

Course Objectives

To impart knowledge about the basic principles of the banking and insurance.

Course Outcome

Students can learn Banking and insurance represents the Banking Regulation Act, Relationship between Banker and Customer and Credit control measures.

This paper provides the types of account, position of surety, Mortgage, Loan and advances internet banking and insurance and types of risk, indemnity and role of IRDA.

Unit I

Introduction: Origin of Banking - Definition, Banker and Customer Relationship, General and Special Types of Customers - Types of Deposits - Origin and Growth of Commercial Banks in India - Financial Services Offered by Banks - Changing Role of Commercial Banks, Types of Banks

Unit II

Cheques and Paying Banker: Crossing and Endorsement - Meaning, Definitions, Types and Rules of Crossing- Duties, Statutory Protection in Due Course - Collecting Bankers - Duties, Statutory Protection for Holder in Due Course - Concept of Negligence.

Unit III

Banking Lending: Principles of Sound Lending - Secured vs. Unsecured Advances - Types of Advances - Advances Against Various Securities.

Unit IV

Internet Banking : Meaning - Benefits, - Home Banking - Mobile Banking - Virtual banking - E-payments - ATM Card/Biometric Card - Debit/Credit Card, Smart Card – NEFT – RTGS - ECS (credit/debit), E-money - Electronic Purse - Digital Cash.

Unit V

Insurance: Basic Concept of Risk - Types of Business Risk - Assessment and Transfer- Basic Principles of Utmost Good Faith – Indemnity - Economic Function- Proximate Cause, Subrogation and Contribution -Types of Insurance: Life and Non-life - Re-insurance - Risk and Return Relationship - Need for Coordination – Power - Functions and Role of IRDA - Online Insurance.

Suggested Readings

Text Books

1. Dr. P.K. Gupta (2015), *Insurance and Risk Management*. New Delhi, Himalaya Publishing House.
2. Varshney, P.N., (2014) *Banking Law and Practice*, New Delhi, Sultan Chand and Sons.

Reference Books:

1. Agarwal, O.P.,(2011), *Banking and Insurance*, Himalaya Publishing House, New Delhi.
2. Satyadevi, C.(2010), *Financial Services Banking and Insurance*, New Delhi.
3. S.Chand, Suneja, H.R., (2009) *Practical and Law of Banking*, New Delhi, Himalya Publishing House,.
4. Chabra, T.N., *Elements of Banking Law*, New Delhi. Dhanpat Rai and Sons,
5. Arthur.C, and C.Willaim Jr(2013), *Risk Managemnt and Insurance* (12th edition), Tata Mc Graw Hill.
6. Saxena, G.S(2008), *legal Aspects of banking Operations*, New Delhi, Sultan Chand and Sons.
7. Jyotana Sethi and Nishwan Bhatia (2012), *Elements of Banking and insurance* , New Delhi, PHI learning.

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UNIT-I- INTRODUCTION -ORIGIN OF BANKING

SYLLABUS

Introduction: Origin of Banking - Definition, Banker and Customer Relationship, General and Special Types of Customers - Types of Deposits - Origin and Growth of Commercial Banks in India - Financial Services Offered by Banks - Changing Role of Commercial Banks, Types of Banks

Origin of Banking

The banking history is interesting and reflects evolution in trade and commerce. It also throws light on living style, political and cultural aspects of civilized mankind. The strongest faith of people has always been religion and God. The seat of religion and place of worship were considered safe place for money and valuables. The history of banking begins with the first prototype banks of merchants of the ancient world, which made grain loans to farmers and traders who carried goods between cities. This began around 2000 BC in Assyria and Babylonia. In olden times people deposited their money and valuables at temples, as they are the safest place available at that time. The practice of storing precious metals at safe places and loaning money was prevalent in ancient Rome.

However modern Banking is of recent origin. The development of banking from the traditional lines to the modern structure passes through Merchant bankers, Goldsmiths, Money lenders and Private banks. Merchant Bankers were originally traders in goods. Gradually they started to finance trade and then become bankers. Goldsmiths are considered as the men of honesty, integrity and reliability. They provided strong iron safe for keeping valuables and money. They issued deposit receipts (Promissory notes) to people when they deposit money and valuables with them. The goldsmith paid interest on these deposits. Apart from accepting deposits, Goldsmiths began to lend a part of money deposited with them. Then they became bankers who perform both the basic banking functions such as accepting deposit and lending money. Money lenders were gradually replaced by private banks. Private banks were established in a more

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organised manner. The growth of Joint stock commercial banking was started only after the enactment of Banking Act 1833 in England

Meaning and definition of Bank

Finance is the life blood of trade, commerce and industry. Now-a-days, banking sector acts as the backbone of modern business. Development of any country mainly depends upon the banking system. The term bank is either derived from old Italian word banca or from a French word banque both mean a Bench or money exchange table. In olden days, European money lenders or money changers used to display (show) coins of different countries in big heaps (quantity) on benches or tables for the purpose of lending or exchanging. A bank is a financial institution which deals with deposits and advances and other related services. It receives money from those who want to save in the form of deposits and it lends money to those who need it. Definition of a Bank

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

According to H. L. Hart, a banker is —one who in the ordinary course of his business honours cheques drawn upon him by person from and for whom he receives money on current accounts. Banking Regulation Act of 1949 defines banking as —accepting for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise.

Banker Customer relationship

Who is a ‘Customer’?

The term Customer has not been defined by any act. The word ‘customer’ has been derived from the word ‘custom’, which means a ‘habit or tendency’ to-do certain things in a regular or a particular manner. In terms of Sec.131 of Negotiable Instrument Act, when a banker receives payment of a crossed cheque in good faith and without negligence for a customer, the bank does not incur any liability to the true owner of the cheque by reason only of having received such

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payment. It obviously means that to become a customer account relationship is must. Account relationship is a contractual relationship.

It is generally believed that any individual or an organisation, which conducts banking transactions with a bank, is the customer of bank. However, there are many persons who do utilize services of banks, but do not maintain any account with the bank.

Thus bank customers can be categorized in to four broad categories as under:

- Those who maintain account relationship with banks i.e. Existing customers.
- Those who had account relationship with bank i.e. Former Customers
- Those who do not maintain any account relationship with the bank but frequently visit branch of a bank for availing banking facilities such as for purchasing a draft, encashing a cheque, etc. Technically they are not customers, as they do not maintain any account with the bank branch.
- Prospective/ Potential customers: Those who intend to have account relationship with the bank. A person will be deemed to be a 'customer' even if he had only handed over the account opening form duly filled in and signed by him to the bank and the bank has accepted the it for opening the account, even though no account has actually been opened by the bank in its books or record.

The practice followed by banks in the past was that for opening account there has to be an initial deposit in cash. However the condition of initial cash deposit for opening the account appears to have been dispensed with the opening of 'No Frill' account by banks as per directives of Reserve Bank of India. 'No Frill' accounts are opened with 'Nil' or with meager balance.

The term 'customer' is used only with respect to the branch, where the account is maintained. He cannot be treated as a 'customer' for other branches of the same bank. However with the implementation of 'Core Banking Solution' the customer is the customer of the bank and not of a particular branch as he can operate his account from any branch of the bank and from anywhere. In the event of arising any cause of action, the customer is required to approach the branch with which it had opened account and not with any other branch.

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Know Your Customer Guidelines and Customer:

As per Know Your Customer guidelines issued by Reserve Bank of India, customer has been defined as:

- a) A person or entity that maintains an account and/or has a business relationship with the bank;
- b) One on whose behalf the account is maintained (i.e. the beneficial owner);
- c) Beneficiaries of transactions conducted by professional intermediaries, such as Stock Brokers, Chartered Accountants, Solicitors etc. as permitted under the law, and d) Any person or entity connected with a financial transaction, which can pose significant reputational or other risks to the bank, say, a wire transfer or issue of a high value demand draft as a single transaction.

Banker-Customer Relationship:

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

These relationships confer certain rights and obligations both on the part of the banker and on the customer. However, the personal relationship between the bank and its customers is the long lasting relationship. Some banks even say that they have generation-to-generation banking relationship with their customers. The banker customer relationship is fiducial relationship. The terms and conditions governing the relationship is not be leaked by the banker to a third party.

Classification of Relationship:

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

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in Sec.6 of Banking Regulation Act. Relationship arising out of the activities mentioned in Sec.6 of the act is termed as special relationship.

General Relationship:

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

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

The debtor has to follow the terms and conditions of bank said to have been mentioned in the account opening form. {Though the terms and conditions are not mentioned in the account opening form, but the account opening form contains a declaration that the terms and conditions have been read and understood or has been explained. In fact the terms and conditions are mentioned in the passbook, which is issued to the customer only after the account has been opened.}

In the past while opening account some of the banks had the practice of giving a printed handbill containing the terms and conditions of account along with the account opening form. This practice has since been discontinued. For convenience and information of prospective customers a few banks have uploaded the account opening form, terms and conditions for opening account, rate charge in respect of various services provided by the bank etc., on their web site.

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

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2. Creditor–Debtor: Lending money is the most important activities of a bank. The resources mobilized by banks are utilized for lending operations. Customer who borrows money from bank owns money to the bank. In the case of any loan/advances account, the banker is the creditor and the customer is the debtor. The relationship in the first case when a person deposits money with the bank reverses when he borrows money from the bank. Borrower executes documents and offer security to the bank before utilizing the credit facility.

In addition to opening of a deposit/loan account banks provide variety of services, which makes the relationship more wide and complex. Depending upon the type of services rendered and the nature of transaction, the banker acts as a bailee, trustee, principal, agent, lessor, custodian etc.

Special Relationship:

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

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

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

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2. **Bailee – Bailor:** Sec.148 of Indian Contract Act, 1872, defines "Bailment" "bailor" and "bailee". A "bailment" is the delivery of goods by one person to another for some purpose, upon a contract that they shall, when the purpose is accomplished, be returned or otherwise disposed of according to the directions of the person delivering them. The person delivering the goods is called the "bailor". The person to whom they are delivered is called, the "bailee".

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

3.**Lessor and Lessee:** Sec.105 of ‘Transfer of property Act 1882’ defines lease, Lessor, lessee, premium and rent. As per the section —A lease of immovable property is a transfer of a right to enjoy such property, made for a certain time, express or implied, or in perpetuity, in consideration of a price paid or promised, or of money, a share of crops, service or any other thing of value, to be rendered periodically or on specified occasions to the transferor by the transferee, who accepts the transfer on such terms.¶

Definition of Lessor, lessee, premium and rent:

- (1)The transferor is called the lessor,
- (2)The transferee is called the lessee,
- (3)The price is called the premium, and
- (4)The money, share, service or other thing to be so rendered is called the rent.¶

Providing safe deposit lockers is as an ancillary service provided by banks to customers. While providing Safe Deposit Vault/locker facility to their customers bank enters into an agreement with the customer. The agreement is known as —Memorandum of letting¶ and attracts stamp duty.

