

Unit - 3

Bank Accounts

Types of Bank Accounts - opening

Savings Bank A/c

current A/c

Fixed deposit A/c.

Savings A/c:

An account opened by a customer to make a deposit and withdrawal of small sums of money is known as 'Savings account'.

Features:

1. can be opened for individuals, non trading organisation, permitted institutions etc.
2. certain minimum balance is to be maintained without cheque book facility and with cheque book facility.
3. Interest on the minimum balance in the accounts is paid between the 10th & last day of the month.
4. The account may be operated either singly or jointly.
5. No restrictions on the number and the amount of deposit of cash.
6. Passbook, nomination, standing instructions, cheques collection facilities etc are available.
7. ATM facility available.
8. No limit for monthly deposit.
9. Maximum of four withdrawal in a month including ATM withdrawals.

current account:

A special type of bank opened by traders, businessman, corporate bodies, and others who operate the account frequently is known as a 'current account'.

Features:

1. Verifying minimum balance is to be maintained in rural, semi-urban area, urban areas and metros.

2. This account is not eligible for interest.

3. There is no ceiling on the number of withdrawals and credits.

4. Pass book, pass sheet, standing instructions and cheques collection facilities are available.

5. Helps in ~~expend~~ supporting day to day financial requirements.

6. Gives the advantages of maximum financial leverage for the customer's money than savings on the time and cost.

Special privileges of current account holders

a) Withdrawal of any amount of any time by issuing of cheques.

b) collection of third party cheques

c) availability of overdraft facilities

d) availability of cash credit facilities

Fixed Deposit account :

This is a type of account where the money is deposited for a longer period of time and to get a regular income, it is known as 'fixed deposit account'. The fixed deposit account is safe and fetches relatively a higher return. The minimum amount of deposit under this type of account is Rs 500. There is no ceiling for the maximum amount that can be made into this account.

Under this type of deposit account, the depositor agrees not to withdraw the money before the expiry of the period for which it has been deposited.

The rate of interest payable depends on the period of time deposit. Accordingly longer the period, higher will be the rate of interest. The time deposit is a fixed deposit.

The period deposit varies from 15 days to 120 months. Interest is paid monthly, quarterly, half yearly or annual intervals at depositor's choice.

An important advantage of the fixed deposit account is that there is a high order of liquidity. It is possible for the customer to obtain loan against deposit.

There is also the facility of part withdrawal of deposits in units of Rs. 1000 keeping the rest of the deposit to earn contracted rate of interest. There also the nomination facility is available.

Fixed deposit Receipt:

The receipt issued by the banker on the acceptance of deposits for a fixed period is known as 'Fixed deposit Receipt' (FDR). It represents the document of title to the amount of fixed deposit, the rate of interest and other terms on which the deposit is accepted. This is an evidence of contract between banker and customer.

Features:

- 1) It is not a negotiable instrument and hence cannot be transferred and the transferee does not get a better title than that of the transferor.
- 2) It cannot be transferred by mere bank endorsement.
- 3) It can be assigned but the assignment should be duly given to the bank, otherwise, assignment will not be a valid one.
- 4) Cheques cannot be drawn against fixed deposit receipts.
- 5) If the deposit receipt is duly signed by the customer but presented by a third party banker should not pay the amount until he obtains letter of authority from his customer.
- 6) If the fixed deposit just due to payment can only be attached by court.
- 7) A fixed deposit receipt just due for payment can only be attached by court.

8) If a person deposit in his name and payable to himself, then no stamp is to be on fixed deposit receipts.

9) Fixed deposit receipt can be a subject of a Donatio mortis causa i.e. a donation or gift made in contemplation of the death of the donor and to take effect only in the event.

10) Fixed deposit made jointly by many persons is repay to all of them unless otherwise arranged.

11) Limitation period will be counted according to the condition printed on the back of the receipts.

Reinvestment Deposit Account:

A type of a Deposit Account in which there is a facility of reinvestment of money immediately after the expiry of the fixed deposit.

Features:

- a) minimum amount balance is Rs 1,000.
- b) There is no maximum ceiling.
- c) As regard the period of deposit, it ranges from the minimum of 5 months to maximum of 120 months.
- d) It offers high return
- e) usually interest is compounded every quarter.
- f) Easy liquidity.
- g) close before maturity.

