get the bill discounted with bank before the maturity. After deducting the commission, bank pays the balance to the holder. On maturity, bank gets its payment from the party which had accepted the bill.

7. Agency Functions:

Commercial banks also perform certain agency functions for their customers. For these services, banks charge some commission from their clients.

CLASSIFICATION AND NATURE OF DEPOSIT ACCOUNTS

One of the major functions of a bank is to make advances to needy people. This can be done by accepting money from the people in different forms of deposits. Basically deposits are divided into two types: Viz., "Time deposits" and "Demand deposits " Time deposits are also called "Fixed Deposits" which will be paid back to the deposit holders after the lapse of the

stipulated time period. Demand Deposits are repayable on the Demand by the account holder. Demand Deposits consists of two accounts Viz.,
Current Deposits or Accounts and Savings Bank Accounts.

Besides these types of accounts several innovative types of accounts are opened by bankers to mobilize resources.

TYPES OF DEMAND DEPOSIT

a) CURRENT DEPOSITS

A current account is a running account between a banker and his customer. A customer can operate on his current account any number of times during a working day. Thus it has unrestricted operation. Current account represent a banker's demand liability, since they are to be repaid on demand. Current accounts are generally opened by large scale businessman, joint stock companies, institutions etc.,

Special Features of current account:

- ✓ The basic objective of current account is to facilitate the handling of cash dealings and reducing the risks involved in it.
- ✓ Current accounts do not carry any interests on the amounts of deposits
- ✓ Most banks charge incidental charges on such accounts which depend upon the balance kept.
- ✓ Cheque book facility can be availed of by all current account holders but only a few savings bank deposit account holders can avail this facility.
- ✓ Third party cheques can be collected only through current account.
- ✓ Overdraft facilities are available only to current account holders.
- ✓ Other forms loans such as cash credit can be availed only if current accounts are maintained.

Advantages:

- ✓ As cash, cheques and drafts are deposited in the bank's account, they will be perfectly safe.

- ✓ The customer can make this payment more conviently.
- ✓ Payment to creditors situated at distant places is facilitated.
- ✓ Collection of cheques drawn on banks situated outside the place of business becomes easier.
- ✓ The paid cheque forms at the bank, serves as a receipt. It can be referred to in case od dispute.
- ✓ Nomination facility is available for current holders opened either individual or joint names of depositors.
- ✓ Current account can be transferred from one branch from another at the nearest of the account holder. .

SAVINGS DEPOSITS

This deposit is intended primarily for small-scale savers. The main object of this account is promotion of thrift. Hence there is restriction on withdrawals in a month. This account became very popular and the Government of India could collect crores of rupees through this account. Commercial banks who were watching the progress of these accounts entered the area and to-day the "savings Bank Account" has become one of the major sources of mobilizing the funds by commercial banks. Even the people are happy with this account as there are no disadvantage as in the case of current account.

Features:

These accounts are opened by people who wish to save and deposit a little portion of their earnings.

- ✓ Salaried class, low and middle income group, farmers, small traders, mainly run this account.
- ✓ This account can be opened with a minimum of Rs. 5.
- ✓ Any amount of money can be deposited any number if times to this account by the accountholder. Normally minimum of Rs.1 is accepted for deposit.
- ✓ Minimum balance to be maintained is a Rs. 5, if the cheque book facility is not required and is not required and Rs.250 if the cheque book facility is required.
- ✓ As in the case of current accounts, the commercial banks provide pay-in-slip to deposit the amount and provide separate withdrawal forms for withdrawal.

TYPES OF TIME DEPOSITS

FIXED DEPOSIT ACCOUNT

Another very vital account opened by the commercial bank is "fixed Deposit Account". It is also called "Time Deposit" as the period of payment is determined at the time of collecting the deposit. This account is popular with both bankers and customers. For customers it gives a better return on money deposited and for the banker it acts as a greater cushion in marinating liquidity.

Features

- ✓ This is a time bound deposit and has to be deposited for a specific period ranging from 15 days to 10 years.
- ✓ The rate of interest payable to the deposit holders range from 8% p.a., to 12%p.a., Thus it attracts a higher rate of interest.
- ✓ This is not a demand deposit. This means it is not payable on demand by the customers, but payable only after the lapse of the stipulated time period.
- ✓ This account needs no introduction, as the repayment is made by simple discharge by the

RECURRING DEPOSIT

This account promotes savings and is more suitable to those who have regular monthly income. In this account a specified amount is credited every month for a stipulated period. After the lapse of the period , the amount accumulated in the account along with the interest accrued thereon will be paid back to accountholder. The amount is credited every month in multiples of Rs. 5 or Rs. 10. The period will be from of the year to ten year. Pass book is issued to record the payments made every month. The normal limit of deposit is up to Rs. 50,000.

For the banker it strengthens his liquidity as there will be regular inflow of cash without frequent withdrawal. The recurring deposit money can be profitably employed . The rate of interest payable on this account varies from 8% to 12%. Bank allows a loan on this account. Cheques are not drawn against this account and the bank does not run the risk relating to the payments made by check. Operating cost of this account will be low. Large number of depositors can be brought into banking orbit through this account.

DIFFERENCE BETWEEN FIXED DEPOSIT AND SAVINGS BANK ACCOUNT

FIXED DEPOSIT ACCOUNT	**SAVINGS BANK ACCOUNT**
1. It is a time deposit since e it is repayable only after the expiry of a fixed period.	It is repayable on demand made by the customer.
2. The banker need not maintain cash reserves for the repayment of these deposits.	The banker must maintain Sufficient cash reserves to meet the repayment on demand.
3. Introduction or reference is not necessary for opening this account,	Introduction is necessary for opening this account.
4. The rates of interest are higher.	The rate of interest is lesser.

5. it is suitable for investors since it yields more return than savings bank account.	It is suitable for small savers since promotes the habit of savings.
6. Loan facility is available against the security of fixed deposit receipt.	No loan facility is available.
7. In this case, the depositor is a customer theoretically but not practically, since there is no frequency of transaction between him and banker.	In this case the depositor is a customer theoretically and practically.
8. Only a deposit receipt is given on opening this account.	A pass book, cheque book and pay-in-slips are provided on opening this account for its operation.

DIFFERENCE BETWEEN FIXED -DEPOSIT AND CURRENT ACCOUNT

FIXED DEPOSIT ACCOUNT	CURRENT ACCOUNT
1. It is a time deposit since it is repayable only after the expiry of a fixed period.	It is a demand is a deposit since repayable on demand made by the customer.
2. The banker need not maintain cash reserves for the repayment of these deposits.	The banker must maintain adequate cash reserves to Meet heavy repayments on demand.
3. Introduction or reference is not necessary for opening this account.	It is necessary.
4. Only a deposit receipt is given on opening this account.	A pass book, cheque book and pay-in-slips are provided on opening this account for its operation.
5. The rates of interest are high.	No interest is payable.

6. It is suitable for investors since it yields more return.	It is suitable for big business people since its object is to provide convenience to the customers.
7. Loan facility is available.	Overdraft facility is available.
8. In this case, the depositor is a customer theoretically but not practically, since there is no frequency of transaction between him and banker.	In this case, the depositor is P. customer in all respects.

DIFFERENT BETWEEN SAVINGS BANK ACCOUNT AND CURRENT ACCOUNT

SAVINGS BANK ACCOUNT	CURRENT ACCOUNT
1. Its object is promote the habit of savings among the people.	Its object is to proved convenience to the customers.
2. Third party cheques with endorsement cannot. Be deposited for collection and credit.	Third party cheques with endorsement can be deposited for collection and credit.
3. Overdraft is payable at a reasonable rate.	Overdraft facility is available.
4. Interest is payable at a reasonable rate.	No interest is payable.
5. Withdrawals are restricted.	There is no such restriction.
6. Comparatively lesser cash reserve is required since the withdrawals are restricted.	Comparatively more cash reserve is required since the withdrawals are not restricted.

UNIT –III

CENTRAL BANK

MEANING OF CENTRAL BANK

In every country there is one bank which acts as the leader of the money market, supervising, controlling and regulating the activities of commercial banks and the financial institution. It acts as a bank of note issue and is in close touch with the Government as a banker, agent, advisor to the latter. Such a bank is known as Central Bank.