The relationship between the bank and the customer is that of lessor and lessee. Banks lease (hire lockers to their customers) their immovable property to the customer and give them

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the right to enjoy such property during the specified period i.e. during the office/ banking hours and charge rentals. Bank has the right to break-open the locker in case the locker holder defaults in payment of rent. Banks do not assume any liability or responsibility in case of any damage to the contents kept in the locker. Banks do not insure the contents kept in the lockers by customers.

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

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

Banks collect cheques, bills, and makes payment to various authorities viz., rent, telephone bills, insurance premium etc., on behalf of customers. . Banks also abides by the standing instructions given by its customers. In all such cases bank acts as an agent of its customer, and charges for these services. As per Indian contract Act agent is entitled to charges. No charges are levied in collection of local cheques through clearing house. Charges are levied in only when the cheque is returned in the clearinghouse.

5. As a Custodian: A custodian is a person who acts as a caretaker of something. Banks take legal responsibility for a customer's securities. While opening a dmat account bank becomes a custodian.

6. As a Guarantor: Banks give guarantee on behalf of their customers and enter in to their shoes. Guarantee is a contingent contract. As per sec 31, of Indian contract Act guarantee is a " contingent contract ". Contingent contract is a contract to do or not to do something, if some event, collateral to such contract, does or does not happen.

It would thus be observed that banker customer relationship is transactional relationship.

Termination of relationship between a banker and a customer:

The relationship between a bank and a customer ceases on:

- (a) The death, insolvency, lunacy of the customer.
- (b) The customer closing the account i.e. Voluntary termination

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- (c) Liquidation of the company
- (d) The closing of the account by the bank after giving due notice.
- (e) The completion of the contract or the specific transaction

General and special types of customers

Special Types of Customers

Special types of customers are those who are distinguished from other types of ordinary customers by some special features. Hence, they are called special types of customers. They are to be dealt with carefully while operating and opening the accounts. They are:

I. Minors:

Under the Indian law, a minor is a person who has not completed 18 years of age. The period of minority is extended to 21 years in case of guardian of this person or property is appointed by a court of law before he completes the age of 18 years. According to Indian Contract Act, a minor is recognised as a highly incompetent party to enter into legal contracts and any contract entered into with a minor is not only invalid but voidable at the option of the minor. The law has specially protected a minor merely because his mental faculty has not fully developed and as such, he is likely to commit mistakes or even blunders which will affect his interests adversely. It is for this reason; the law has come to the rescue of a minor. A banker can very well open a bank account in the name of a minor. But the banker has to be careful to ensure that he does not open a current account.

If a current account is opened and stands overdrawn inadvertently, the banker has no remedy against a minor, as he cannot be taken to a court of law. It is for this reason that the banker should be careful to see that he invariably opens a savings bank account.

The conditions for opening and maintaining accounts in the names of the minors are:

1. The minor should have attained the age of discretion, i.e., he must be about 14 years of age. He must be capable of understanding what he does.
2. The minor should be able to read and write.

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3. The minor should be properly introduced. The account opening form should be signed by the minor in the presence of a bank officer who should be able to identify the minor. The date of birth of the minor should be recorded in the account opening form.

4. Banks usually stipulate limits up to which deposits in such accounts can be accepted.

5. Amount tendered by the minor should as far as possible be in cash.

6. In case of time deposits, the amount should be paid in cash on maturity. Prepayment cannot be allowed. Periodical payment of interest on deposits may be made to the minor.

Legal Provisions Regarding Guardianship of a Minor

According to Hindu Minority and Guardianship Act, 1956, a Guardian is one who is recognised by law to be one of the following:

(a) Natural Guardian:

According to Section 6 of the Hindu Minority and Guardianship Act, 1956, in case of a minor boy or an unmarried girl, his/her father and after him the mother shall be the natural guardian. In case of a married girl (minor), her husband shall be the natural guardian. The terms father or mother do not include step-father or step-mother. (b) Testamentary Guardian:

A Hindu father, who is entitled to act as the natural guardian of his minor legitimate children may, by will, appoint a guardian for any of them in respect of the minor's person or property. Such guardian acts after the death of the father or the mother (c) Guardian Appointed by Court: A guardian may be appointed by the court under the Guardians and Wards Act, 1890, but the court shall not be authorised to appoint or declare a guardian of the person of a minor, if his father is alive and is not, in the opinion of the court, unfit to be guardian of the person of the minor. Similar is the case of a minor girl, whose husband is not, in the opinion of the court, unfit to be guardian of her person. Thus the father (or the husband in case of a married girl) is exclusively entitled to be the guardian.

II. Lunatics:

A lunatic or an insane person is one who, on account of mental derangement, is incapable of understanding his interests and thereby, arriving at rational judgement. Since a lunatic does not

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understand what is right and what is wrong, it is quite likely that the public may exploit the weakness of a lunatic to their advantage and thus deprive him of his legitimate claims. On account of this, the Indian Contract Act recognises that a lunatic is incompetent to enter into any contract and any such contract, if entered into, is not only invalid but voidable at the option of the lunatic. Since a lunatic customer is an incompetent party, the banker has to be very careful in dealing with such customers. Bankers should not open an account in the name of a person of unsound mind. On coming to know of a customer's insanity, the banker should stop all operations on the account and await a court order appointing a receiver. It would be dangerous to rely on hearsay information. The bank should take sufficient care to verify the information and should not stop the account unless it is fully satisfied about the correctness of the information. In case a person suffers from a temporary mental disorder, the banker must obtain a Certificate from two medical officers regarding his mental soundness at the time of operation on the account.

III. Drunkards:

A drunkard is a person who on account of consumption of alcoholic drinks get himself intoxicated and thereby, loses the balance over his mental capacity and hence, is incapable of forming rational judgement. The law is quite considerable towards a person who is in drunken state. A lawful contract with such a person is invalid. This is for the simple reason that it is quite likely that the public may exploit the weakness of such a person to their advantage and thus, deprive him of his legitimate claims. A banker has to be very careful in dealing with such customers. There cannot be any objection by a banker to open an account. In case a customer approaches the banker for encashment of his cheque especially when he is drunk, the banker should not make immediate payment. This is because the customer may afterwards argue that the banker has not made payment at all. Therefore, it is better and safer that the banker should insist upon such a customer getting a witness (who is not drunk) to countersign before making any payment against the cheque.

IV. Married Women:

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An account may be opened by the bank in the name of a married woman as she has the power to draw cheques and give valid discharge. At the time of opening an account in the name of a married woman, it is advisable to obtain the name and occupation of her husband and name of her employer, if any, and record the same to enable detection if the account is misused by the husband for crediting there in cheques drawn in favour of her employer. In case of an unmarried lady, the occupation of her father and name and address of her employer, if any, may be obtained and noted in the account opening form. If a lady customer requests the bankers to change the name of her account opened in her maiden name to her married name, the banker may do so after obtaining a written request from her. A fresh specimen signature has also to be obtained for records.

While opening an account of a **purdah lady (purdah nishin)**, the bank obtains her signature on the account opening form duly attested by a responsible person known to the bank. It is advisable to have withdrawals also similarly attested. In view of practical difficulties involved, it would be better not to open accounts in the names of purdah ladies.

V. Insolvents:

When a person is unable to pay his debts in full, his property in certain circumstances is taken possession of by official receiver or official assignee, under orders of the court. He realises the debtor's property and rarely distributes the proceeds amongst his creditors. Such a proceeding is called 'insolvency' and the debtor is known as an 'insolvent'. If an account holder becomes insolvent,

his authority to the bank to pay cheques drawn by him is revoked and the balance in the account vests in the official receiver or official assignee.

VI. Illiterate Persons:

A person is said to be illiterate when he does not know to read and write. No current account should be opened in the name of an illiterate person. However, a savings bank account may be opened in the name of such a person. On the account opening form the bank should obtain his thumb mark in the presence of two persons known to the bank and the depositor. Withdrawal from the account by the account holder should be permitted after proper identification every

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time. The person who identifies the drawer must be known to the bank and he should preferably not be a member of the bank's staff.

VII. Agents:

A banker may open an account in the name of a person who is acting as an agent of another person. The account should be considered as the personal account of an agent, and the banker has no authority to question his power to deal with the funds in the account unless it becomes obvious that he is being guilty of breach of trust. However, if a person is authorised to only act on behalf of the principal, the banker should see that he is properly authorised to do the acts which he claims to do. If he has been appointed by a power of attorney, the banker should carefully pursue the letter-of-attorney to confirm the powers conferred by the document on the agent. In receiving notice of the principal's death, insanity or bankruptcy, the banker must suspend all operations on the account.

VIII. Joint Stock Company

A joint stock company has been defined as an artificial person, invisible, intangible and existing only in contemplation of law. It has separate legal existence and it has a perpetual succession. The banker must satisfy himself about the following while opening an account in the name of a company:

(a) Memorandum of Association:

Memorandum of Association is the main document of the company, which embodies its constitution and is called the charter of the company. It gives details, especially regarding objects and capital of the company's copy of this document should be insisted upon while opening an account.

(b) Articles of Association:

The Articles of Association contain the rules and regulations of the company regarding its internal management. It contains in detail all matters which are concerned with the conduct of day-to-day business of the company. The Articles of Association is also another document that a banker insists upon. It enables the banker to know the details of company's borrowing powers

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quantum, persons authorised to borrow etc. This will also enable the banker to understand whether the acts of the officers are within the orbit of the Company's Memorandum and Articles.

(c) Certificate of Incorporation:

This is another vital document the banker has to verify and insist upon receiving a copy.

This document signifies that the company can commence its business activities as soon as it gets this Certificate which is not the case with a public company.

(d) Certificate to Commence Business:

Only for public companies, the banker insists upon this document for verification. This document gives the clearance to public companies to commence their business activities. A company can borrow funds provided it has obtained this certificate

(e) Application Form and Copy of the Board's Resolution:

A copy of the prescribed application form duly completed in all respects has to be submitted in the beginning and that too duly signed by the company's authorised officers. Along with this, a copy of the resolution passed at the meeting of the board regarding appointment of company's bankers is quite necessary to make everything lawful. The resolution copy should be signed by the company's Chairman and Secretary in addition, a copy of the specimen signatures of the officers empowered to operate the bank account has to be furnished.