- h) loan against deposit permissible.
- i) facility of part withdrawal of deposits in units of Rs 1000 keeping the rest of the deposit to earn contracted rate of interest.
- j) Nomination facility is available.

Flexi Deposit Account:

A type of deposit account operated by a banker which combines the advantages of savings accounts and fixed deposit account. This account offers high return and instant liquidity. The endless the customer to earn maximum interest. Under this automatic transfer of funds is made beyond a certain amount.

Such transfers are effected automatically in multiples of usually Rs 1,000 thus allowing the remaining portion of the fixed deposit to earn the contracted rate of interest. The choice of selecting the period for which fixed deposits should be placed rests with the customer and he has the option to change the period for future deposits.

Senior citizen Deposit Account:

A type of account operated by a banker for the benefits of the Senior citizens of the country is known as 'Senior citizen deposit account'.

Features:

Eligibility:

- Age 60 years and above
- Single or joint names are eligible.

Joint account:

Joint accounts can be opened with Senior or person below 60 years. condition ^{Other} is Senior citizen is the number one depositor.

Proof:

While opening of new deposit account a ^{certified} copy of any of the following document.

SSLC indicating the date of birth.

LIC policy

voters ID

pension payment order

Birth certificate issued by the competent authority.

passport.

High return:

Interest rate 0.75% applicable to time to time.

Eligible accounts:

Domestic fixed deposit and komadhene deposit etc. are some of the account eligible for being used for opening the Senior citizen account.

Investment limit:

Minimum is Rs 1000 and there is no maximum limit of deposit investment.

period of Deposit:

period of deposit varies from 15 days to 120 months.

Recurring Deposit Account:

A type of bank account where the customer makes a deposit on a periodical interval up to a certain period of time is known as recurring deposit account.

The purpose of this type of account is to encourage thrift and savings habit and make it a recurring habit. The account is ideal for commencement savings. It enables to build up a sizeable capital in a regular and systematic way.

The deposit is made in as low an amount of Rs 50 and in multiples of Rs 50. There is no ceiling on the maximum amount. The interest is compounded every quarter. The account commands easy liquidity and can be closed before maturity.

The interest is compounded every quarter. The account commands easy liquidity and can be closed before maturity. Further it permits loan against deposit. Nomination facility is available too.

Floating Rate Deposit Account:

A type of account operated by a banker where the rate of interest payable on the deposit made by a customer is allowed to vary is known as 'floating rate deposit account'.

Purpose:

To provide a deposit scheme with a floating interest rate linked 91 days T-Bill rate.

To provide the deposit an option to invest in floating rate deposit scheme to take advantages of interest rate fluctuations.

Eligibility:

Individuals both single or joint account
High net worth customers, both single or joint account.

or generation on behalf of minor, HUF, partnership firm, company, trusts, association or any other institutions.

Amount:

minimum Rs 10 lakhs and in multiple of Rs 1 lakh, thoughts.

There is no maximum ceiling.

Nature of Deposit:

Fixed deposit only.

Period:

6 months - minimum

24 months - maximum

Deposits can be made in multiple of Month.

Rate of interest:

Mark up rate plus average monthly 91 days T-Bill rate as prevailed during the immediately preceding months.

Premature payment:

Fixed deposit rate as on date of deposit or the average monthly anchor rate for the calendar month prior to premature closure, whichever is lower for the period run.

conversion facility:

Not permitted to convert.

Interest payment:

Payment of interest is at quarterly intervals.

Steps in opening accounts:

obtaining letter of Introduction:

First and the foremost step in opening an account for a new customer is to obtain a letter of introduction from the person who wants to open an account.

A letter obtained by a banker from a prospective customer name of the prospective is known as a letter of introduction. The purpose is to enable the banker to ascertain the genuineness of the applicant.

Benefits :

Protecting against issuing cheques to unscrupulous persons.

Facilitating the claiming of overdraft inadvertently granted by the banker.

Protecting against undischarged insolvent.

Helping to provide correct financial information about the customer.

obtaining statutory protection.

Application Form:

The application form contains the rules and regulation of the bank with the terms and conditions of deposit. The application form is to be filled in and handed over to the banker.

Specimen Signature:

The banker obtains specimen signature of the new customer in a separate card called Specimen Signature card. Every customer should comply with the rules of the bank. customer have to supply his one or more specimen of his signature to banks, the banks enters these in a signature and mentioned for the purpose. The cards are arranged in alphabetical orders.