REGULATION OF BANKS BY RBI

The Reserve Bank of India has been empowered under the Banking Regulation Act, 1949 to regulate and supervise banks' activities in India and their branches abroad. While the regulatory provisions of this Act prescribe the policy framework to be followed by banks, the supervisory framework provides the mechanism to ensure banks' compliance with the policy prescription.

THE RESERVE BANK OF INDIA AND FUNCTIONS

The Reserve Bank of India was inaugurated in April 1935 with a share capital of Rs. 5 crores, divided into shares of RS.100 each fully paid-up. The Bank was nationalized in 1949. The functions of Reserve Bank performs are of three types- central banking functions, supervisory functions, and promotional functions.

Major functions of the RBI are as follows:

1. Issue of Bank Notes:

The Reserve Bank of India has the sole right to issue currency notes except one rupee notes which are issued by the Ministry of Finance. Currency notes issued by the Reserve Bank are declared unlimited legal tender throughout the country.

This concentration of notes issue function with the Reserve Bank has a number of advantages: (i) it brings uniformity in notes issue; (ii) it makes possible effective state supervision; (iii) it is easier to control and regulate credit in accordance with the requirements in the economy; and (iv) it keeps faith of the public in the paper currency.

2. Banker to Government:

As banker to the government the Reserve Bank manages the banking needs of the government. It has to-maintain and operate the government's deposit accounts. It collects receipts of funds and makes payments on behalf of the government. It represents the Government of India as the member of the IMF and the World Bank.

3. Custodian of Cash Reserves of Commercial Banks:

The commercial banks hold deposits in the Reserve Bank and the latter has the custody of the cash reserves of the commercial banks.

4. Custodian of Country's Foreign Currency Reserves:

The Reserve Bank has the custody of the country's reserves of international currency, and this enables the Reserve Bank to deal with crisis connected with adverse balance of payments position. Lender of Last Resort:

The commercial banks approach the Reserve Bank in times of emergency to tide over financial difficulties, and the Reserve bank comes to their rescue though it might charge a higher rate of interest.

5. Central Clearance and Accounts Settlement:

Since commercial banks have their surplus cash reserves deposited in the Reserve Bank, it is easier to deal with each other and settle the claim of each on the other through book keeping entries in the books of the Reserve Bank. The clearing of accounts has now become an essential function of the Reserve Bank.

6. Controller of Credit:

Since credit money forms the most important part of supply of money, and since the supply of money has important implications for economic stability, the importance of control of credit becomes obvious. Credit is controlled by the Reserve Bank in accordance with the economic priorities of the government.

MONETARY POLICY

Monetary policy refers to the use of official instruments under the control of the central bank to regulate the availability, cost and use of monetary and credit. It influences the economic trends. The central bank exercises its influences on the availability and cost of credit primarily by affecting the reserve position

of commercial banks and though its official discount rate or bank rate policies. The efficiency of monetary policy depends on the prevailing economic situation and structural factors.

CREDIT CONTROL METHODS/MEASURES

The RBI has been entrusted with the task of controlling the inflationary pressure in the economy by using appropriate measures.

(1) **Bank Rate Policy**: The Reserve Bank of India is the lender of the last resort to the banking system and, therefore the rate at which it gives accommodation to the latter assumes great importance. The RBI influences the cost and availability of credit to the commercial banks through the bank rate- the standard rate at which the RBI is prepared to buy or rediscount bills of exchange or other eligible paper: but for all practical purposes, the Bank rate is the rate charged by the RBI on its advances to the commercial banks.

(2) **Net Liquidity Ratio System and the Penal Rate of Interest**: Since September 1964, the RBI's advance to the commercial banks is regulated not so much by the bank rate as by the net liquidity ratio system. Under this system, a commercial bank is entitled to borrow from the RBI at the Bank rate only when it maintains a minimum net liquidity ratio to its total demand and time deposit liabilities; and it will have to pay a penal rate of interest to the RBI, if the net liquidity ratio falls below the minimum fixed by the RBI from time to time. Now, the net

liquidity ratio is the ratio between net liquid assets of a borrowing bank and its total demand and time liabilities. The net liquid assets of a borrowing bank comprise: (a). cash in hand and balances with the RBI, (b) balances with the banks in the current account and (c) investment in Government and other approved securities, minus its borrowings from the RBI, SBI and the IDBI.

The objective of minimum net liquidity ratio system and the penal rate of interest are quite simple: it is to discharge the commercial banks from relying heavily on the RBI finance for extending loans and advances.

(3) **Cash Reserve Ratio (CRR).** Another weapon available to the RBI for credit control is the use of variable reserve requirement. Under the RBI Act, 1935, every commercial bank has to keep certain minimum cash reserves with the RBI- initially; it was 5% against demand deposits and 2% against time deposits- these are known as the statutory cash reserves.

(4) **Statutory Liquidity Requirements. (SLR):** Apart from statutory cash reserve requirements which commercial banks have to keep with the RBI (under the RBI Act, 1935(, all commercial banks have to maintain (under sec.24 of the banking Regulation Act, 1949) liquid assets in the form of cash, gold and unencumbered approved securities equal to not less than 25% of their total demand and time deposit

liabilities. This is known as the statutory liquidity requirements; this is in addition to the statutory cash reserve ratio. It may be mentioned here that the effect pf stepping up statutory reserve requirements and the minimum liquidity ratio is the same, viz.,

They reduce the capacity of commercial banks to expand credit to business and industry and thus are anti-inflationary.

(5) **Selective credit controls:** Before the Banking Regulation Act, 1949, was passed the RBI used mostly traditional or conventional instruments (or quantitative controls) such as the Bank rate and the open market operations. The RBI is authorized to issue directives to any bank or the banking system as a whole in regard to:

a. The purposes for which advances may or may not be made;
b. the margins to be maintained on secured loans;
c. the maximum amount of advances to any individual, firm or company: and
d. the rate of interest to be charged.

CREDIT CONTROL MEASURES

The various measures employed by the RBI to control credit creation power of the commercial banks can be classified in two groups, viz., quantitative controls and qualitative controls.

I. Quantitative Method:

(i) Bank Rate:

The bank rate, also known as the discount rate, is the rate payable by commercial banks on the loans from or rediscounts of the Central Bank. A change in bank rate affects other market rates of interest. An increase in bank rate leads to an increase in other rates of interest and conversely, a decrease in bank rate results in a fall in other rates of interest.

An increase in bank rate results in an increase in the cost of credit; this is expected to lead to a contraction in demand for credit. In as much as bank credit is an important component of aggregate money supply in the economy, a contraction in demand for credit consequent on an increase in the cost of credit restricts the total availability of money in the economy, and hence may prove an anti-inflationary measure of control.

A fall in bank rate may, thus, prove an anti-deflationary instrument of control. The effectiveness of bank rate as an instrument of control is, however, restricted primarily by the fact that both in inflationary and recessionary conditions, the cost of credit may not be a very significant factor influencing the investment decisions of the firms.

(ii) Open Market Operations:

Open market operations refer to the sale and purchase of securities by the Central bank to the commercial banks. A sale of securities by the Central Bank, i.e., the purchase of securities by the commercial banks, results in a fall in the total cash reserves of the latter.

A fall in the total cash reserves is leads to a cut in the credit creation power of the commercial banks. With reduced cash reserves at their command the commercial banks can only create lower volume of credit. Thus, a sale of securities by the Central Bank serves as an anti- inflationary measure of control.

(iii) Variable Reserve Ratios:

Variable reserve ratios refer to that proportion of bank deposits that the commercial banks are required to keep in the form of cash to ensure liquidity for the credit created by them.

A rise in the value of deposit multiplier, on the other hand, amounts to the fact that the commercial banks can create more credit, and make available more finance for consumption and investment expenditure. A fall in the reserve ratios may, thus, work as anti-deflationary method of monetary control.

II. Qualitative Method:

The qualitative or selective methods of credit control are adopted by the Central Bank in its pursuit of economic stabilisation and as part of credit management.