(f) A Written Mandate:

This is also another document that a banker insists upon. It contains all the details regarding operation, overdrawing of the account and giving security to the bank by the officers of the company. This document is useful to the bank for opening as well as for operating the account of the company.

(g) Registration of Charges:

Whenever a company borrows, it has to give certain assets by way of security and in case the banker accepts them as security, it has to be properly recorded in the company's books, register of charges and duly registered.

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(h) Any Change in the Company's Constitution or Offices:

Whenever there is any change in the constitution like Memorandum or in respect of company's offices, it has to be communicated in writing to the bank and it should not in any way affect the earlier contracts entered into by the company with the bank. To this effect, the bankers usually take an undertaking from the company.

IX. Clubs, Associations and Educational Institutions:

Clubs, Associations and Educational Institutions are non-trading institutions interested in serving noble courses of education, sports etc. The banker should observe the following precautions in dealing with them:

(a) Incorporation

A sports club, an association or an educational institution must be registered or incorporated according to the Indian Companies Act, 1956, or the Co-operative Societies Acts. If it is not registered, the organisations will not have any legal existence and it has no right to contact with the outside parties.

(b) Rules and by-laws of the Organisation:

A registered association or organisation is governed by the provisions of the Act under which it has been registered. It may have its own Constitution, Charter or Memorandum of Association and rules and by-laws, etc., to carry on its activities. A copy of the same should be furnished by the organisation to the banker to acquaint the latter with the powers and functions of the persons managing its affairs. The banker should ensure that these rules are observed by the persons responsible for managing the organisation.

(c) A Copy of Resolution of Managing Committee:

For opening a bank account, the managing committee of the organisation must pass a resolution—

(i) Appointing the bank concerned as the banker of the organisation.

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(ii) Mentioning the name/names of the person or persons, who are authorised to operate the account.

(iii) Giving any other directions for the operation of the said account. A copy of the resolution must be obtained by the bank for its own record.

(d) An Application Form:

An application form duly completed in all respects along with specimen signatures of the office bearers of the institution is quite essential for operation of the account.

It is an important document which contains specific instructions given to the banker regarding operations, over drawing etc.

(f) Transfer of Funds:

All funds and cheques which are in the name of the Institution should be invariably credited to the Institution account and not to the personal or private accounts of the office bearers of the institution.

(g) Death or Resignation:

In case the person authorised to operate the account on behalf of a organisation or association dies or resigns, the banker should stop the operations of the organisation's account till the organisation nominates another person to operate its account.¹⁰

X. Partnership Firm:

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 profit of the business, carried on by all or any of them acting for all. Partnership is formed or constituted on account of agreement between the partners and with the sole intention of earning and sharing profits in a particular ratio. Further, the business is carried on either by all the partners or some partners acting for all. The partners carry joint and several liabilities and the partnership does not possess any legal entity. A banker should take the following precautions while opening an account in the name of a partnership firm:

(a) Application Form:

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A prescribed application form duly completed in all respects along with specimen signatures of the partners of firm is quite essential for operation of the account. (b) Partnership Deed:

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. This will help him to know his position while advancing funds to the firm.

(c) A Mandate:

A mandate giving specific instructions to the banker regarding operations, over-drawing etc., is quite necessary. It will enable the banker to handle the accounts according to the needs of the firm.

(d) Transfer of Funds:

The banker has to be very careful to see that the funds belonging to the firm should not be credited to the personal or private accounts of the partners. (e) Sanctioning of Overdraft:

While sanctioning funds by way of overdraft, the banker has to check up the partnership deed and examine the borrowing powers of the partners empowered to borrow and he can even ask for the financial statements of the previous years for information and perusal.

XI. Joint Accounts:

When two or more persons open an account jointly, it is called a joint account. The banker should take the following precautions in opening and dealing with a joint account:

(a). The application for opening a joint account must be signed by all the persons intending to open a joint account.

(b). A mandate containing name or names of persons authorised to operate an account.

(c). The full name of the account must be given in all the documents furnished to the banker, even if the account is to be operated upon by one or a few of the joint account holders.

(d) Banker must stop operating an account as soon as a notice of death, insolvency, insanity etc., of any one account holder is received.

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(e) The joint account holder, who is authorised to operate the joint account, himself alone cannot appoint an agent or attorney to operate the account on his behalf. Such attorney or agent may be appointed with the consent of all the joint account holders.

(f) If all the persons are operating the account, then banker must see that any cheque drawn on him is duly signed by all.

(g) Banker must stop making payments as soon as letter of revocation is obtained.

(h) Banker must see that no loan or overdraft is granted without proper security.

Joint Hindu family is an undivided Hindu family which comprises of all male members descended from a common ancestor. They may be sons, grandsons and great grandsons, their wives and unmarried daughters. —A joint, Hindu family is a family which consists of more than one male member, possesses ancestral property and carries on family business.¶ Therefore, joint Hindu family is a legal institution. It is managed and represented in its dealings and transactions with others by the Kartha who is the head of the family. Other members of the family do not have this right to manage unless a particular member is given certain rights and responsibilities with common consent of the Kartha. The banker has to exercise greater care in dealing with this account.

(a) He must get complete information about the joint Hindu family including the names of major and minor coparceners and get a declaration from the Kartha to this effect along with specimen signatures and signatures of all coparceners.

(b) The account should be opened either in the personal name of the Kartha or in the name of the family business.

(c) The documents should be signed by the Kartha and major coparceners.

(d) The account should be operated on only by the Kartha and the authorised major coparceners.

(e) While making advances, the banker should ascertain the purpose for which the loan is obtained and whether the loan is really needed by the joint Hindu family for business.

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XIII. 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.¶ As per this definition, a trustee is a person in whom the author or settler reposes confidence and entrusts the management of his property for the benefit of a person or an organisation who is called beneficiaries. A trust is usually formed by means of 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:

- (a) The banker should thoroughly examine the trust deed appointing the applicants as the trustees.
- (b) A trust deed which states the powers and functions of trustees must be obtained by the banker.
- (c) In case of two or more trustees, the banker should ask for clear instructions regarding the person or persons who shall operate the account.
- (d) In case of death or retirement of one or more trustees, banker must see the provision of the trust deed.
- (e) The banker should not allow the transfer of funds from trust account to the personal account of trustee.
- (f) 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.
- (g) The insolvency of a trustee does not affect the trust property and the creditors of the trustee cannot recover their claims from trust property.

A copy of the resolution passed in the meeting of trustees open the account should be obtained

Types of deposits

- 1. Savings bank
- 2. Current deposit

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3. Fixed
4. Recurring
5. Flexi deposits or hybrid

Features of various deposits are given below;

Savings Bank

Savings bank accounts are meant for individuals and a group of persons like Clubs, Trusts, Associations, Self Help Groups (SHGs) to keep their savings for meeting their future monetary needs and intend to earn income from their savings. Banks give interest on these accounts with a view to encourage saving habits. Everyone wants to save for something in the future and their savings should be safe and accessible anytime, anyplace to help meet their needs. This account helps an individual to plan and save for his future financial requirements. In this account savings are completely liquid.

ELIGIBILITY : Individuals, Joint accounts, Minor accounts, Blind, Illiterates, HUF, Trusts, Executors and Administrators, Govt. bodies, Semi-Government Departments, Recognized PF Accounts, Capital Gain Accounts, Non-Corporate bodies viz., Clubs, Societies, Associations, Schools etc.,

MINIMUM BALANCE: Average Monthly Balance of Rs. 1000/- for Metro, Urban & Semi-urban branches and Rs. 500/- for Rural branches.

REQUIREMENTS FOR OPENING ACCOUNT: Application in the Banks' prescribed form, Proof of identity, Address proof, Passport size photograph.

NATURE OF DEPOSIT Running (Operative) account

INTEREST RATE 4.00% p.a.(currently).

PERIODICITY OF INTEREST PAYMENT: Interest is payable quarterly, every February, May, August and November on the daily balance maintained in the account. **SPECIAL RATE FOR SENIOR CITIZEN:** Not applicable

SPECIAL RATE FOR BULK DEPOSITS :Not applicable

TDS :Not applicable

NOMINATION FACILITY :Available

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LOAN AGAINST DEPOSIT :Not permitted

OTHER FACILITIES ATM-cum-Debit Card, Pass book/Pass sheet, Nomination, Standing Instructions, Cheque Collection, Instant Credit of Outstation Cheque upto Rs.15,000/-, Internet & Mobile Banking etc.

RECURRING DEPOSITS

In Recurring Deposits accounts, a certain amount of savings are required to be compulsorily deposited at specified intervals for a specific period. These are intended to inculcate regular and compulsory savings habit among the low/middle income group of people for meeting their specific future needs e.g. higher education or marriage of children, purchase of vehicles etc

ELIGIBILITY : Individual, Joint Account, Guardian on behalf of minor, HUF, Proprietorship firm, a Company, An association, a trust, an institution

PATTERN OF DEPOSIT • Minimum Rs.50/- per month (and in multiples thereof)

- No ceiling on maximum amount
- A fixed amount by way of monthly instalments deposited over a stipulated period.

PERIOD OF DEPOSIT Minimum 6 months & Maximum 120 months (multiples of 3 months)

INTEREST RATE As applicable to term deposits of various tenures prevailing from time to time, Interest compounded quarterly.

SPECIAL RATE FOR SENIOR CITIZEN 0.50% over & above the rate applicable to general public.

TDS Applicable.

NOMINATION FACILITY Available

LOAN FACILITY Available upto 90% of the available deposit balance

CURRENT ACCOUNT

A current account is a running and active account that may be operated upon any number of times during a working day. There is no restriction on the number and the amount of withdrawals from a current account. Current accounts can be opened by individuals, business entities (firms,

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company), institutions, Government bodies / departments, societies, liquidators, receivers, trusts, etc. The other main features of current account are as under:

- Current accounts are non-interest bearing and banks are not allowed to pay any interest or brokerage to the current account holders.
- Overdraft facility for a short period or on a regular basis up to specified limits – are permitted in current accounts. Regular overdraft facility is granted as per prior arrangements made by the account holder with the bank. In such cases, the bank would honour cheques drawn in excess of the credit balance but not exceeding the overdraft limit. Prescribed interest is charged on overdraft portion of drawings.
- Cheques/ bills collection and purchase facilities may also be granted to the current account holders.
- The account holder periodically receives statement of accounts from the Bank.
- Normally, banks levy charges for handling such account in the shape of —Ledger Folio charges. Some banks make no charge for maintenance of current account provided the balance maintained is sufficient to compensate the Bank for the work involved.
- Third party cheques and cheques with endorsements may be deposited in the current account for collection and credit.