First Transactions:

The banks open new account by obtaining cash from the new customers. This marks as the first transaction between the new customer and the banker.

Issue of cheque, pay-in slip and pass book

The banker issue pay in slip, cheques book and passbook immediately after successfully completing the first transaction with the customer.

The check book supplied to the customer usually contains ten or twenty blank form.

A cheque book contain a requisition slip which helps to get a new chequebook.

Pay-in-slip or credit vouchers are forms used to pay coins, notes, bills and cheques to the credit of customer's account.

Each slip should be signed by the customer or person who has prepared it on his behalf, amount, name, account number, date and amount should be correctly mentioned.

Savings Vs current account:

No	Features	Savings account	Current account
1)	Who prefers it	Salaried people	Business people
2)	privileges	Enjoys limited privileges such as collection of cheques safe custody of valuables etc.	Enjoy more privileges
3.	Withdrawals	withdrawals is limited with regard to period and amount.	no such limitation
4.	Interest	carries a nominal rate of interest	usually does not carry any interest
5)	Objective	mostly to promote thrift and to provide convenience banking to customer	Mostly to enable to conduct of business transaction
6)	Minimum balance	This is a minimum balance of Rs 500	This is a minimum balance of Rs 1,000.
7)	Overdraft facility	not available	available
8)	Reserves	no need to reserves in proportion to the volume of deposit	There is a need to hold reserves in proportion to the volume of deposits

Donation mortis causa:

'Donation mortis causa' means a gift made in contemplation of death. The gift is said to be made by a person who owns any moveable property and who is very ill and believes that he is going to die. This is a peculiar gift as it has a condition that it will come into operation only the donor actually dies of the illness. But if he recovers from the illness the gift is to be returned.

Passbook:

Meaning:

A compact book issued to every customer of a bank in which all the entries regarding deposit and withdrawal of cash and cheques are made. It is known as passbook. Entries are made in this passbook either manually or in print.

But in modern times, however, entries are made in the passbook using printers. The entries are thus clear and legible.

Effects of Entries:

According to St. John Paget, the proper function of a passbook is to constitute a conclusive and unquestionable record of the transaction between banker and the customer.

The effect of entries made in the passbook might be either favourable to the customer or to the banker as discussed below.

Entries favourable to customer:

Entries in the passbook are considered to be advantageous to the customer if the passbook shows wrong credit balance a balance larger than the actual balance in the ledger account.

Entries favourable to the banker

Entries on the passbook are considered to be advantageous to the banker if the passbook shows wrong debit balance a balance lower than the actual balance in the ledger account.

Bank customer Relationship:

The relationship between the banker and the customer is of debtor and creditor, trustee and beneficiary, and agent and principal. The type of relationship between the banker and the customer is discussed below.

Debtor and creditor:

An essential and a fundamental relationship between a banker and a customer is that of a debtor and a creditor where the customer has a credit balance in his account the customer is the creditor and banker is the debtor, conversely where the customer has a debit balance in his account, the customer is the debtor and banker is the creditor.

Trustee and beneficiary:

The banker maintains the deposit balances of customers and allows them to deposit money as per their wish. He is said to be acting as a trustee of the customer. Similarly, where the banker accepts securities and other valuable for safe custody, he becomes the trustee and the customer becomes the beneficiary.

Agent and principal

A banker essentially acts as an agent of a customer as he carries out the agency function such as collection of cheques, bill of Exchange, payment of insurance premium etc.

Special Types of customer

Special customers are there such as minor, lunatics, married women etc.

Minors:

Individual under the age of (18 or 21 in some cases if a guardian is appointed) are generally not legally capable of entering into contracts. So they need a guardian to open and operate bank accounts on their behalf.

Lunatics and Drunkards

Individual who are not of sound mind due to mental illness or intoxication also lack the legal capacity to enter into contracts and banks need to be cautious when dealing with them, potentially requiring a legal guardian.

Insolvent persons

Individual who are bankrupt or have a large amount of debt may also have limitations on their ability to open or operate bank accounts as creditors may have claim on their assets.

Illiterate person

Banks need to provide alternative methods for these individuals to identify themselves and transact, such as using thumbprints or other forms of identification.