(i) Margin Requirements:

Changes in margin requirements are designed to influence the flow of credit against specific commodities. The commercial banks generally advance loans to their customers against some security or securities offered by the borrower and acceptable to banks.

(ii) Credit Rationing:

Rationing of credit is a method by which the Central Bank seeks to limit the maximum amount of loans and advances and, also in certain cases, fix ceiling for specific categories of loans and advances.

(iii) Regulation of Consumer Credit:

Regulation of consumer credit is designed to check the flow of credit for consumer durable goods. This can be done by regulating the total volume of credit that may be extended for purchasing specific durable goods and regulating the number of installments through which such loan can be spread. Central Bank uses this method to restrict or liberalise loan conditions accordingly to stabilise the economy.

(iv) Moral Suasion:

Moral suasion and credit monitoring arrangement are other methods of credit control. The policy of moral suasion will succeed only if the Central Bank is strong enough to influence the commercial banks.

In India, from 1949 onwards, the Reserve Bank has been successful in using the method of moral suasion to bring the commercial banks to fall in line with its policies regarding credit. Publicity is another method, whereby the Reserve Bank marks direct appeal to the public and publishes data which will have sobering effect on other banks and the commercial circles.

UNIT IV

NEGOTIABLE INSTRUMENTS

Negotiable Instruments Act, 1981

Negotiable instruments have great significance in the modern business world. These instruments have gained prominence as the principal instruments making payments and discharging business obligations. A negotiable instrument is a transferable document which satisfies certain conditions. These instruments pass on freely from hand to hand and thus form an integral part of the modern business mechanism.

MEANING:

According to sec 13 of the negotiable instruments Act 1881,"Negotiable instruments means promissory note, bills of exchange or cheque payable either to order or to bearer".

DEFINITION

The Negotiable Instruments Act does not define a negotiable instrument and merely states that negotiable instrument means a promissory note, bill of exchange or cheque payable either to order or bearer" section 13). This does not indicate the characteristics of a negotiable instrument but only states that three instruments—cheque, bill of exchange and promissory note are negotiable instrument. These three instruments are, therefore, noble instruments by statute.

Justice K.C. Willis defines a negotiable instrument as "one the property in is acquired by any one who takes it bona fide, and for value" now withstanding any defect of title in the person from whom he took it.

The law of banking is comprised of many branches of law. The statutory content of the subject is also to be found in many Acts, the Banking Regulation Act and Negotiable Instruments Act being primary among them. The Contract Act also applies because every relationship is founded upon contract.

The Chapter of the Contract Act on pledge is of particular application because pledge is a method of securing repayment of loans. The Transfer of Property Act also applies because the provisions as to mortgages are to be found in this Act. These are but some examples.Apart from this, banking services fall

under the Consumer Protection also. No study of this subject can be complete without taking into account consumer cases on banks. A special chapter has been provided in the book on such cases.

The Negotiable Instruments Act was amended in the year 2002. Some new sections were inserted in relation to the liability for dishonour of cheques. A few other amendments became necessary because of the developments in the electronic field,

For example, new provisions deal with truncated cheques, electronic image of a cheque, asymmetric crypto system, print out of electronic image, etc. The highlight of the changes has been provided in the Appendix.

On the judicial front, some of the developments have been as follows: the difference between accepting an instrument as an absolute or conditional payment has been noted.

The decisions on criminal liability for dishonour of cheques have made a good contribution to the frontiers of the subject; like the effect of a guarantor's cheque, renewal of cheque, when corporate officers can be held liable, when complaints can be quashed, what sentence and fine would be appropriate.

A Kerala decision recognises the courts at the creditor's s place as proper jurisdiction.

An indispensable publication for banks, commercial establishments, Bench and art and the students of law, banking and commerce.

Meaning of Negotiation

The chief characteristic of a negotiable instrument is its negotiability; it can be negotiated from one person to another. According to Section 1 "when a promissory note, bill of exchange or cheque is transferred to any per so as to constitute that person the holder thereof, the instrument is said to negotiated." The essence of negotiation thus lies not in mere transfer of instrument from one person another but also in the fact that the transfer gets the right as the holder of the instrument. If the transferee of an cannot be called its holder, as defined in Section 8, the instrument is not said 'wm been negotiated.".,

IMPORTANCE OF NEGOTIABLE INSTRUMENTS

Though the negotiable instruments possess the above-mentioned features, fall under two categories as follows:

(i) Negotiable Instruments by Statute. As already stated the Negotiable Moments Act states three instruments—cheque, bill of exchange and Knissory notes—as negotiable instruments. They are, therefore called P1.1able instruments by statute.

('ii) Negotiable Instruments by Custom or Usage. Some other instruments acquired the character of negotiability by the custom or usage of trade. an 137 of the Transfer of Property Act, 1882 also recognised that an instrument may be negotiable by law or custom. Thus in India Government promissory notes, Shah Jog hundis, delivery orders and railway receipts have On held to be negotiable by usage or custom of the trade.

Exceptional Cases of Negotiable Instruments. Generally the negotiable instruments possess all the essential features discussed above. But times the drawer or the holder may take away the essential characteristic of Liability and thus the instrument ceases to be a transferable or negotiable instrument Examples: (i) If a cheque is payable to a specified person only and his order or the bearer, it cannot be transferred to any other person and it loses its negotiability, (ii) if a cheques crossed 'Not Negotiable', it can transferred but without conferring on the transferee absolute and good title in all cases. The transferee of such a cheque will stand at par with the transferee of any other commodity acrid shall not possess title better than that of his transferor.

ACCORDING TO SEC.13 OF THE NEGOTIABLE INSTRUMENTS ACT, 1881:

"A Negotiable instrument means a promissory note, bills of exchange or cheque payable either to order or to bearer". 'Negotiable' means transferable whereas 'instrument' means a document, therefore negotiable instruments means a transferable document. A negotiable instrument is one which entitles the holder to the receipt of money. It gives him the right to transfer the same by mere delivery or endorsement thereon. The negotiability of the instrument continues till its maturity. A negotiable instrument may be made payable to two or more payees jointly, or it may be made payable in the alternative to one or two, or one or some of several

payees.

CHARACTERISTICS OF A NEGOTIABLE INSTRUMENTS

A negotiable instrument has the following characteristics:

1} PROPERTY: The possessor of the instrument is the holder and owner thereof. A negotiable instrument does not merely give possession of the instrument, but right to property. Whosever gets possession of the instrument becomes its owner and is entitled to the sum mentioned therein as the holder. It passes by mere delivery where instrument is payable to 'bearer.'

2} DEFECTS IN TITLE: The holder in good faith and for value called the 'holder in due course' gets the instrument free from all defects of any previous holder.

3} REMEDY: The holder can sue upon the negotiable instrument in his own name. All prior parties are liable to him. A holder in due course can recover the full amount of the instrument.

4} RIGHT: The holder in due course is not affected by certain defenses which might be available against previous holder, for example, fraud, to which he is not a party.

5} PAYABLE TO ORDER: All three negotiable instruments are payable to order which is expressed to a particular person. An instrument which does not restrict its transferability expressly is negotiable whether the word 'order' is mentioned or not. The word 'order' or 'bearer' is no longer necessary to render an instrument negotiable. It must be noted that all the three negotiable instrument is endorsed and is expressed to be payable to the order of a specified person, it is nevertheless payable to him or his order.

6} PAYABLE TO BEARER: the three negotiable instrument is expressed to be payable or on which the only or last endorsement is an endorsement in blank. It specifies that the person in possession of the bill is a bearer of the instrument which is so expressed payable to bearer.

7} PAYMENT: A negotiable instrument may be made payable to two or more payees, or it may be payable in alternative to one or two payees.

8} CONSIDERATION: Consideration in the case of a negotiable instrument is presumed.

9} PRESUMPTIONS: Certain presumptions apply to all negotiable instruments.

TYPES OF NEGOTIABLE INSTRUMENTS

A negotiable instrument regulates only three types, viz

PROMISSORY NOTES

1) **BILLS OF EXCHANGE**
2) **CHEQUES.**

LAW RELATING TO NEGOTIABLE INSTRUMENTS CHEQUE

The Indian Negotiable Instruments Act defines a cheque as " a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand.