ELIGIBILITY: Individuals, Joint accounts (not more than 4), Proprietary concerns, Partnership firms, HUF, Public and Private Limited Companies, Limited Liability Partnership, Registered or Unregistered Societies or Associations, Trust / Provident Fund, Executors and Administrators, Govt./Semi Govt. Dept, Taluk /District Boards, Charitable & Religious Institutions.

SPECIAL ACCOUNTS : Provident Fund, Accounts of School / Red Cross Society, Accounts of Post Office, Accounts for issue of Dividend /Interest warrants.

DOCUMENTS REQUIRED FOR OPENING THE ACCOUNT Application in the Banks' prescribed form, Identity proof, Address proof, Photos, Memorandum and Articles of

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Association, Certificate of Commencement of Business, Partnership Deed, (wherever required) Certificate of Incorporation and Board Resolution, Registration Certificate (in the case of a registered concern) , Certificate / Licence issued by the Municipal Authorities under Shop & Establishment Act etc.,

MINIMUM DEPOSIT AMOUNT Rs.1000/- in Rural/Semi-urban, Rs.5000/- in Urban/Metro cities

PERIODICITY OF DEPOSIT Running (Operative) Account

INTEREST Not eligible for interest

TDS Not applicable

NOMINATION FACILITY Available for Individual Accounts, Joint Accounts, Proprietorship Accounts. Not available for accounts held in representative capacity viz., partnerships, Joint Stock Companies, Associations, Clubs and other organizations.

FIXED DEPOSITS:

ELIGIBILITY Individual, Joint (not more than 4), a Guardian on behalf of a minor, HUF, Partnership, a Company, Association or any other Institution

INVESTMENT Minimum - Rs.1000

Maximum - No ceiling

PERIOD OF DEPOSIT Minimum 15 days (7-14 days – Only for single deposit of Rs.5 lakh and above)

Maximum 120 months

INTEREST RATE Depending upon the period of the deposit as prevailing from time to time.

PERIODICITY OF INTEREST PAYMENT Monthly (at discounted rates), Quarterly, Half-yearly or Annual intervals as per depositor's choice

SPECIAL RATE FOR SENIOR CITIZEN Additional interest rate of 0.50% uniformly across all maturities, irrespective of the size of the deposit over & above the rate offered for General Public except for Deposits accepted under Capital Gains Accounts Scheme, 1988 and NRO Fixed deposits. In case of death of the Senior Citizen before the date of maturity, the deposit may be

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continued with the contracted interest rate only if there is no change to the other contracted terms.

TDS ON INTEREST Applicable

Hybrid Deposits or Flexi Deposits or MULTI OPTION DEPOSIT SCHEME (MODS)

These deposits are a combination of demand and fixed deposits, invented for meeting customer's financial needs in a flexible manner. Many banks had introduced this new deposit product some years ago to attract the bulk deposits from individuals with high net- worth. The increasing competition and computerization of banking has facilitated the proliferation of this product in several other banks in the recent past. Banks have given their own brand names to such deposits e.g. Quantum Deposit Scheme of ICICI Bank, Multi Option Deposit Scheme (MODS) of SBI.

The flexi deposits show a fusion of demand and fixed deposits as reflected from the following features of the product:

- Only one savings/current account (Current Premium account or Savings Bank Premium a/c as already discussed above) is opened and the term deposits issued under the scheme are recorded only on the bank's books as no term deposit receipts are issued to the customer. However, the term deposits issuance and payment particulars would be reflected in the statement of the savings/current account for customer's information/record.
- Once the quantum of deposits in savings/current account crosses a pre-agreed level, such surplus amount is automatically transferred to the term deposit account of a pre-determined maturity (usually one- year) in the customer's name for increasing the interest earning.
- In the event of a shortfall in the current/savings account, the cheques drawn on the account are honoured by automatically transferring back the required amount to the savings/current account from the fixed deposit account (reverse sweep). In such a case, the term deposit is broken and the amount of the reverse sweep earns lower interest rate due to the pre-mature payment of that portion of the term deposit. However, the remaining amount of the term deposit continues to earn the original interest rate.

Main Advantages of Flexi-Deposits to a Customer Are:

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- Advantage of Convenience: The customer opens only one account (savings or current) under the scheme and need not come to the bank branch each time for opening term deposit accounts or for pre- paying/ breaking term deposit for meeting the shortfall in the savings /current account.
- Advantage of Higher Interest Earning: The customer earns higher interest on his surplus funds than is possible when he opens two separate accounts: savings and term deposits.
- Withdrawals through ATMs can also be conveniently made.
- Complete Liquidity.
- Convenience of Overdraft.
- Earns a higher rate of interest on deposit, without the dilemma of locking it for a long period.
- At the time of need for funds, withdrawals can be made in units of `1,000/- from the Deposits by issuing a cheque from Savings Bank Account or through overdraft facility from Current account.

Origin and growth of Commercial banks in India

India has a long history of financial intermediation. The first bank in India to be set up on modern lines was in 1770 by a British Agency House. The earliest but short-lived attempt to establish a central bank was in 1773. India was also a forerunner in terms of development of financial markets. In the beginning of 18th century, British East India Company launched a few commercial banks. Bank of Hindustan(1770) was the first Indian bank established in India. Later on, the East India Company started three presidency banks, Bank of Bengal(1806), Bank of Bombay(1840) and Bank of Madras(1843) These bank were given the right to issue notes in their respective regions. Allahabad bank was established in 1865 and Alliance Bank in 1875. The first bank of limited liability managed by Indians was Oudh Commercial Bank founded in 1881. Subsequently, the Punjab National Bank was established in 1894. In the Beginning of the 20th century, Swadeshi movement encouraged Indian entrepreneurs to start many new banks in India. Another landmark in the history of Indian banking was the formation of Imperial bank of India in 1921 by amalgamating 3 presidency banks It is the Imperial Bank which performed some central

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banking functions in India. A number of banks failed during the first half of the 20th Century. It affected the people's belief and faith in Banks.

By independence, India had a fairly well developed commercial banking system in existence. In 1951, there were 566 private commercial banks in India with 4,151 branches, the overwhelming majority of which were confined to larger towns and cities. Savings in the form of bank deposits accounted for less than 1 per cent of national income, forming around 12 per cent of the estimated saving of the household sector. The Reserve Bank of India (RBI) was originally established in 1935 by an Act promulgated by the Government of India, but as a shareholder institution like the Bank of England. After India's independence, in the context of the need for close integration between its policies and those of the Government, the Reserve Bank became a state - owned institution from 1949.

By independence, India had a fairly well developed commercial banking system in existence. Reserve bank of India was nationalized in the year 1949. The enactment of the Banking Companies Act 1949 (Later it was renamed as Banking Regulation Act) was a bold step in the history of banking in India. In 1955, Imperial Bank of India was nationalized and renamed as State bank of India (SBI). The SBI started number of branches in urban and rural areas of the country.

In 1967, Govt introduced the concept of social control on banking sector. Nationalization of 14 commercial banks in 1969 was a revolution in the history of banking in India. Six more commercial banks were nationalized in 1980. In 1969, Regional Rural Banks were established for giving thrust to rural lending. Other landmarks in the history of Indian banking were the establishment of National Bank for Agricultural and Rural Development (1988), merger of New Bank of India with Punjab National Bank (1993), merger of State Bank of Saurashtra with SBI (2008) and the merger of State Bank of Indore with SBI (2010). At present, there are 27 Public sector banks, 20 private sector banks, 30 Foreign banks and 82 Regional Rural Banks in India.

In 2013, Bharatiya Mahila Bank was established. Bharatiya Mahila Bank (BMB) was an Indian financial services banking company based in Mumbai, India. Former Indian Prime Minister

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Manmohan Singh inaugurated the system on 19 November 2013 on the occasion of the 96th birth anniversary of former Indian Prime Minister Indira Gandhi. Although initially reported as a bank exclusively for women, the bank allows deposits to flow from everyone, but lending will be predominantly for women. India is the third country in the world to have a bank especially for women, after Pakistan and Tanzania.

In 2017, Associate banks of State Bank of India and Bharathia Mahila Bank were merged with State Bank of India.

As of 2018, there are 20 public sector banks including IDBI bank and State Bank of India .

Financial services offered by banks :

I : Deposits and loans

II: Subsidiary functions

1. Agency services : Banks act as an agent on behalf of the individual or organisations. Banks, as an agent can work for people, businesses, and other banks, providing a variety of services depending on the nature of the agreement they make with their clients. Following are the important agency services provided by commercial banks in India.

Commercial Banks collect cheques, drafts, Bill of Exchange, interest and dividend on securities, rents etc. on behalf of customers and credit the proceeds to the customer's account.

Pay LIC premium, rent, newspaper bills, telephone bills etc

Buying and selling of securities

Advise on right type of investment

Act as trustees (undertake management of money and property), executors (carry out the wishes of deceased customers according to will) & attorneys (collect interest & dividend and issue valid receipt) of their customers.

Serve as correspondents and representatives of their customers. In this capacity, banks prepare I-Tax returns of their customers, correspond with IT authorities and pay IT of their customers.

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2. General Utility Services : In addition to agency services, modern banks performs many general utility services for the community. Following are the important general utility services offered by Commercial Banks

- **Locker facility:** Bank provide locker facility to their customers. The customers can keep their valuables such as gold, silver, important documents, securities etc. in these lockers for safe custody.

- **Issue travellers' cheques:** Banks issue traveller's cheques to help their customers to travel without the fear of theft or loss of money. It enable tourists to get fund in all places they visit without carrying actual cash with them.

- **Issue Letter of Credits:** Banks issue letter of credit for importers certifying their credit worthiness. It is a letter issued by importer's banker in favour of exporter informing him that issuing banker undertakes to accept the bills drawn in respect of exports made to the importer specified therein.

Act as referee: Banks act as referees and supply information about the financial standing of their customers on enquiries made by other businessmen.

- **Collect information:** Banks collect information about other businessmen through the fellow bankers and supply information to their customers.

- **Collection of statistics:** Banks collect statistics for giving important information about industry, trade and commerce, money and banking. They also publish journals and bulletins containing research articles on economic and financial matters.

- **Underwriting securities:** Banks underwrite securities issued by government, public or private bodies.

- **Merchant banking:** Some bank provide merchant banking services such as capital to companies, advice on corporate matters, underwriting etc.