Blind person

Banks need to make sure their premises and services are accessible and provide alternative methods for conducting transaction such as large print materials, or audio guides.

Married women:

While married women can generally enter into contracts and open bank accounts, banks may require certain

documentation or authorization from their husband, depending on the jurisdiction and local laws.

Executors and Administration:

They individuals act on behalf of a deceased person's estate and need proper authorizations to open and operate bank accounts.

Trustees

Trustees hold assets in trust for beneficiaries and need to proper documentation and authorization to open and operate bank accounts.

Partnership firm

Bank should verify authorization of partners to ensure all partners all aware of and agrees to the term.

Joint stock companies

These business require specific documentation, such as a certificate of incorporation, and their accounts should be opened in the name of company rather than individual.

Joint accounts:

When multiple individual share a bank accounts, they need to agree on how the account will be operated and who has the authority to withdraw funds.

clubs, societies, and non-trading institutions.

These entities also require specific documentation and may have different rules and procedures and who has the authority to withdraw funds.

Politically Exposed persons:

Banks have specific KYC procedures and regulation for PEPs due to the potential risk of corruption and money laundering.

High Net worth Individual (HNWIs)

Banks often provide personalized services and investment advice to HNWIs, requiring a more specialized approach to customer service.

Underprivileged persons

Banks may offer special programs and discounts to underprivileged customers to promote financial inclusion.

KYC norms - customer Identification:

The term KYC stands for 'know your customer'. KYC used for identifying a customer of banking or a financial service company such as mutual fund, Insurance fund, pension fund etc.

The objective of KYC is to help the banks and financial institutions to manage their risks. Presently KYC is made available by the RBI by way of guidelines designed to prevent banks from being used, intentionally or unintentionally by criminal elements for money laundering.

Legal compliance:

KYC norms have legal backing of the RBI. RBI has issued guidelines to banks under Section 35A of the Banking Regulation of money - Laundering (Maintenance of Records of the nature and value of Transaction, the procedures and manner of maintaining and time for furnishing information and verification and maintenance of Records of the Identity of the clients of the Banking companies, Financial Institutions and Intermediaries) Rules 2005.

Bank lending:

Bank lending constitutes loans and advances granted by banks.

Significance of Bank lending:

1) Major Source of Revenues:

The main source of revenue is come from its lending activity. 60% of the total assets of a bank is comprised of advances and as much as 80% of the revenue emanates from interest and discount income.

derived from advances, including bills purchased and discounted.

Basic of credit creations:

Credit creation function happens by way of the bank crediting and creating deposit in the customer's account the loan amount by accepting the promise to pay from borrowers.

Driving Economic Growth.

Bank credit is significant in that it is responsible for driving the expansion of productive facilities and operation which could otherwise be limited, by the amount of savings accumulated by the economy.

Agent of production:

Bank lending acts as an agent of production. By making possible financing of the agricultural, industrial and commercial activities of the country, bank lending facilitates economic development of the country.

Lending sources:

The main source of funds available for lending and investment for a banker include paid-up capital, reserves, deposits in other accounts, borrowing from the Reserve Bank, deposit in other accounts, borrowing from the RBI, participation certificates, undistributed or unallocated portions of the current year's profit

refinance loan from the Industrial Development Bank, Agricultural Refinance and Development corporation and other financial institutions.)

Bank Lending principles

1. principle of Safety

A banker can ill-afford to overlook the safety principle while making decisions relating to investment of its surplus funds. Safety factors underlines the fact whether the borrower will be in a position to repay the loan along with out the stipulated time. Safety should be the first and foremost guiding principle of a banker.

Recentralised lending

As a matter of prudent policy a bank should never lend a major portion its funds to one single individual or a group of individuals or to a few industries or business at a time.

Credit Standing

Bank lending is done with careful enquiry into the reputation and standing of the borrower before granting any loan.