ESSENTIAL FEATURES OF A CHEQUE:

(1) Instrument in writing:

A Negotiable instrument has to be in writing though the form of writing is not stipulated, it may be typed, handwritten or printed. Neither does it stipulate any particular languages to be used in drawing them.

(2) Drawn on a specified bank:

The cheque can be drawn only on the banker of the customer and on none else. Also the cheque should be drawn only on the branch of the bank at which the account of the drawer is maintained and the amount in the account should be sufficient to pay the cheque.

(3) Payable on demand:

The cheque should not be expressed to be payable otherwise than on demand. It is not necessary that the words "on demand" should appear on the cheque. A cheque is presumed to be payable on demand unless an express provision is made in the cheque disturbing this feature.

(4) Unconditional Order or Promise:

A Negotiable instrument is always unconditional. It is not contingent upon the happening of an event or the fulfillment of a specified pre-requisite. Therefore phrases such as "on arrival" or "after clearance" or "on arrival of S.S" cannot be inserted in them, because that will preclude their negotiation till the specified condition has been fulfilled.

- A certain Amount: In both a sight and usage instrument the amount to be paid by the drawee must be an amount certain, a definite amount. The Drawee: Every instrument has a drawee who is its addressee. While a cheque the drawee is always a banker. Any person partnership, company or association could be a drawee in

bills of exchange and promissory notes. The identity of the drawee is however to be made certain by indicating his name, address etc.,.

- Payee a certain person: The person 6to whom the cheque is drawn payable should be certain. He need not to be an individual as is understood generally but can be any legal person recognized under law like corporation.
- Payee a certain person: A Negotiable instrument must be payable to a definite person named or to anyone to whom he in turn directs, payments to be made.
- Time of Payment: An instrument may be payable on demand or at a fixed or determinable future time. Without a definite time element such instruments could not be negotiated because the payee would not know when they are to receive payment.
- Signature of the Maker: Every instrument has a maker who in a promissory note is called the "promisor" and in a bill or a cheque the "drawer". Maker is the person who addresses the instrument to someone.

BILLS OF EXCHANGE

A bill of exchange is "an instrument in writing containing an unconditional order signed by the maker directing a certain person to pay certain sum of money only to or to the order of a certain person or the bearer of the instrument".

Essential features of a Bill:

- The instrument must be writing.
- It must contain an unconditional and express order to pay.
- There are three parties in the bill. Drawer, Drawee and Payee.
- It must be signed by the drawer.
- A bill may be payable on demand in which case it is called a demand bill or it may be payable after a specified period and such bills are called time bills.
- The amount of money tom be paid must be certain and the payment must be in legal tender.
- The bill may be payable to payee or his order. Such a bill is called order bill.
- When it is payable to bearer, it is called a bearer bill.

PROMISSORY NOTE

According to section 4 of the Negotiable Instrument Act of 1881, “Promissory note is an instrument in writing containing an unconditional undertaking by the maker to pay a certain person or to the bearer of the instrument”.

Essentials of a promissory note:

- The instrument must be in writing.
- Mere acknowledgement of debt is not sufficient. There must be an undertaking of promise to pay .
- The promise to pay must be unconditional, because a conditional promise destroys the negotiable character of an otherwise negotiable instrument.
- The instrument must be signed by the maker. The signature may be
- Indicated by a facsimile or by stamping the name.
- The promise to pay must be a certain sum of money in legal tender.
- The payee must be certain.

Usually promissory notes bear date and place but they are not required under the law. But a stamp is necessary as is required under the Indian Stamp Act.

DIFFERENCES BETWEEN PROMISSORY NOTE AND BILLS OF EXCHANGE

PROMISSORY NOTE	BILLS OF EXCHANGE
1. A promissory note contains I promise to pay.	But bill of exchange Contains an order to Pay.
2. In a note, there are only two parties.	In a bill there are three parties.
3. A promissory note is payable only to the payee named therein or to his order.	But a bill can be made payable to Bearer.
4. Notes are not prepared in sets	Foreign bills are drawn in sets.

DIFFERENCES BETWEEN A CHEQUE AND A BILL OF EXCHANGE

CHEQUE	BILLS OF EXCHANGE
1. A Cheque is always drawn on a banker.	Whereas a bill may be Drawn on any person including a banker.
2. In the case of cheque no grace period is allowed.	Whereas three days of Grace are allowed.
3. Cheques can be crossed generally or specially.	There is no crossing in the Case of bills.
4. Cheques are exempted from stamping.	It requires stamping.
5. They are not noting and Protesting.	Protesting is compulsory.

CROSSING

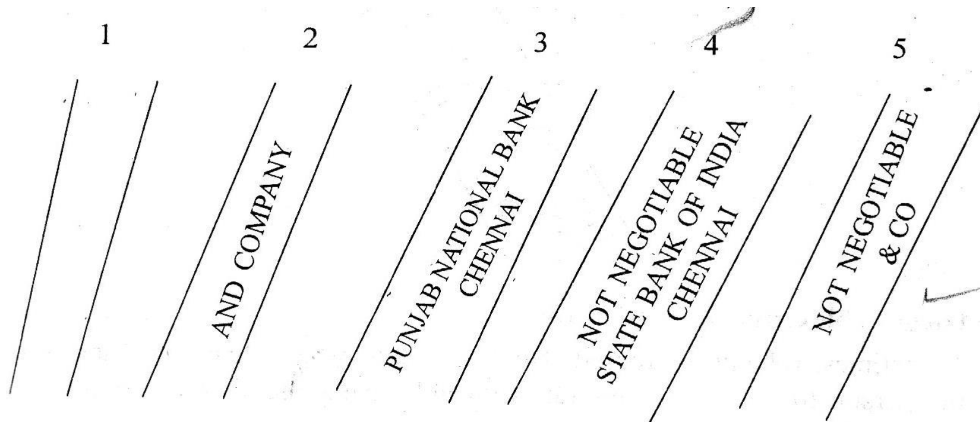
Crossing of cheque means drawing two parallel transverse lines on the left hand top corner of a cheque. Crossing on a cheque is a direction to the paying banker by the drawer that payment should not be made across the counter. The payment on a crossed cheque can be collected only through a banker. Therefore, crossing protects the holder of the cheque and reduces the possibilities of fraud.

TYPES OF CROSSING

- **General Crossing**

According to section 123 of the negotiable instruments Act, 1881. “Where a cheque bears across its face an addition of the words “and company” or any abbreviation thereof, between two parrel transfer lines or of two parallel traverse lines simply either with or without the words “not negotiable”, that addition shall be deemed a crossing and the cheque shall be deemed to be crossed generally”.

The following are examples of general crossing:



(2) & CO (3) and Company

(4) Not Negotiable (5) Account Payee (6) Not Negotiable

Account Payee

Significance of General crossing:

- A crossed cheque should not be paid across the counter . Even if the payee of a crossed cheque is well know, the paying banker is directed to make payment onlythrough another banker. If the payee does not have a bank account he can collect it only through someone who is having a bank account.
- A generally crossed cheque protects the drawer and also the payee or holder thereof. Whenever a drawer desired to make payment to an outstation party, he can cross the cheque some that even if the cheque is lost, only a piece of paper is lost and nothing beyond that.

B) SPECIAL CROSSING

Section 124 defines special crossing as follows: "When a cheque bears across its face an addition of the name of a banker 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 that banker".

Here the parallel tranverse lines are not essential. But the name of banker to whom payment should be made is to be necessarily written on the face of the cheque. Thus it must be noted that while drawing of two parallel tranverse lines is must for general crossing, the addition of the name of a banker continues the essential part of a special crossing.

(C) NOT NEGOTIABLE CROSSING

Section 130 of the Indian Negotiable Instruments Act lays down that " a person taking a cheque crossed generally or specially bearing in either case the words 'Not Negotiable' shall not have and shall not be capable of giving a better title to the cheque than that which the person from whom he took it in the first instance had".

(D) CHEQUE WITH ACCOUNT PAYEE CROSSING:

The inclusion of the words 'Account Payee' or Payee's Account' ensures greater safety to the cheque. According to law such a crossing is a direction is direction to the collecting bank, and the paying banker has no obligation in this regard provided the endorsement is in order.