- Selling of mutual funds, life and non life insurance policies

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- Opening of Demat accounts
- Opening of Non Resident Indian Accounts (NRI) to Indian living abroad either for studies or on working assignments.

Other technological services

1. ATM services

Automated Teller Machine (ATM) is an electronic telecommunications device that enables the clients of banks to perform financial transactions by using a plastic card. Automated Teller Machines are established by banks to enable its customers to have anytime money. It is used to withdraw money, check balance, transfer funds, get mini statement, make payments etc. It is available at 24 hours a day and 7 days a week.

2. Debit card and credit card facility

Debit card is an electronic card issued by a bank which allows bank clients access to their account to withdraw cash or pay for goods and services. It can be used in ATMs, Point of Sale terminals, e-commerce sites etc. Debit card removes the need for cheques as it immediately transfers money from the client's account to the business account. Credit card is a card issued by a financial institution giving the holder an option to borrow funds, usually at point of sale. Credit cards charge interest and are primarily used for short-term financing.

3. Tele-banking :

Telephone banking is a service provided by a bank or other financial institution, that enables customers to perform financial transactions over the telephone, without the need to visit a bank branch or automated teller machine

4. Internet Banking:

Online banking (or Internet banking or E-banking) is a facility that allows customers of a financial institution to conduct financial transactions on a secured website operated by the institution. To access a financial institution's online banking facility, a customer must register

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with the institution for the service, and set up some password for customer verification. Online banking can be used to check balances, transfer money, shop online, pay bills etc.

5. **Bancassurance:**

It means the delivery of insurance products through banking channels. It can be done by making an arrangement in which a bank and an insurance company form a partnership so that the insurance company can sell its products to the bank's client base. Banks can earn additional revenue by selling the insurance products, while insurance companies are able to expand their customer base without having to expand their sales forces

6. **Mobile Banking:**

Mobile banking is a system that allows customers of a financial institution to conduct a number of financial transactions through a mobile device such as a mobile phone or personal digital assistant. It allows the customers to bank anytime anywhere through their mobile phone. Customers can access their banking information and make transactions on Savings Accounts, Demat Accounts, Loan Accounts and Credit Cards at absolutely no cost.

7. **Electronic Clearing Services :**

It is a mode of electronic funds transfer from one bank account to another bank account using the services of a Clearing House. This is normally for bulk transfers from one account to many accounts or vice-versa. This can be used both for making payments like distribution of dividend, interest, salary, pension, etc. by institutions or for collection of amounts for purposes such as payments to utility companies like telephone, electricity, or charges such as house tax, water tax etc

8. **Electronic Fund Transfer/National Electronic Fund Transfer(NEFT):**

National Electronic Funds Transfer (NEFT) is a nation-wide payment system facilitating one-to-one funds transfer. Under this Scheme, individuals, firms and corporate can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country participating in the Scheme. In NEFT, the funds are

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transferred based on a deferred net settlement in which there are 11 settlements in week days and 5 settlements in Saturdays.

9. **Real Time Gross Settlement System(RTGS):**

It can be defined as the continuous (real-time) settlement of funds transfers individually on an order by order basis. 'Real Time' means the processing of instructions at the time they are received rather than at some later time. It is the fastest possible money transfer system in the country.

10.ECS (**Electronic Clearing Services**); Payment of salary, credits in bulk to employees and credit of dividends,etc., through the online mode.

Changing Role of commercial banks

- Better customer service – Every bank is having technology and products. The bank which extends good customer service will survive in the market.
- Portfolio management
- Issue of electro-magnetic cards
- Universal banking – under one roof
- Encouragement of personal loans
- Acting as a advising and guiding bank
- Create awareness of all technology and products to customers and selling them effectively.

Types of banks

1. Commercial banks/Deposit banks

Banks accept deposits from public and lend them mainly for commercial purposes for comparatively shorter periods are called Commercial Banks. They provide services to the general public, organisations and to the corporate community. They are oldest banking institution in the organised sector. Commercial banks make their profits by taking small, short-term, relatively liquid deposits and transforming these into larger, longer maturity loans. This process of asset transformation generates net income for the commercial bank. Many commercial banks

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do investment banking business although the latter is not considered the main business area. The commercial banking system consists of scheduled banks (registered in the second schedule of RBI) and non scheduled banks. Features of Commercial banks are;

- They accept deposits on various accounts.
- Lend funds to organisations, trade, commerce, industry, small business, agriculture etc by way of loans, overdrafts and cash credits.
- They are the manufacturers of money.
- They perform many subsidiary services to the customer.
- They perform many innovative services to the customers.

2. Industrial banks/Investment banks

Industrial banks are those banks which provide fixed capital to industries. They are also called investment banks, as they invest their funds in subscribing to the shares and debentures of industrial concerns. They are seen in countries like US, Canada, Japan, Finland, and Germany. In India industrial banks are not found. Instead, special industrial finance corporations like IFC and SFC have been set up to cater to the needs of industries. Features of Industrial Banks are:

- Participate in management.
- Advise industries in making right investment
- Advise govt. on matters relating to industries

3. Agricultural banks

Agricultural banks are banks which provide finance to agriculture and allied sectors. It is found in almost all the countries. They are organised generally on co-operative basis. In India, Co-operative banks are registered under the Co-operative Societies Act, 1912. They generally give credit facilities to small farmers, salaried employees, small-scale industries, etc. Co-operative Banks are available in rural as well as in urban areas. Agricultural banks are of two types;

Agricultural co-operative banks: They provide short term finance to farmers for purchasing fertilizers, pesticides and seeds and for the payment of wages.

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3. Land Development Banks: They provide long term finance for making permanent improvement on land. They assist to purchase machinery, equipments, installation of pump sets, construction of irrigation works etc.

4. Exchange banks

Exchange banks finances foreign exchange business (export, import business) of a country. Special exchange banks are found only in some countries. The main functions of exchange banks are remitting money from one country to another country, discounting of foreign bills, buying and selling gold and silver, helping import and export trade etc.

5. Savings bank

Savings banks are those banks which specialise in the mobilisation of small savings of the middle and low income group. In India, saving bank activities are done by commercial banks and post offices. Features of savings banks are;

Mobilise small and scattered savings

Promote habit of thrift & savings

Keep only small portion in hand and invest major part in govt. securities

They do not lend to general public.

6. Central / National banks

It is the highest banking & monetary institution in a country. It is the leader of all other banks. Since it is occupying a central position, it's known as Central Bank. It is operating under state's control and is not a profit motive organisation. Reserve Bank of India (India), Bank of Canada (Canada), Federal Reserve System (USA) etc are the examples of Central Banks. The main functions of a Central Bank are;

Monopoly of currency issue

Acts as banker to the govt .

Serves as bankers' bank

Act as controller of credit

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Custodian of nation's gold and foreign exchange reserve.

INDIAN BANKING SYSTEM

The Indian banking structure comprises both organised and unorganised banking sector. The unorganised banking sector consists of indigenous bankers and money lenders. The organised sector comprises the central bank at the top level and commercial banks, specialised banks, institutional banks and non-banking financial institutions.

1. Unorganised Sector

a. **Indigenous Bankers** - The exact date of existence of indigenous bank is not known. But, it is certain that the old banking system has been functioning for centuries. Some people trace the presence of indigenous banks to the Vedic times of 2000-1400 BC. It has admirably fulfilled the needs of the country in the past. However, with the coming of the British, its decline started. Despite the fast growth of modern commercial banks, however, the indigenous banks continue to hold a prominent position in the Indian money market even in the present times.

The main defects of indigenous banking are:

- (i) They are unorganised and do not have any contact with other sections of the banking world.
 - (ii) They combine banking with trading and commission business and thus have introduced trade risks into their banking business.
 - (iii) They do not distinguish between short term and long term finance and also between the purpose of finance.
 - (iv) They follow vernacular methods of keeping accounts. They do not give receipts in most cases and interest which they charge is out of proportion to the rate of interest charged by other banking institutions in the country.
- b. **Moneylenders** – Moneylenders are the second element of the unorganised sector. They depend entirely on their own funds for lending. They include large farmers, merchants, goldsmiths etc. They charge a very high rate of interest for their loans.

2. Organised Sector

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The organised banking system in India can be classified as given below:

Reserve Bank of India (RBI)

The Reserve Bank of India (RBI), the central bank of India, which was established in 1935, has been fully owned by the government of India since nationalization in 1949. Like the central bank in most countries, Reserve Bank of India is entrusted with the functions of guiding and regulating the Banking system of a country.

Commercial Banks

There are three types of commercial banks in India

1. Public sector banks
2. Private Banks
3. Foreign banks

Public sector banks

These are banks where majority stake is held by the Government of India or Reserve Bank of India. In 2018, the largest public sector bank is the State Bank of India. Now there are 19 nationalised banks nationalized in the year 1969(14) and 6 banks(1980). Later on in the year 1993, New Bank of India was merged with Punjab National Bank, thus reducing the total nationalised banks to 19.

Private Banks

Private Banks are banks that the majority of share capital is held by private individuals. In Private sector small scheduled commercial banks and newly established banks with a network of 8,965 branches are operating. To encourage competitive efficiency, the setting up of new private bank is now encouraged.

Foreign Banks

Foreign banks are registered and have their headquarters in a foreign country but operate their branches in India. Apart from financing of foreign trade, these banks have performed all functions of commercial banks and they have an advantage over Indian banks because of their vast resources and superior management.

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Co-operative banks

Co-operative banks are banks incorporated in the legal form of cooperatives. Any cooperative society has to obtain a license from the Reserve Bank of India before starting banking business and has to follow the guidelines set and issued by the Reserve Bank of India.

Primary Credit Societies:

Primary Credit Societies are formed at the village or town level with borrower and non-borrower members residing in one locality. The operations of each society are restricted to a small area so that the members know each other and are able to watch over the activities of all members to prevent frauds.

Central Co-operative Banks:

Central co-operative banks operate at the district level having some of the primary credit societies belonging to the same district as their members. These banks provide loans to their members (i.e., primary credit societies) and function as a link between the primary credit societies and state co-operative banks.

State Co-operative Banks:

These are the highest level co-operative banks in all the states of the country. They mobilize funds and help in its proper channelization among various sectors. The money reaches the individual borrowers from the state co-operative banks through the central co-operative banks and the primary credit societies.

Regional rural Banks

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

1. Granting of loans and advances to small and marginal farmers, agricultural workers, co-operative societies including agricultural marketing societies and primary agricultural credit societies for agricultural purposes or agricultural operations or related purposes.

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2. Granting of loans and advances to artisans small entrepreneurs engaged in trade, commerce or industry or other productive activities.