Evaluating Security

The bank should also evaluate the security offered by the borrower for the loan.

short period loan

As a far as possible, the bank should grant loan to the borrowers for short period only.

principle of liquidity

Liquidity refers to bankers ability to meet the demand for cash in exchange for deposit. Loans granted by a banker must be for a short period and realizable at short notice.

principle of security

Another principles that the banker should considered is the value and the natures of the security offered for obtaining loan. The security offered must be adequate, readily marketable, easy to handle, and free from encumbrances.

principles of profitability

The lending by banks must yield profit for the organisation. In order to make its lending profitable it should be the banker's practice to charges different rates of interest on the different type of advances.

principles of purpose

The bank advances loans only for productive purposes with a definite source of repayment. The purpose should be short-termed so that it ensures liquidity.

principles of Diversity

The diversification principles helps in lending by mitigating the risk of loss.

principles of marketability

While making advancement of money the banker should ensures that the security accepted for advance is easily marketable.

principle of value stability

The bank should lend against those securities that commend a stable value in the market.

principle of National interest

Interest of the nation is yet another important principle. Bank lending ultimately leads to the all-round promotion and development of all sector and segments of the economy.

forms of lending

call money or short period loans.

Loans

Overdrafts

cash credit

Temporary overdraft

clean advances

Term loans

participation loans

Demand loan

Housing loan

Loan to small Borrowers

Here purchase and lending finance
Bills purchase and discounted
packing credit
Import finance
consumer credit

call money or short period loan

call money or short period loans are the types of loan provided to businessmen for extremely short period of time.

E.g. For a days, or two days or at the most fifteen days. Banks will recall the loans without giving any prior notice to the borrowers. In case of default of repayment at a time, The bank may compensate itself by selling of the pledged about the loans carry very high interest rate.

Loans:

A loan is a type of advance granted by a banker whether by the entire amount is paid to the borrowers in one lumpsum and at one time, either is cash by transfer to his Savings or current account.

Overdrafts

A fluctuating account that indicates the aggregate amount, by which a has overdrawn the amount, is known as overdraft. overdraft facility is available only to current account holders. There is no withdrawal in number of withdrawals.

Cash credit:

Cash credit is a credit given in to business firms. It is essentially a drawing account against credit granted by the bank. Cash credit are generally allowed against the pledge or hypothecation of goods, against book debts or personal security.

Temporary overdraft

Temporary overdraft are unsecured overdraft granted by bankers for small amount to customer having current accounts with them.

Clean advances

Clean advances are essentially unsecured advances. A banker extends credit facility for a short period after taking into consideration the net liquid resources of the borrower. Advances is granted only based on three Cs of the borrower

~~Character~~ character

capacity

capital

Loans granted without any security for a short period only based on net liquid resources of the borrowers are called clean loan. Here three Cs are considered.

Term loan

Loan that are granted for a certain period of time are known as term loans.

Term loan are usually provided for medium and long-term and are repayable in installments.

Participation loan

When two or more banks agree to advance a large term loan jointly to borrowers, in a certain agreed proportion against a common security. Such loan are called participation loans or consortium loans. They are also called as consortium advances.

Demand loan

Loans that have no stated maturity period demand loan. Such loan are to be repaid on demand. The banker pays the borrowers the entire amount of the loan sanctioned.

Housing loan:

An important form of advances provided by a modern banker is banking finance. Housing loan constitute a major segment of deployment of funds by a bankers.

Import Finance

Import financing include finance for import settlement finance for taking delivery of imported goods and import usage bill etc.
Consumer credit:

Bank credit granted to consumers for their personal needs, including purchase of cars, refrigerators, television sets, repairing of houses, settlement of hospital bills etc. is called consumer credit.

Loan Evaluation process:

Pre-Screening of loan application checking past bank record.



Analysing ~~credit~~ reports



Analysing financial statements



physical verification of assets.

Pre-Screening of loan application

The first and the foremost step in the loan evaluation process is to screen the application for loan to check for the basic aspects concerning the purpose.

Loan to small Borrowers

These are the kind of loans advanced to small borrowers such as the common man and self-employed persons, say, debtor engineers etc.

Hire purchase and leasing finance

Hire purchase finance takes the form of advances granted to parties the finance hire purchase business relating to transport vehicles, machinery & devaluable goods e.g. TV, washing machine etc.

Banks have also started lending to leasing companies.

Bills purchased and discounted

Bills discount genuine commercial and treasury bills. Loan amount constitutes the face value of the bill minus the discount charges. Discount constitutes the income earned by the bank.

Packing credit

The short term credit granted by a bank to an exporter to assist him to buy process pack and ship the goods is called packing credit. It is granted for a period not exceeding 90 days.

checking past track Record

Immediately after pre-screening the loan application, the bank has to carry out the necessary check to find out whether the borrower has maintained a good track record with regard to serving of loan.