ENDORSEMENT

Meaning and Definition:

Section 15 of the Negotiable instruments Act defines endorsements as follows:

"When the maker or holder of a negotiable instrument signs the same, otherwise than as such maker for the purpose of negotiation on the back or face thereof or on a slip of paper annexed thereto, or so signs for the same purpose a stamped paper intended to be completed as a negotiable instrument he is said to have endorsed the same and is called the endorser".

The person who signs the instrument for the purpose of negotiation is called the "endorser" and the person in whose favour instrument is transferred is called the "endorsee".

ESSENTIALS OF VALID ENDORSEMENT

The rules regarding valid endorsement are given below:

- The endorsement must by the holder of the instrument itself or on a slip of paper annexed thereto.
- It must be signed by the endorser. The endorser must sign his name in the same spellings as appearing on the face of the cheque.
- It must be made by the holder of the instrument and not by a stranger.
- An endorsement written on an along is deemed to be written on the instrument itself.
- The endorser should the instrument in full and not in part.
- If an instrument is payable to the order of two or more payees or endorsees who are not partners , all must endorse unless the one endorsing has authority to endorse for all others.
- Endorsement is complete only when the instrument is delivered. The delivery must be made by the endorser himself. If the delivery is conditional, endorsement is not complete until the condition is fulfilled.
- Endorsement can be made by the endorser merely by signing his name on the instrument or by adding the name of a specified person to whom the endorser likes to endorse.

KINDS OF ENDORSEMENT

According to the Negotiable Instrument Act 1881 endorsement may take any of the following terms:

1) General or Blank Endorsement

If the endorser just puts his signature without specifying the name of the endorsee, the endorsement is said to be blank.

For Example: A cheque payable to Mr. B. Senthilnathan may be endorsed as: “B. Senthilnathan”, i.e.,merely signs on its back.

2) Special or Full Endorsement

If the name of the endorsee is specified in whose favour it is being endorsed, along with the signature of the endorser, the endorsement is called endorsement in full.

For Example, the words “pay to “ A. Kumaran” or “Pay to A. Kumaran or order”. Are made such endorsement is called endorsement in full.

3) Conditional Endorsement

It is an endorsement under which the endorser lays down some condition to be fulfilled by the payee before making the payment. A cheque cannot be made payable on the happening of certain conditions and therefore it ceases to be a cheque. For Example, endorsement, Pay to X after he signs the enclosed receipt.

4) Sans Recourse Endorsement

In this case the endorser makes it clear to the endorsee that the endorser would not be liable in case the instrument is dishonored. This means that further recourse cannot be taken against the endorser. For Example: Pay to X without recourse to me.

5) Restrictive Endorsement

Restrictive endorsement by written words restricts the right of further negotiation. In this case, an endorser specifies that the banker should pay the amount to a particular endorsement only. Example: Pay to X only.

6) Facultative Endorsement

The endorser waiving the right of notice of dishonour of the instrument while making the endorsement is called Facultative endorsement. It means that further endorsers need not serve a notice of dishonour to the endorser who has made such facultative endorsement.

7) Partial Endorsement

If an endorsement is made for the part of the amount of the instrument it is called “Partial Endorsement”. But such an endorsement is not valid.

COLLECTING BANKER

Meaning

Collecting banker means the banker who collects the cheques and bills on behalf of the customer. Every bank today discharges one important function. That is " Collecting cheques and bills on behalf of customer".

The collecting banker regarding collection of cheques holds two positions (1) holder for value (2) customer's agent for collection.

- **Holder for Value**

Sometimes as a matter of gesture and goodwill the banker pays the value of cheque to the customer even before it is collected. This is another service rendered to the customer. In case of open cheques, he acts as though he is a customer himself and collects the value of cheque from the paying banker. Thus he will be collecting the cheque for himself, as he will have already paid the value the customer. This position is called "Holder for Value"

There are circumstances in which the banker becomes holder for value. They are:

- When he pays the value of cheque presented for collection even before it is collected.
- Where a customer pays in a cheque and the banker expressly or impliedly permits him to draw against it before it is collected.
- When the cheque meant for collection is obtained in exchange for cash.
- When the cheque to be collected is received from the customers to appropriate the proceeds towards the loan of the customer.
- When he advances money against the cheque meant for collection.

Rights as a holder for value:

- The proceeds of collection will be retained by the banker as he has already paid the value to the customer.
- He has the right to recover the value of cheque sent for collection, when is dishonoured from the drawer as well as the endorsers, if any.

- If any cheque collected bears a forged endorsement, the collecting banker has the right to recover the amount from all concerning the cheque or any of the endorsers, subsequent to the forgery.
- The person who has presented the cheque for collection had obtained the cheque in good faith without knowing the defective title in it, and in turn the collecting banker finds that the cheque ha s a defective title can recover the amount from the endorsers or from the drawer as holder in due course.

(2) Banker as Agent

. In this case the collecting banker does not pay the value of the cheque to the holder of cheque on presentation to collect the value. He neither discounts nor purchase the cheque. He simply acts as an agent by obtaining the cheque and sends it for collection to the concerned branch. He credits the account of the customer, only when the value is collected or sends a notice of dishonour, if it is dishonoured.

Rights: While collecting a cheque for customer banker cannot assert any right of a holder for value. How will not have any better title than that of his customer.

Liabilities:

- He should execute the collection work honestly and without any negligence.
- When the collecting banker collects a cheque for his customer having defective title than forged endorsement, he is liable to the true owner of the cheques as per the "doctrine of conversion".

STATUTORY PROTECTION

The Negotiable Instruments Act, 1881 provides some protection. Section 131 and 131A of the Act deal with the protection given to the collecting banker.

- Section 131 lays down that " A banker who has in good faith and without negligence received payment for a customer of a cheque crossed generally or specially to himself shall not in case the title to the previous cheque proves defective incur any liability to the owner of the cheque by reason only of having received such payment".

- The analysis of section 131 also states “ A banker receives payment of a crossed cheque for a customer within the meaning of the this section notwithstanding that he credits his customer’s account with the amount of the cheque before receiving the payment thereof.”
- The collecting banker gets protection in case of crossed cheques under certain conditions:
  - ✓ The cheques must be crossed before it presented for payment by the customer who presents it of collection.
  - ✓ An open cheque cannot be collected or when sent for collection after crossing by the collecting banker he will not get statutory protection.
  - ✓ The collecting banker can get shelter under section 131 only when he collects the cheque as a collecting agent and not as a holder for value or for a non-account holder.
  - ✓ Section 131 also states that the amount should be collected in good faith and without negligence. Thus he should exercise greater care at the time of collecting a cheque.

DUTIES AND RESPONSIBILITIES OF A COLLECTING BANKER

- **Due care and deligence in collection of cheques:** As an agent of the customer the collecting banker is bound to show due care and deligence in the collection of cheques given to him. If the banker fails in this regard and as consequences the customer suffers a loss, the collecting banker shall be required to compensate that loss.
- **Reasonable Time:** The collecting banker should present the cheques deposited by his customer for collection within a reasonable time. If the banker and the drawee bank are in the same place, the collecting banker should present the cheque the next day after he receives it.
- **Advising the customer about collection:** It is the duty of the collecting banker to inform his customer immediately about the collecting if the cheque is collected. As soon as the proceeds are collected he can debit his customer account in respect of his commission and credit the gross proceeds to the customer’s account.

- **To Serve Notice of Dishonour:** If the cheque deposited for collection stands dishonoured and the collecting banker gets the information in writing from the paying banker the collecting banker should immediately intimate his customer in writing giving reasons thereof.

HOLDER IN DUE COURSE

Section 9 defines a holder in due course as ‘any person who, for consideration became the possessor of the promissory note, bill of exchange or cheque if payable to bearer or the payee or endorsee if payable to order before the amount mentioned in it became payable and without having sufficient cause to believe that any defect existed in the title of the person from whom he derived his title.