Development Banks

Development Banks are banks that provide financial assistance to business that requires medium and long-term capital for purchase of machinery and equipment, for using latest technology, or for expansion and modernization. A development bank is a multipurpose institution which shares entrepreneurial risk, changes its approach in tune with industrial climate and encourages new industrial projects to bring about speedier economic growth. These banks also undertake other development measures like subscribing to the shares and debentures issued by companies, in case of under subscription of the issue by the public. There are three important national level development banks. They are;

Industrial Development Bank of India (IDBI)

The IDBI was established on July 1, 1964 under an Act of Parliament. It was set up as the central co-ordinating agency, leader of development banks and principal financing institution for industrial finance in the country. Originally, IDBI was a wholly owned subsidiary of RBI. But it was delinked from RBI w.e.f. Feb. 16, 1976.

IDBI is an apex institution to co-ordinate, supplement and integrate the activities of all existing specialised financial institutions. It is a refinancing and re-discounting institution operating in the capital market to refinance term loans and export credits. It is in charge of conducting techno-economic studies. It was expected to fulfil the needs of rapid industrialisation. The IDBI is empowered to finance all types of concerns engaged or to be engaged in the manufacture or processing of goods, mining, transport, generation and distribution of power etc., both in the public and private sectors.

Industrial finance Corporation of India (IFCI)

The IFCI is the first Development Financial Institution in India. It is a pioneer in development banking in India. It was established in 1948 under an Act of Parliament. The main objective of IFCI is to render financial assistance to large scale industrial units, particularly at a time when

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the ordinary banks are not forth coming to assist these concerns. Its activities include project financing, financial services, merchant banking and investment.

Till 1993, IFCI continued to be Developmental Financial Institution. After 1993, it was changed from a statutory corporation to a company under the Indian Companies Act, 1956 and was named as IFCI Ltd with effect from October 1999.

ICICI was set up in 1955 as a public limited company. It was to be a private sector development bank in so far as there was no participation by the Government in its share capital. It is a diversified long term financial institution and provides a comprehensive range of financial products and services including project and equipment financing, underwriting and direct subscription to capital issues, leasing, deferred credit, trusteeship and custodial services, advisory services and business consultancy.

The main objective of the ICICI was to meet the needs of the industry for long term funds in the private sector. Apart from this the Industrial Reconstruction Corporation of India (IRCI) established in 1971 with the main objective of revival and rehabilitation of viable sick units and was converted in to

the Industrial Reconstruction Bank of India (IRBI) in 1985 with more powers Development banks have been established at the state level too. At present in India, 18 State Financial Corporation's (SFCs) and

26 State Industrial investment/Development Corporations (SIDCs) are functioning to look over the development banking in respective areas /states.

In India, there are some specialized banks, which cater to the requirements and provide overall support for setting up business in specific areas of activity. They engage themselves in some specific area or activity and thus, are called specialized banks. There are three important types of specialized banks with different functions:

Export Import Bank of India (EXIM Bank):

The Export-Import (EXIM) Bank of India is the principal financial institution in India for coordinating the working of institutions engaged in financing export and import trade. It is a

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statutory corporation wholly owned by the Government of India. It was established on January 1, 1982 for the purpose of financing, facilitating and promoting foreign trade of India. This specialized bank grants loans to exporters and importers and also provides information about the international market. It also gives guidance about the opportunities for export or import, the risks involved in it and the competition to be faced, etc. The main functions of the EXIM Bank are as follows:

- (i) Financing of exports and imports of goods and services, not only of India but also of the third world countries;
- (ii) Financing of exports and imports of machinery and equipment on lease basis;
- (iii) Providing loans to Indian parties to enable them to contribute to the share capital of joint ventures in foreign countries;
- (iv) to undertake limited merchant banking functions such as underwriting of stocks, shares, bonds or debentures of Indian companies engaged in export or import; and
- (v) To provide technical, administrative and financial assistance to parties in connection with export and import.

Small Industries Development Bank of India

This specialized bank grant loan to those who want to establish a small-scale business unit or industry. Small Industries Development Bank of India (SIDBI) was established in October 1989 and commenced its operation from April 1990 with its Head Office at Lucknow as a development bank, exclusively for the small scale industries. It is a central government undertaking. The prime aim of SIDBI is to promote and develop small industries by providing them the valuable factor of production finance. Many institutions and commercial banks supply finance, both long-term and short-term, to small entrepreneurs. SIDBI coordinates the work of all of them. Functions of Small Industries Development Bank of India (SIDBI):

- (i) Initiates steps for technology adoption, technology exchange, transfer and upgradation and modernisation of existing units.

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(ii) SIDBI participates in the equity type of loans on soft terms, term loan, working capital both in rupee and foreign currencies, venture capital support, and different forms of resource support to banks and other institutions.

(iii) SIDBI facilitates timely flow of credit for both term loans and working capital to SSI in collaboration with commercial banks.

(iv) SIDBI enlarges marketing capabilities of the products of SSIs in both domestic and international markets

) SIDBI directly discounts and rediscounts bills with a view to encourage bills culture and helping the SSI units to realise their sale proceeds of capital goods / equipments and components etc

(vi) SIDBI promotes employment oriented industries especially in semi-urban areas to create more employment opportunities so that rural-urban migration of people can be checked.

National Bank for Agricultural and Rural Development

It was established on 12 July 1982 by a special act by the parliament. This specialized bank is a central or apex institution for financing agricultural and rural sectors. It can provide credit, both short-term and long-term, through regional rural banks. It provides financial assistance, especially, to co-operative banks, in the field of agriculture, small-scale industries, cottage and village handicrafts and allied economic activities in rural areas. Its important functions are:

a) Takes measures towards institution building for improving absorptive capacity of the credit delivery system, including monitoring, formulation of rehabilitation schemes, restructuring of credit institutions, training of personnel, etc.

b) Co-ordinates the rural financing activities of all institutions engaged in developmental work at the field level and maintains liaison with Government of India, State Governments, Reserve Bank of India (RBI) and other national level institutions concerned with policy formulation

c) Undertakes monitoring and evaluation of projects refinanced by it.

d) NABARD refinances the financial institutions which finance the rural sector. e)

The institutions which help the rural economy, NABARD helps develop.

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- f) NABARD also keeps a check on its client institutes.
- g) It regulates the institution which provides financial help to the rural economy.
- h) It provides training facilities to the institutions working the field of rural upliftment. i) It regulates the cooperative banks and the RRB

Indian Bank-like financial institution

In India, there are some Bank-like financial institutions that provide financial services. There are two types of such institution that are important to the development on India:

Microfinance Institutions

Microfinance Institutions are Bank-like financial institutions that providing financial services, such as microcredit, micro savings or micro insurance to poor people. In addition, they also perform the following important functions:

1. provide financing facilities, with or without collateral security, in cash or in kind, for such terms and subject to such conditions as may be prescribed, to poor persons for all types of economic activities including housing, but excluding business in foreign exchange transactions
2. To buy, sell and supply on credit to poor persons industrial and agricultural inputs, livestock, machinery and industrial raw materials
3. To provide professional advice to poor persons regarding investments in small business and such cottage industries as may be prescribed.

Development financial institutions (DFIs)

DFIs are specialized financial institutions the Government established to promote investments in the manufacturing and agricultural sectors. Their functions include:

1. Extending financial assistance in the form of medium- and long-term loans, participating in equity capital, underwriting and wherever relevant, acting as issuing house for public shares issues and providing guarantees for loans.

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2. Specialize in medium- and long-term financing in addition to supplying financial services not normally provided by commercial banks and finance companies
3. In addition, they help in identifying new projects, participate in their promotion, and where appropriate, provide ancillary financial, technical and managerial advice.

KAHE

KARPAGAM ACADEMY OF HIGHER EDUCATION**CLASS: III B.Com****COURSE NAME: BANKING AND INSURANCE****COURSE CODE: 17CMU502B****UNIT: I****BATCH-2017-2020****Possible Questions****Part A: Online Multiple Choice Questions****Part B: (5x2=10 Marks)**

Answer all questions

1. Who is a customer?
2. Write brief note on know your customer (KYC)
3. Who is Kartha ? Explain about the rights and responsibilities of Kartha.
4. Who can open savings bank accounts in banks
5. What is a recurring deposit account ? Mention the features.
6. Write a note on fixed deposits
7. What kind of services are covered under Agent-Principal relationship between a banker and a customer.
8. Define banking
9. What are the major types of deposits in banks?
10. What is crossing of a cheque?

Part C (5X6=30 Marks)

Answer all questions

1. Explain different types of banker customer relationships.
2. Mention any four special types of customers and explain the precautions to be taken .
3. Explain briefly various types of deposit accounts in banks
4. Draw a chart of banking institutions in India
5. Write a brief note on technological services offered by banks
6. What is NEFT and RTGS?. Enumerate the uses to the customers and banks.
7. What are the changing role of commercial banks?
8. What are the major types of commercial banks? Give Examples
9. Write a brief note on the origin and growth of commercial banks in India
10. Explain various services offered by banks.