Analysing credit report:

A credit report contains the detail of all the credit facilities availed by the borrower and also the credit details where the borrower had lent his name as a guarantor or a ~~app~~ co-applicant.

Analyzing financial statement

The lender should make a detailed study of the financial statement of the borrower.

Physical verification of assets:

As a last part of the loan evaluation process the lender should conduct physical verification of the business premises and other detailed of fixed asset owned by the borrower.

Securities for lending

Personal Security:

Personal Security constitutes the acquiescence guarantee, and personal security of the borrower in security the loan from a bank loan advanced under the category are called 'clean loan'.

Collateral Security:

Collaterals may consist of a variety of assets such as real estate, goods, material as well as finished goods, receipts, shares, negotiable bill of lading etc.

The main objective of a bank requesting for security is to reduce its risks of loss in the event of the failure of the borrower to pay the loan at maturity.

Collateral security constitutes physical securities executed by the borrower in favour of the banker before advancing loans.

Hypothecation

Pledge

Mortgage

Hypothecation

Under hypothecation, loans are granted on the strength of movable assets like inventory of finished goods, delivery van etc. The securities remain under the custody of borrower. The documents of title are remain under the custody of banker.

pledge:

In the case of pledge, banker grants loans against valuables such as jewellery etc. The security goes into the custody of the banker and is released to the borrower upon the repayment of the loan.

Mortgage:

In the case of mortgage, loans are advanced against the security of immovable assets such as land, and building, plant and machinery etc. No transfer of assets from the borrowers to the banker happen, the documents of title however, transferred to the banker and remain in the banker's custody till the repayment of the loan.

Types of collateral securities

Stock exchange securities

Goods and titles to goods

Bills of exchange

Life insurance policy.

Property.

Factors Influencing Bank lending

1) Capital funds

2) Earning potential

3) Deposit profile

4) State of the economy

5) Monetary policy

6) Ability to the bank

7) Competition

Capital Funds

Capital funds provide a cushion which absorbs losses and serve as a protective factor against losses for depositors and guarantees fund for the creditor.

Earnings potential

The potential of a bank to make good earnings in future plays important role. A bank with the objective of maximising profit should make a larger amount of loans.

Deposit profile

The nature and the type of deposit accounts operated by the bank also determine the ability of the bank to advance loans.

State of the Economy

Lending policy of a bank is also influenced by the economic conditions prevailing in the economy as well as in the region served by the bank.

Monetary policy

The monetary policy of the central banking authorities also greatly determine the funds availability with the banker for making advances.

Ability of the bank

Bank lending is equally affected by the ability of the bank with regard to appraisal and sanction of the loan.

Competition

The loan policy of a bank is greatly influenced by the dynamics of competition prevailing in the whole bank environment.

Negotiable Instruments

Instruments of credit that are transferable from one person to another are called negotiable instruments.

Characteristics

Transferability

They are easily and freely transferable. They can be transferred either by endorsement or delivery. The transfer happens merely by delivery in the case of bearer instrument.

Good Title:

Negotiable instrument generally carry a good title. Accordingly, the title of the holder in due course is not affected anyway by the defective title of the transfer.

Right to sue:

The holder in due course always has a right to sue the person who is liable for making payment without giving any notice of transfer.

Assumption:

The working mechanism of negotiable instrument is dependent on certain assumption as mentioned below.

consideration

Date

Acceptance

Transfer

Endorsement

Holder in due course

Fact of dishonour.

Parties

Negotiable instrument are also characteristic that there are different types of parties associated with them. They include drawer (the maker of an instrument), maker (the person who promises to pay amount stated in an instrument), drawee (the person who is directed to make payment of an instrument), payee (the person who is entitled to the payment of an instrument), acceptor (the person who sign and accepts to make payment of an

of an instrument) endorser (the person who transfer an instruments), endorsee (the person to whom an instrument is transferred), the holder (the person who is entitled to have the possession of an instruments in his own name and who is entitled to receive payment there on.)

Types:

Negotiable instrument are broadly of three & types. They are cheques, bill of exchange and promissory notes.

cheques

promissory notes

Bill of exchange.

cheques

According to Section 6 of the Indian negotiable instrument Act 1881, cheque is defined as 'a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand.'