Thus a holder of a negotiable instrument will be a holder in due course, if he fulfills the following conditions:

- ✓ He must be a holder as defined in section 8 of the Act. That is he must be in possession of the instrument, he must have the right to sue on the instrument in his own name, and he must have paid consideration for it.
- ✓ The instruments must be complete and regular in all respects.
- ✓ He must have acquire the instrument before it became due for payment.
- ✓ He should not have sufficient cause to believe that any defect existed in the title of the person from whom he acquired it.
- ✓ The instrument must have been obtained for valuable consideration, i.e., paying its full value.

RIGHTS AND PRIVILEGES OF THE HOLDER IN DUE COURSE

The holder in due course enjoys the following privileges under various sections of the Negotiable Instruments Acts.

- ✓ Better Title: A holder in due course possesses better title free from all defects. That is he always obtain a better title than that of his transferor or any of the previous parties.
- ✓ Purging of prior defects: The defective title of the previous endorsers will not affect adversely the rights of the holder in due course.

- ✓ Transfer of better title: Once an instrument passes through the hands of a holder in due course, it is purged of all defects and he can give to the subsequent parties the good title that he possesses.
- ✓ Liability of prior parties to holder in due course: According to section 36, every party to a negotiable instrument. i.e., its maker or drawer, acceptor or endorser, is liable thereon to a holder in due course until the instrument is duly paid.
- ✓ Right of the holder in due course in case of inchoate instrument: The drawer of an instrument cannot claim invalidity of the instrument against the holder in
  due course on the ground that the instrument was originally an inchoate.
- ✓ Right in case pf fictitious bills: If a bill of exchange is drawn on behalf of a fictitious person and is payable to his holder in due course because pf such fictitious name.
- ✓ Estoppel against Denying capacity of payee to endorse:
- ✓ The claim of the holder in due course cannot be denied on the plea that the payee had no capacity to endorse.
- ✓ Estoppel against Denying signature: No endorser of an instrument is permitted to deny the signature or capacity of any prior party to the instrument in the case of a suit by a holder in due course.

PAYING BANKER

MEANING

The banker who is liable to pay the value of a cheque of a customer as per the contract, when the amount is due from him to the customer is called "paying banker ".

DUTIES AND RESPONSIBILITIES OF A PAYING BANKER

1. PROPER FORM

The cheque presented for payment should be in proper form .The banker should see that the cheque presented for payment satisfies all the requirements of valid cheque.the cheque must be in printed form supplied by the banker in specific format and it should be an unconditional order.

2. PHYSICAL CONDITION

The cheque should be in good condition. The instrument should not be torn, mutilated or cancelled .if torn intentionally to cancel the crossing etc.,

3. Crossing

The paying banker when receives a cheque for payment should examine whether a cheque is open cheque or a crossed one. If a cheque is a crossed one the payment can not be made across the counter. It has to pass through the account holder. The account holder has to issue another cheque for receiving the payment.

4. Office of drawing

When a cheque is presented for payment.banker should also observe the account, against which the cheque is drawn, is kept in the same branch or any other branch of the same bank.

5. Date of the cheque

The cheque should possess the date for payment. On that date or with in six months from that date, the payment should made. A cheque, which is not dated or postdated, should be honored on the date when it is presented for payment.

6. Time of presentation

The cheque presented during the banking hours should be honoured. The point to be noted is that cheque should be presented for payment during the bank hours.

7. Amount

The amount of the cheque presented for payment has to be recorded in both words figures and they should tally with each other. If the amount written in words is correct, there is no legal restriction to pay such cheque.

8. Material alteration

The banker should also note whether the cheque is materially altered before payment. if the material alteration is apparent, the banker should confirmation from drawer by obtaining full signature at the place of material alteration.

9. Signature of the Drawer

The Banker has to examine the signature if the drawer on the cheque before he makes payment with the specimen he has. Drawer files his signature in the cheque to give a mandate to the banker to pay the amount of cheque.

10. Endorsement

Before the cheque is honoured, the bankers should also see whether the endorsement if any on the cheque are regular. If any endorsement is irregular the banker cannot honour such cheques.

11. Legal Restrictions

When cheque is presented for payment, it might have lost its legal characters by that time and will have become invalid. Such invalid cheques should not be honoured by the banker.

Invalidity will take place in two forms (i) by countermanding by the customer himself

(ii) caused by the death, insolvency, lunacy and by serving the Garnishee order.

RIGHTS OF PAYING BANKER (STATUTORY PROTECTION)

The Negotiable Instruments Act, 1881 has given certain protection to the paying banker under the section 85 (1), 16(2), 85(2), 85A, 89 and 128.

1) **Order Cheque having Forged Endorsement of the payee and Endorsees:**

Section 16(2) extends the protection to the paying banker even when the signature of endorsee are forged, as the paying banking banker cannot verify the signature. The conditionshere also are (1) endorsement of the endorsee should be regular (2) The payment must be a payment in due course.

2) **Bearer Cheques**

Section 85 (2) of N.I Act states that, "where a cheque is originally expressed to be payable to bearer. The drawee is discharged by payment in due course to the bearer thereof not withstanding any endorsement whether in full or in blank operating thereof, and not withstanding that any such endorsement purports to restricts or exclude further negotiation".

3) **Order Draft with forged Endorsement**

Section of 85 A of N.I Act gives protection to the paying banker regarding the draft having a forged endorsement. Again the conditions to be satisfied are:

4) **Crossed Cheques**

The payment should be payment in due course.

The protection to the paying banker regarding the payment of crossed cheque to a person other than the true owner is given under section 128 of the N.I. Act 18881. The provision states that when the paying banker makes payment in due course regarding a crossed cheque, he is discharged of the liability as he is deemed to have paid the value to the true owner.

5) **Materially Altered Cheques**

The paying banker also gets protection under section 89 of N.I. Act regarding the payment of materially altered cheques. The paying banker is protected of any payment made regarding materially altered cheques provided (i) the material alteration is not noticeable even by careful examination.

PAYMENT IN DUE COURSE

Section 10 of N.I Act,1881 states that "Payment in due course means 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 don't afford a reasonable ground for believing that he is not entitled to receive payment of the amount mentioned therein". Payment in due course is:

- Payment in accordance with the apparent tenor of the instrument:
- This means the banker should make the payment as per the instruction given by the drawer in the instrument. Thus the banker cannot make partial payment of the amount exhibited on the face of the cheque or the crossed cheque cannot be paid across the counter or the payment should be made on the date, or within a reasonable time for the date mentioned in the cheque.
- In good faith and without negligence: The banker should not be negligent while making the payment and he should be sincere and honest in making payment to the payee. If the payment is made verifying the comments of the cheque, it tantamount to negligence and such payment cannot be called "Payment in due course".
- Person in possession thereof: This tells that the payment should be made to the legitimate person. If payment is made to a person to a person other than the legal holder of the cheque, it amounts to wrong payment and it cannot be "Payment in due course".

- Under circumstances which don't afford a reasonable ground for believing that he is not entitled to receive payment of the amount mentioned therein: According to this part of the provision, if any doubt arises to the paying banker, he should enquire and then make payment. If the situation is ignored by the banker, it is not "Payment in due course".
- Payment in money only: Money here means legal tender or it may be a bill of exchange or promissory note if the payee agrees to accept in that form.

REFUSAL OF PAYMENT OF CHEQUE

A banker can refuse to honour the customer's cheque in the following cases:

- When the customer does not have sufficient funds belonging to him, the banker can refuse to honour his cheque. It must be noted that the term 'funds belong to the customer includes the sum covered by the overdraft granted to the customer.
- When the cheque is not drawn in proper form.
- When the cheque is post-dated and is presented before the ostensible date of issue.
- When the cheque is stale, i.e., it presented six months after the ostensible date of issue.
- When the cheque is not presented during banking hours.
- When there are material alterations in the cheque.
- When one or more endorsements are irregular.
- When the banker has a notice of the customer's death
- When the banker receives a Garnishee order from the court.
- When the banker receives notice of the customer's insolvency.
- When the customer has countermanded the cheque. When the signature on the cheques does not correspond with the specimen signature.
- When the cheque is presented at a branch of the bank different from the one where he has the account.
- The banker cab refuse payment of cheques without incurring any liability under certain circumstances.