S.No	Questions	Option A	Option B	Option C	Option D	Answer
1	The first bank in India which operated between 1770-1829 was	Bank of Bengal	Bank of Hindustan	Bank of India	Bank of Bharat	Bank of Hindustan
2	Reserve Bank of India was established in the year	1947	1956	1935	1969	1935
3	Banks were first nationalised in the year	1980	1969	1947	1935	1969
4	When a bank gives loan to it's customers, the relationship between a bank and customer is	Creditor-Debtor	Debtor-creditor	Depositor-Depositee	Agent-Principal	Creditor-Debtor
5	When a bank accepts deposits, the relationship between bank and banker is	Creditor-Debtor	Debtor-creditor	Depositor-Depositee	Agent-Principal	Debtor-creditor
6	For business purposes, the following accounts are opened in banks	Recurring deposits	Commercial account	Savings Account	Current Account	Current Account
7	Accounts opened for Indians staying abroad for more than 180 days for working is	Non-Resident Indian Account (NRI)	Resident Indian Account (RIA)	Foreign Indian Account (FIA)	Abroad Indian Account (AIA)	Non-Resident Indian Account (NRI)
8	Minors can operate the Savings bank account above the following age	15	10	8	12	10
9	Term Deposits can be opened for a maximum period of	20 years	No limit	5 years	10 years	10 years
10	The following major document is required for opening a partnership account	Partnership Deed	Trust Deed	Agreement deed	Articles of Association	Partnership Deed
11	Bank branches are inter connected through a system called	Local Area Network	Core Banking Solution	Interconnect	Network Banking System	Core Banking Solution
12	One of the following services is not offered in banks	Mutual Funds	Insurance	Gold Coins	Silver Coins	Silver coins
13	A deposit account with features of both savings and Fixed Deposit is known as	Flexi Deposit	Special Deposit	Comfort Deposit	SAFI Deposit	Flexi Deposit
14	A nationalised bank will have Government share of more than	61%	75%	51%	25%	51%
15	One of the following banks is not a nationalised bank	Andhra Bank	Corporation Bank	Dena Bank	Axis Bank	Axis Bank
16	When bank keeps valuables or securities of a customer, the bank acts as	Trustee	Keeper	Agent	Principal	Trustee
17	In the case of locker facility offered by bank to customers, the bank acts as	Guarantor	Lessor	Bailer	Baile	Lessor
18	The agent -principal relationship exists between bank and customer in case of	cheques	Locker	Deposits	Advances	Cheques

19	Banks act as guarantor in the case of	Loans	Contingent contract	Deposits	Funded liabilities	Contingent contract
20	Termination of relationship between bank and customer happens in the following	Bank holidays	Death of customer	Death of concerned staff	All sundays	Death of customer
21	In the case of minor boys, the following person is the natural guardian	Brother	Teacher	Father	Sister	Father
22	The following account should not be opened for illiterates	Savings bank	Term deposit	Current Deposit	Recurring deposit	Current Deposit
23	The details of capital of the company contains in the following document	Memorandum of Association	Trust Deed	Company deed	Incorporation deed	Memorandum of Association
24	The following document is obtained to open a trust account	Contract deed	Sale deed	Trust deed	Group deed	Trust deed
25	The head of joint family is known as	Head	Leader	President	Kartha	Kartha
26	The interest is paid savings on the following basis	Monthly minimum balance	Quarterly minimum balance	Daily balance	Balance at end of month	Daily balance
27	The rate of interest in Savings bank is	4%	3%	6%	10%	4%
28	The maximum amount of deposit in recurring deposit is	Rs.10000 /month	Rs.1000/month	Rs.25000/month	No ceiling	No ceiling
29	Recurring deposit accounts are targeted on	Low income groups	High income groups	Middle income groups	Low and middle income groups	Low and middle income groups
30	The banks were nationalised for the second time in the year	1980	1969	1981	1985	1980
31	Current accounts are mainly opened for	Business class	Salary class	Electricity Department	Students	Business class
32	The following rate of interest is paid in current deposit	4%	No interest	3%	1%	No interest
33	The minimum period for fixed deposits is	30 days	3 months	15 days	one year	15 days
34	Hybrid deposits or flexi deposits are combination of	SB+FD	SB+recurring	SB+CURRENT	Current+FD	SB+FD
35	Bharathia Mahila Bank was started in the year	2000	1969	2013	2003	2013
36	Associate banks of State Bank of India was merged with SBI in the year	2017	2014	2000	1999	2017
37	Demat accounts are opened for the following purpose	shares	Gold	Minors	Senior Citizens	shares
38	Credit cards is a form of	Credits	Deposits	Donation	Rewards	Credits

39	Development banks provide financial assistance to	Short term loans	Medium and longterm loans	Crop loans	Cash credit loans	Medium and longterm loans
40	ATM stands for.....	Automatic Teller Machine	Auto Token Machine	Automated Teller Machine	Authentic Teller Machine	Automated Teller Machine
41	When banks sells insurance products , it is called	Lead banking	Bancassurance	Credit rationing		Insure banks
42	Banking regulation Act was passed in the year.....	1972	1942	1932	1949	1949
43	===== is the principal financial organisation for exports and imports trade	EXIM Bank	Foreign trade bank	Overseas Bank	RBI	EXIM Bank
44	Micro finance Institutions provide	Micro credit,micro savings	Consumption loans	Loans for labs	Loans for exports	Micro credit,micro savings
45	Expand NABARD	National Bank for Allied Rural Department	Natlional Bank for Agriculture and Rural Development	National Bank for Associated Rural Development	National Bank for Allied Reserve Development	Natlional Bank for Agriculture and Rural Development
46	Portfolio Management refers to	Investment in securities	Investment in ports	Investment in deposits	Management of insurance	Investment in securities
47	Universal Banking means	Banking in foreign countries	Having accounts in foreign banks	Banking under one roof	American Banking	Banking under one roof
48	Land development Banks provide loans for	Land Development	Export	Real Estate	Buildings	Land Development
49	First Women Bank in India is	RRB	Bharathiya Mahila Bank	SBI	Bharat Women Bank	Bharathiya Mahila Bank
50	Fixed deposits are also called as	Demand deposits	Short deposits	Term deposits	Recurring deposit	Term deposits
51	The present number of Nationalised Banks in India is	20	19	14	27	19
52	Concession in rate of interest for senior Citizens is not applicable to	Fixed Deposits	Savings Deposit	Demand deposits	Call deposit	Savings Deposit
53	Register of charges with Registrar of Companies is required with	Company Accounts	Partnership Accounts	Joint accounts	Trust	Company Accounts
54	In Company documents , detail on conduct of day to day operations of bank accounts contains in	Memorandum of	Bank Document	Article of Association	Contract deed	Article of Association

		Association				
55	The following Bank is entrusted with guiding and regulating Banks in India	Axis Bank	RBI	SIDBI	SEBI	RBI
56	Currency issue is the function of	SBI	CBI	RBI	Imperial Bank of India	RBI
57	Banks insist for witnesses in the following account operations	Illiterates	Businessmen	Senior Citizens	Married Women	Illiterates
58	While opening a Demat account, bank act as	Agents	Trustees	Custodians	Principals	Custodians
59	KYC stands for	Know your Custodian	Know your Customer	Know your Caretaker	Knowledge your customer	Know your Customer
60	Banks issue the following for travel purpose	Traveller's cheques	Foreign Cards	Universal cards	Travel Cards	Traveller's cheques

Unit II

Syllabus

Cheques and Paying Banker: Crossing and Endorsement - Meaning, Definitions, Types and Rules of Crossing- Duties, Statutory Protection in Due Course - Collecting Bankers - Duties, Statutory Protection for Holder in Due Course - Concept of Negligence

Crossing and Endorsement

Definition of a Negotiable Instrument.

The law relating to negotiable instruments is contained in the Negotiable Instruments Act, 1881. It is an Act to define and amend the law relating to promissory notes, bills of exchange and cheques.

The Act does not affect the custom or local usage relating to an instrument in oriental language i.e., a Hundi.

The term "*negotiable instrument*" means a document transferable from one person to another. However the Act has not defined the term. It merely says that "A .negotiable instrument" means a promissory note, bill of exchange or cheque payable either to order or to bearer. [Section 13(1)]

A negotiable instrument may be defined as "an instrument, the property in which is acquired by anyone who takes it *bona fide*, and for value, notwithstanding any defect of title in the person from whom he took it, from which it follows that an instrument cannot be negotiable unless it is such and in such a state that the true owner could transfer the contract or engagement contained therein by simple delivery of instrument"

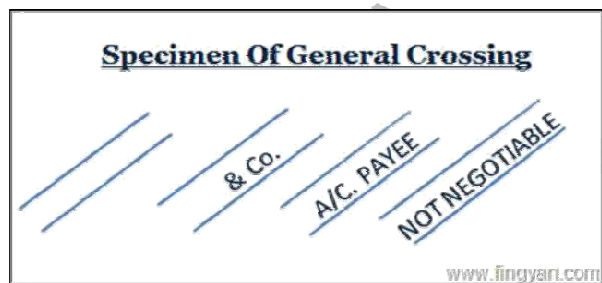
The Act recognizes only three types of instruments viz., a Promissory Note, a Bill of Exchange and a Cheque as negotiable instruments.

CROSSING OF A CHEQUE

Crossing is an „instruction“ given to the paying banker to pay the amount of the cheque through a banker only and not directly to the person presenting it at the counter. A cheque bearing such an instruction is called a „crossed cheque“; others without such crossing are „open cheques“ which may be encashed at the counter of the paying banker as well. The crossing on a cheque is intended to ensure that its payment is made to the right payee.

Section 123 to 131 of the Negotiable Instruments Act contain provisions relating to crossing. According to Section 131-A, these Sections are also applicable in case of drafts. Thus not only cheques but bank drafts also may be crossed.

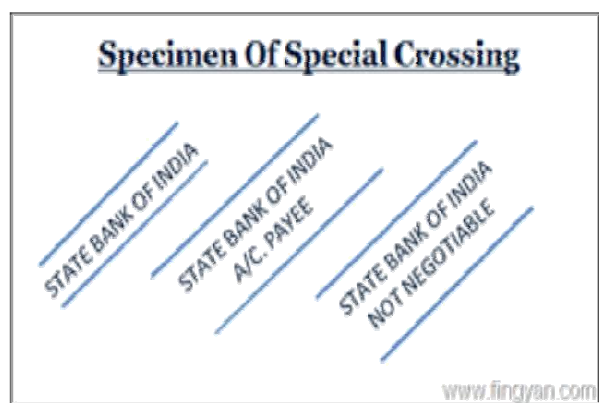
Cheque crossed generally



Where a cheque bears across its face an addition of the words “and company” or any abbreviation thereof, between two parallel transverse lines, or of two parallel transverse 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. [section 123]

Cheque crossed specially

Where a cheque bears across its face an addition of the name of a banker, either with or without the words “not negotiable”, that addition shall be deemed a crossing, and the cheque shall be deemed to be crossed specially, and to be crossed to that banker. [section 124].



Payment of cheque crossed generally or specially

Where a cheque is crossed generally, the banker on whom it is drawn shall not pay it otherwise than to a banker. Where a cheque is crossed specially, the banker on whom it is drawn shall not pay it otherwise than to the banker to whom it is crossed, or his agent for collection. [section 126].

Cheque bearing “not negotiable”

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 had. [section 130]. Thus, mere writing words „Not negotiable“ does not mean that the cheque is not transferable. It is still transferable, but the transferee cannot get title better than what transferor had.

“Account Payee” crossing : N.I. Act does not recognize “Account Payee” crossing, but this is prevalent as per practice of banks in India. In view of this, RBI has directed banks that:

Crediting the proceeds of account payee cheques to parties other than that clearly delineated in the instructions of the issuers of the cheques is unauthorized and should not be done in any circumstances.

If any bank credits the account of a constituent who is not the payee named in the cheque without proper mandate of the drawer, it would do so at its own risk and would be responsible

for the unauthorized payment. Reserve Bank has also warned that banks which indulge in any deviation from the above instructions would invite severe penal action.