Types of cheques

order cheque

Bearer cheque

State cheque

post dated cheque

marked cheques

Bank draft / demand draft

MIR cheques / Draft

Order cheques

When a cheque is drawn to or to the order of a specified person, using such words as "pay Mr. A. or order" it is known as the "order cheques".

Bearer cheques

Where a cheque is drawn in favour of the person for the time being in possession of the cheque using such words as "pay Mr. A. or bearer". It is known as bearer cheque.

State cheques

Where a cheque is not presented for payment within a reasonable period from the date of its issue, it is called as state cheque.

Post dated cheques

Where a cheque bears a date subsequent to the one on which it is actually drawn it is called a post dated cheque.

Marked cheque

A marked cheque is one which is marked by a banker that ^{it} is good for the amount for which it is drawn.

Bank Draft or demand draft

It is a financial instrument drawn by one branch of a bank on another branch of the same bank instructing the latter to pay a specified sum of money to a named payee or his order.

MICR cheques / Draft

MICR stands for magnetic Ink character Recognition. It is a scheme introduced by RBI for cheques clearing process.

Promissory Note

According to section 4 of the Indian Negotiable Instruments Act, 1881 "a promissory note is defined" as an instrument in writing (not being a bank note or a currency note) containing an unconditional undertaking, signed by the maker, to pay a certain sum of money only, to or to the order of a certain person or to the bearer of the instruments.

features

- Instrument in writing
- promise to pay
- unconditional undertaking
- maker's signature
- certain maker
- certain payee
- promise to pay money only.

certain amount
proper stamping

Bill of Exchange

A bill of exchange contains an order from the creditor to the debtor to pay a specified amount to a person mentioned there in. The maker of a bill is called the drawer. Person who is directed to receive payment is called the payee. Sometimes the drawer & himself as the payee.

Features

It contains an express order to pay money only.

The order is unconditional

It is in writing.

It is signed by the drawer

Drawer, Drawee and the payee are certain.

Amount payable is certain

It is properly and adequately stamped.

Types of bill

Demand bill

usance bill

Documentary bill

D/A bill

D/P bill

clean bill

Inland bill

foreign bill
accommodation bill
Supply bill
hardis.

Demand Bill:

Bill of exchange that are payable immediately 'at sight' or "on presentment" to the drawee are called demand bill. Time of payment or due date is not mentioned in the bill.

Usance bill:

Time based bills are called usance bills.

Documentary bill

Bills of exchange that are accompanied by documents confirming the genuineness of a trade transaction between the buyer and the seller of goods are known as documentary bills.

D/A bills

When the accompanying documents of bill are delivered to the drawee against acceptance, such bill are called D/A bill.

D/P bill

When accompanying documents of the bills are delivered to the drawee against payment of the bill, such bills are called D/P bills.

clean bill

Bills that are not accompanied by any document and reflect the genuineness of trade transaction between parties concerned are called clean bills.

Inland bills:

Bills that are drawn on Indian residents are called Inland bills.

Foreign bill:

Bills that are payable outside India are called foreign bills.

Accommodation bill

Accommodation bills also called kite bills or wind bills are those bills that are created by borrowers and concern simply to help each other without the backing of any trading transaction.

Supply bill

Bills that are drawn by a supplier or contractor on a Government or Semi-Government department for supplies made are 'supply bills'.

Hundis

Indigenous bills of exchange and promissory notes are known as hundis.

Crossing:

Crossing carries a direction by a customer to the paying banker instructing to pay the money generally to a banker or a particular banker as the case may be.

Objectives

To give the advantage of security and protection to the true owner by ensuring that payments is made only through a banker.

To make it possible to know the party to whom the money has been paid by the banker.

To help avoid loss being incurred from open cheques falling into the hands of wrong person.

Crossing and negotiability:

Crossing of a negotiable instruments such as cheques does not affect its negotiability. Similarly, where the negotiability happens by endorsement and delivery. Accordingly, where a holder of a crossed cheques, has no account in any bank, he can obtain payment by endorsing it in favour of some person who has got an account in a bank.

consequences of crossing

The consequences of crossing of a cheque is that it allows the payment to be made only to the account of the person who is named in the instrument. Further crossing of a cheque does not amount to a material alteration so as to discharge the person liable under it.

Unit. 4