CONSEQUENCES OF WRONGFUL DISHONOUR

- A banker has the statutory obligation to honour his customer's cheques unless there are valid reasons for refusing payment of the same. In case the banker dishonors the cheque intentionally or by mistake, he is liable to compensate the customer for the loss suffered by him. According to section 31 of the Negotiable

Instruments Act,1881, the words “Loss or Damage” do not mean only pecuniary loss, but also a loss of credit or injury to reputation.

- Without appropriate reasons if a customer’s cheque is dishonoured by a banker, he incurs the liability of paying damages for affecting adversely the customer’s credit and goodwill. A customer has every right to claim substantial; damages from a banker where he can prove in a court of law that his reputation has been spoiled even where he had not incurred monetary loss.
- In the case of non-trader customers, the loss of credit or reputation is not to be taken for granted as a result of wrongful dishonour of their cheques. Therefore they are entitled to only nomial damages.

UNIT V

E-BANKING

Meaning

Online banking also known as internet banking, e-banking, or virtual banking, is an electronic payment system that enables customers of a bank or other financial institution to conduct a range of financial transactions through the financial institution's website.

Benefits of E-banking

1. **Convenience:** Banks that offer internet banking are open for business transactions anywhere a client might be as long as there is internet connection. Apart from periods of website maintenance, services are available 24 hours a day and 365 days round the year. In a scenario where internet connection is unavailable, customer services are provided round the clock via telephone.
2. **Low cost banking service:** E-banking helps in reducing the operational costs of banking services. Better quality services can be ensured at low cost.
3. **Higher interest rate:** Lower operating cost results in higher interest rates on savings and lower rates on mortgages and loans offers from the banks. Some banks offer high yield certificate of deposits and don't penalize withdrawals on certificate of deposits, opening of accounts without minimum deposits and no minimum balance.
4. **Transfer services:** Online banking allows automatic funding of accounts from long established bank accounts via electronic funds transfers.
5. **Ease of monitoring:** A client can monitor his/her spending via a virtual wallet through certain banks and applications and enable payments.
6. **Ease of transaction:** The speed of transaction is faster relative to use of ATM's or customary banking.
7. **Discounts:** The credit cards and debit cards enables the Customers to obtain discounts from retail outlets.

8. **Quality service:** E-Banking helps the bank to provide efficient, economic and quality service to the customers. It helps the bank to create new customer and retaining the old ones successfully.

9. **Any time cash facility:** The customer can obtain funds at any time from ATM machines.

Disadvantages of E-banking

1. **High start-up cost:** E-banking requires high initial start up cost. It includes internet installation cost, cost of advanced hardware and software, modem, computers and cost of maintenance of all computers.
2. **Security Concerns:** One of the biggest disadvantages of doing e-banking is the question of security. People worry that their bank accounts can be hacked and accessed without their knowledge or that the funds they transfer may not reach the intended recipients.
3. **Training and Maintenance:** E-banking requires 24 hours supportive environment, support of qualified staff. Bank has to spend a lot on training to its employees. Shortage of trained and qualified staff is a major obstacle in e-banking activities.
4. **Transaction problems:** Face to face meeting is better in handling complex transactions and problems. Banks may call for meetings and seek expert advice to solve issues.

ELECTRONIC FUND TRANSFER

An **electronic funds transfer (EFT)** is a transaction that takes place over a computerized network, either among accounts at the same bank or to different accounts at separate financial institutions.

Common Uses for Electronic Funds Transfer

- Let's look at several ways that you may currently use electronic funds transfer:
- Using a credit or debit card - Using this method, money is transferred electronically from your account to the seller's account. This is one of the most widely used forms of payment. In 2010, Visa and MasterCard processed over $5 trillion in transaction volume!
- Online bill payment - Often referred by many as online banking, this has become very popular as a quick and easy way to pay monthly bills. More than two out of every three

bills are now paid in an electronic form. This has recently further evolved into the ability to pay bills directly from your mobile device or phone.

- Direct debit - This is often referred to as electronic checks or monthly auto draft. Individuals can set up a recurring schedule and payment instructions for companies to automatically pull money from their bank account to pay for bills or services. Many people pay their house or car payments this way. The method simply requires sending the institution a voided check with your routing and account number.
- Direct deposit -This form of employee payment is now the preferred way to get paid from your employer and is often the only way for some jobs. Your paycheck enters your bank account quicker, and the employer saves hundreds or thousands of dollars in not printing and delivering checks.

ELECTRONIC CLEARING SYSTEM

ECS is an electronic mode of funds transfer from one bank account to another. It can be used by institutions for making payments such as distribution of dividend interest, salary, pension, among others. It can also be used to pay bills and other charges such as telephone, electricity, water or for making equated monthly installments payments on loans as well as SIP investments. ECS can be used for both credit and debit purposes.

Standard Chartered introduces the Electronic Clearing System (ECS), an innovative facility for busy people. With this facility, your credit card bill is automatically debited from your savings account, so you don't need to worry about missing a payment.

And since this entire process happens through the Reserve Bank of India's electronic clearing mechanism, you can enjoy the advantages of ECS, no matter which bank holds your savings account.

Special Features of electronic clearing system

- No need to write and send a cheque every month
- No worries about payments being lost or delayed in transit
- No more late payment charges

- You can pre-decide what you want to pay every month, with an option of increasing the sum if you have surplus funds
- Unlike other cards, your Standard Chartered card offers you the flexibility of choosing the amount you wish to pay with ECS. Just call our credit card helpline before payment is due and let them how much you want to pay for the month.

AUTOMATED TELLER MACHINE (ATM)

Meaning

An automated teller machine (ATM) is an electronic banking outlet, which allows customers to complete basic transactions without the aid of a branch representative or teller such as to withdraw cash, make deposits, pay bills and obtain bank statements. Anyone with a credit card or debit card can access most ATMs.

Explanation

The evolutionary trend from cash economy to cheques economy and onwards to plastic card economy is witnessed in the introduction of ATMs. These days, ATMs are securely placed inside the walls of bank's premises. While a weighing machine measures the weight of a person in kilograms, the ATM measures the bank balances of a person in rupee. In the weighing machine you insert a coin and you get a card telling your weight and fortune The ATM also tells you your bank balance, if you ask for it. The ATM facility is available round the clock. The main protection in ATM card against wrong use is the secret code number. Like someone knowing your STD secret code can misuse your telephone, similarly someone knowing your ATM secret code can also misuse and draw money from your account.

HSBC bank is the first bank in India to offer ATM facility in 1987. Presently, a number of Indian and Foreign banks are offering ATM facility but mostly in cities. There is ease and privacy of operation through self service.

ATM has many advantages, some of which are given below:

- It provides the facility to the customer to withdraw or deposit cash and avail other services as quickly as possible.
- It is available to a customer round the clock, i.e., 24 hours in a day and 365 days in a year.
- It enables the bank to advertise their products on the ATM screen like a media.

- It saves time of the customers to travel to a bank branch for operating of their account.
- Most of all, ATMss provide privacy in banking transactions of the customer.

DEBIT CARD

Debit cards are one of the most common forms of payment used in the world today. These are cards that look identical to credit cards, which are linked directly to your bank account. Whenever you make a purchase, the funds are taken directly from your account, resulting is a simple and quick transaction. Debit cards are also known as "E-Checks" and didn't come around until the late 1970's, but they have changed the way that we purchase things globally. There are some spectacular benefits from using a debit card as your form of payment, but some negative things to consider as well.

The Advantages of Debit Cards

1. **Extremely Convenient**

The biggest draw for debit cards is how simple they are to use. Since the payment is taken directly out of your bank account, where the money already exists, it can be done instantly.

This is much faster than having to wait for a credit transaction to go through, or having to worry about having enough cash to cover your expenses. It is especially faster than writing out a check, which many people no longer take.

2. **It's A Cash Card Too**

Sure, debit cards are nice, but sometimes cash is a necessity. If you are going garage sale- ing or to the flea market, you may have to have cash to make the purchases that you want to. Debit cards still have the ability to give you cash, you can take them to an ATM and use them there to withdraw the cash. In addition to ATM use, the majority of stores offer cash back options at checkout.

3. **Your Pin Protects You**

Debit cards are protected by a four digit pin number that you set yourself. This pin is needed to make almost any purchase with your debit card. This gives you a great deal of protection against theft. These cards can also be canceled very easily and quickly, so if you lose it, you can prevent anyone from being able to do any damage.

4. **Anyone Can Have One**

The only thing that you must have to have a debit card is have a bank account. Anyone can open a bank account with a small minimum deposit. This makes debit cards much different than credit cards, because

approval for a credit card largely depends on your credit score and payment histories. None of these things are taken into account when getting a debit card.

5. **Strong Budgeting Tool**

One of the best things about a debit card is that you cannot spend more money than you have, which means you cannot go into debt. This helps you to only spend the money that you have to spend because you cannot accumulate new debt, like with credit cards.

The Disadvantages of Debit Cards

1. **Your Credit Score Isn't Helped**

A person's credit score impacts them for their entire life, whether it be negative or positive. With a debit card, you do not impact your credit score at all, which means that you cannot build it up. Having a higher credit score gives you lower interest rates and increased lines of credit.**Fees Galore,** When you have a debit card, fees are likely a part of your life as well. Banks inflict a wide variety of different fees to debit card holders, which can add up very fast. Some of these include monthly use charges, major overage fees, and transaction fees or limits.

2. **Instant Money Means Instant Risk**

If someone got a hold of your debit card, they would be able to take money directly from your bank account. With a credit card, the charges are much easier to dispute, and they do not interfere with your direct lines of income the way that debit cards do.

3. **Merchant Blocks**

Depending on where you are using your debit card, or what you are buying, the merchant can put a "hold" on your money. For example, if you are filling your tank up with gas, the gas station will likely put a hold up to 100 dollars on your card, this is because they want to ensure that you have the funds to pay for the gas before you pump it. The bank can take up to 48 hours to free this money up again.

CREDIT CARD

Meaning

A credit card can be defined as a card (usually plastic) that financial institution issue to their customers so that they can access credit facilities. The card holder can make payment on credit at some point of sale.

Credit cards incur some interest which starts a month after the payment was made. Most banking institutions issue these cards to facilitate an increase in revenue and customer loyalty.

Advantages

1. **Enables the holder to pay on credit.** This card enables the cardholder to make payment at the point of sale even when they don't have money in their bank account.

2. **Helps in handling transaction disputes.** Most institutions that give credit cards will come to your rescue when there is disputed transaction.

3. **The card is convenient to use for large amount of money.** Unlike the use of cash, which limits the amount you can pay; the credit card can be used to pay large sums of money with no limitation.

4. **Helps in accessing instant loans.** When you run out of cash and you don't know where to get some money, a credit card will help to get a short-term loan.

5. **It's light to carry around.** The weight of the card is negligible hence you will conveniently when travelling.

6. **Helps in tracking your credit transactions.** You can get the transactions you have made by requesting for a statement, hence clarifying where you have doubts.

7. **Increases customer loyalty.** The customer tends to love a place they can get credit facilities. This means that they will remain loyal to the financial institution.

8. **Helps the customer to get Discounts.** Many credit card institutions offer discounts to attract people to use their cards. The discount is based on the amount you are purchasing.

9. **Provides security from theft.** Credit cards cannot be used by any other person without the holders' permission making it difficult for your money to be stolen.

10. **They help in time saving.** You don't have to waste time going to the ATM to withdraw money to make a payment.

Disadvantages

1. **They are prone to fraud.** Many people have had their cards hacked and large amounts of money added to their accounts.

2. **Promotes impulse buying.** As long as you have the card, you are prone to buying what you had not planned for.

3. **Convenient for the literate in the society.** The card is given to the rich and the literate living out the poor and the illiterate.

4. **Can only be used in selected points of sale.** The cards are not accepted in all points of sale meaning you will be inconvenienced is some shops or supermarkets.

5. **They charge some interest on the card.** This means that you will have to pay more than the amount you used.

6. **There are increased chances of financial institutions losing money.** If the customer is unable to pay the debt, the financial institution can incur losses.

7. **Promotes bad credit.** Since one can access loans instantly, many people may take too much money that they can't be able to pay in/on time.

MOBILE BANKING

The Reserve Bank of India recently informed banks to encourage mobile banking. In coming days we will see more number of people getting addicted to the ease of mobile banking. In the internet era, mobile banking can be considered as boon as well as bane. However, many people still are not able to relay on mobile banking due to its exposure to risk. Here are few safety tips which you can consider.

Advantages of Mobile Banking

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

Disadvantages of Mobile Banking

- Mobile Banking is not available on all mobile phone. Sometimes, it requires you to install apps on your phone to use the Mobile Banking feature which is available on the high-end smartphone.

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

INTERNET BANKING

Meaning

Online banking also known as internet banking, e-banking, or virtual banking, is an electronic payment system that enables customers of a bank or other financial institution to conduct a range of financial transactions through the financial institution's website.

Advantages of Internet banking

1.Convenience: Banks that offer internet banking are open for business transactions anywhere a client might be as long as there is internet connection. Apart from periods of website maintenance, services are available 24 hours a day and 365 days round the year. In a scenario where internet connection is unavailable, customer services are provided round the clock via telephone.

2.Low cost banking service: E-banking helps in reducing the operational costs of banking services. Better quality services can be ensured at low cost.

3.Higher interest rate: Lower operating cost results in higher interest rates on savings and lower rates on mortgages and loans offers from the banks. Some banks offer high yield certificate of deposits and don't penalize withdrawals on certificate of deposits, opening of accounts without minimum deposits and no minimum balance.

4.Transfer services: Online banking allows automatic funding of accounts from long established bank accounts via electronic funds transfers.

5.Ease of monitoring: A client can monitor his/her spending via a virtual wallet through certain banks and applications and enable payments.

6.Ease of transaction: The speed of transaction is faster relative to use of ATM's or customary banking.

7.Discounts: The credit cards and debit cards enables the Customers to obtain discounts from retail outlets.

8.Quality service: E-Banking helps the bank to provide efficient, economic and quality service to the customers. It helps the bank to create new customer and retaining the old ones successfully.
9.Any time cash facility: The customer can obtain funds at any time from ATM machines.

Disadvantages of Internet banking

1.High start-up cost: E-banking requires high initial start up cost. It includes internet installation cost, cost of advanced hardware and software, modem, computers and cost of maintenance of all computers.
2.Security Concerns: One of the biggest disadvantages of doing e-banking is the question of security. People worry that their bank accounts can be hacked and accessed without their knowledge or that the funds they transfer may not reach the intended recipients.
3.Training and Maintenance: E-banking requires 24 hours supportive environment, support of qualified staff. Bank has to spend a lot on training to its employees. Shortage of trained and qualified staff is a major obstacle in e-banking activities.
4.Transaction problems: Face to face meeting is better in handling complex transactions and problems. Banks may call for meetings and seek expert advice to solve issues.

BANK ASSURANCE

Bank assurance is a relationship between a bank and an insurance company that is aimed at offering insurance products or insurance benefits to the bank's customers. In this partnership, bank staff and telllers become the point of sale and point of contact for the customer.

Bank assurance is an arrangement between a bank and an insurance company. Bank assurance is controversial with opponents believing that it gives banks too much control.

BANKING OMBUDSMAN SCHEME

Banks have come forward not only to address the problems of their customers but have also taken measures to solve them by the setting up of a permanent grievance redressal machinery. In 1995, by giving a legal recognition to this set up. Reserve Bank of India, in exercise of the powers conferred by Section 35 A of the Banking Regulation Act, has come out with a new scheme called Banking Ombudsman Scheme.

DEMAT ACCOUNT

A Demat account is an account to hold financial securities in electronic form. In India, Demat accounts are maintained by two depository organizations, National Securities Depository Limited and Central Depository Services Limited.

A depository participant, such as a bank acts as an intermediary between the investor and the depository. The Demat account number is quoted for all transactions to enable electronic settlements of trades to take place. Access to the Dematerialized account requires an internet password and a transaction password. Transfer or purchase of securities can then be initiated. Purchases and sales of securities on the Dematerialized account are automatically made once transactions are confirmed and completed.

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