In case of an „account payee“ cheque where a bank is a payee, the payee bank should always ensure that there are clear instructions for disposal of proceeds of the cheques from the drawer of the cheque. If there are no such instructions, the cheque should be returned to the drawer.

However, with a view to mitigating the difficulties faced by the members of co-operative credit societies in specially again to another banker, i.e., cheque cannot have two special crossings, as the very purpose of the first special crossing is frustrated by the second one.

However, there is one exception to this rule for a specific purpose. If a banker, to whom the cheque is originally specially crossed submits it to another banker for collection as its agent, in such a case the latter crossing must specify that it is acting as agent for the first banker to whom the cheque is specially crossed.

ENDORSEMENT

Definition of Endorsement

Section 15 defines endorsement 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 endorser.

Thus, an endorsement consists of the signature of the maker (or drawer) of a negotiable instrument or any holder thereof but it is essential that the intention of signing the instrument must be negotiation, otherwise it will not constitute an endorsement. 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“. The endorser may sign either on the face or on

the back of the negotiable instrument but according to the common usage, endorsements are usually made on the back of the instrument. If the space on the back is insufficient for this purpose, a piece of paper, known as „allonge“ may be attached thereto for the purpose of recording the endorsements.

Legal Provisions regarding Endorsements

The following provisions are contained in the Act as regards endorsements:

Effect of Endorsements. The endorsement of a negotiable instrument followed by delivery transfers the endorsed property therein with the right of further negotiation (Section 50). Thus the endorsee acquires property or interest in the instrument as its holder. He can also negotiate it further. (His right can, of course, be restricted by the endorser in case of a restrictive endorsement.)

Section 50 also permits that an instrument may also be endorsed so as to constitute the endorsee an agent of the endorser.—

to endorse the instrument further, or

to receive its amount for the endorser or for some other specified person. The examples of such endorsements are as follows:

- (i) Pay C for my use.
- (ii) Pay C or order for the account

Endorsement (Sections 15 and 16)

Where 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 (called Allonge), or so, signs for the same purpose, a stamped paper intended to be completed as a negotiable instrument, he is said to endorse the same (Section 15), the person to whom the instrument is endorsed is called the endorsee.

In other words, 'endorsement' means and involves the writing of something on the back of an instrument for the purpose of transferring the right, title and interest therein to some other person.

Classes of endorsement

An endorsement may be (a) Blank or General, (b) Special or Full, (c) Restrictive, or (d) Partial, and (e) Conditional or Qualified.

(a) Blank or General: An endorsement is to be blank or general where the endorser merely writes his signature on the back of the instrument, and the instrument so endorsed becomes payable to bearer, even though originally it was payable to order. Thus, where bill is payable to "Mohan or order", and he writes on its back "Mohan", it is an endorsement in blank by Mohan and the property in the bill can pass by mere delivery, as long as the endorsement continues to be a/blank. But a holder of an instrument endorsed in blank may convert the endorsement in blank into an endorsement in full, by writing above the endorser's signature, a direction to pay the instrument to another person or his order.

(b) Special or Full: If the endorser signs his name and adds a direction to pay the amount mentioned in the instrument to, or to the order of a specified person, the endorsement is said to be special or in full. A bill made payable to Mohan or Mohan or order, and endorsed "pay to the order of Sohan" would be specially endorsed and Sohan endorses it further. A blank endorsement can be turned into a special one by the addition of an order making the bill payable to the transferee.

(c) Restrictive: An endorsement is restrictive which prohibits or restricts the further negotiation of an instrument. Examples of restrictive endorsement: "Pay A only" or "Pay A for my use" or "Pay A on account of B" or "Pay A or order for collection".

(d) Partial: An endorsement partial is one which purports to transfer to the endorsee a part only the amount payable on the instrument. A partial endorsement does not operate as negotiation of

the instrument. A holds a bill for Rs. 1,000 and endorses it as "Pay B or order Rs. 500".
The endorsement is partial and invalid.

(e)Conditional or qualified: An endorsement is conditional or qualified which limits or negatives the liability of the endorser. An endorser may limit his liability in any of the following ways:

(i)By sans recourse endorsement, i.e. by making it clear that he does not incur the liability of an endorser to the endorsee or subsequent holders and they should not look to him in case of dishonour of instrument. The endorser excludes his liability by adding the words "sans recourse" or "without recourse", e.g., "pay A or order same recourse".

(ii)By making his liability depending upon happening of a specified event which may never happen, e.g., the holder of a bill may endorse it thus: "Pay A-or order on his marrying B". In such a case, the endorser will not be liable until A marries B.

It is pertinent to refer to Section 52 of the Negotiable Instruments Act, 1881 here. It reads "The endorser of a negotiable instrument may, by express words in the endorsement exclude his own liability thereon, or make such liability or the right of the endorsee to receive the amount due thereon depend upon the happening of a specified event, although such event may never happen.

Negotiation Back

Where an endorser negotiates an instrument and again becomes its holder, the instrument is said to be negotiated back to that endorser and none of the intermediary endorsees are then liable to him. The rule prevents a circuitry of action. For example, A, the holder of a bill endorses it to B, B endorses to C, and C to D, and endorses it again to A. A, being a holder in due course of the bill by second endorsement by D, can recover the amount thereof from B, C, or D and himself being a prior party is liable to all of them. Therefore, A having been relegated by the second endorsement to his original position, cannot sue B, C and D.

Where an endorser so excludes his liability and afterwards becomes the holder of the instrument, all the intermediate endorsers are liable to him. " the italicised portion of the above Section is

important. An illustration will make the point clear. A is the payee of a negotiable instrument. He endorses the instrument 'sans recourse' to B, B endorses to C, C to D, and D again endorses it to A. In this case, A is not only reinstated

in his former rights but has the right of an endorsee against B, C and D. Negotiation of
Lost Instrument or that Obtained by Unlawful Means

When a negotiable instrument has been lost or has been obtained from any maker, acceptor or holder thereof by means of an offence or fraud, or for an unlawful consideration, no possessor or endorsee, who claims through the person who found or obtained the instrument is entitled to receive the amount due thereon from such maker, acceptor, or holder from any party prior to such holder unless such possessor or endorsee is, or some person through whom he claims was, a holder in due course.

Forged Endorsement

The case of a forged endorsement is worth special notice. if an instrument is endorsed in full, it cannot be negotiated except by an endorsement signed by the person to whom or to whose order the instrument is payable, for the endorsee obtains title only through his endorsement. Thus, if an instrument be negotiated by means of a forged endorsement, the endorsee acquires no title even though he be a purchaser for value and in good faith, for the endorsement is a nullity.

Forgery conveys no title. But where the instrument is a bearer instrument or has been endorsed in blank, it can be negotiated by mere delivery, and the holder derives his title independent of the forged endorsement and can claim the amount from any of the parties to the instrument. For example, a bill is endorsed, "Pay A or order". A endorses it in blank, and it comes into the hands of B, who simply delivers it to C, C forges B's endorsement and transfer it to D. Here, D, as the holder does not derive his title through the forged endorsement of B, but through the original drawee refuses to genuine endorsement of A and can claim payment from any of the parties to the instrument in spite of the intervening forged endorsement.

Holder

According to Section 8 of the Act a person is a holder of a negotiable instrument who is entitled in his own name (i) to the possession of the instrument, and (ii) to recover or receive its amount from the parties thereto. It is not every person in possession of the instrument who is called a holder. To be a holder, the person must be named in the instrument as the payee, or the endorsee, or he must be the bearer thereof. A person who has obtained possession of an instrument by theft, or under a forged endorsement, is not a holder. as he is not entitled to recover the instrument. The holder implies de jure (holder in law) holder and not de facto (holder in fact) holder. An agent holding an instrument for his principal is not a holder although he may receive its payment.

Holder in Due Course

Section 9 states that a holder in due course is (i) a person who for consideration, obtains possession of a negotiable instrument if payable to bearer, or (ii) the payee or endorsee thereof, if payable to order, before its maturity and without having sufficient cause to believe that any defect existed in the title of the person from whom he derived his title.

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

- (i) He must be the holder of the instrument.
- (ii) He should have obtained the instrument for value or consideration.
- (iii) He must have obtained the negotiable instrument before maturity.
- (iv) The instrument should be complete and regular on the face of it.
- (v) The holder should take the instrument in good faith.

A holder in due course is in a privileged position. He is not only himself protected against all defects of the persons from whom he received the instrument as current coin, but also serves as a channel to protect all subsequent holders. A holder in due course can recover the amount of the instrument from all previous parties, although, as a matter of fact, no consideration was paid by

some of the previous parties to the instrument or there was a defect of title in the party from whom he took it. Once an instrument passes through the hands of a holder in due course, it is purged of all defects. It is like current coin. Whoever takes it can recover the amount from all parties previous to such holder. .

Capacity of Parties

Capacity to incur liability as a party to a negotiable instrument is co-extensive with capacity to contract. According to Section 26, every person capable of contracting according to law to which he is subject, may bind himself and be bound by making, drawing, acceptance, endorsement, delivery and negotiation of a promissory note, bill of exchange or cheque.

Negatively, minors, lunatics, idiots, drunken person and persons otherwise disqualified by their personal law, do not incur any liability as parties to negotiable instruments. But incapacity of one or more of the parties to a negotiable instrument in no way, diminishes the abilities and the liabilities of the competent parties. Where a minor is the endorser or payee of an instrument which has been endorsed all the parties accepting the minor are liable in the event of its dishonour.

Liability of Parties

The provisions regarding the liability of parties to negotiable instruments are laid down in Sections 30 to 32 and 35 to 42 of the Negotiable Instruments Act. These provisions are as follows:

1. Liability of Drawer (Section 30)

The drawer of a bill of exchange or cheque is bound, in case of dishonour by the drawee or acceptor thereof, to compensate the holder, provided due notice of dishonour has been given to or received by the drawer. The nature of drawer's liability is that by drawing a bill, he undertakes that (i) on due presentation, it shall be accepted and paid according to its tenor, and (ii) in case of dishonour, he will compensate the holder or any endorser, provided notice of dishonour has been

duly given. However, in case of accommodation bill no notice of dishonour to the drawer is required.

The liability of a drawer of a bill of exchange is secondary and arises only on default of the drawee, who is primarily liable to make payment of the negotiable instrument.

2. Liability of the Drawee of Cheque (Section 31)

The drawee of a cheque having sufficient funds of the drawer in his hands properly applicable to the payment of such cheque must pay the cheque when duly required to do so and, or in default of such payment, he shall compensate the drawer for any loss or damage caused by such default.

As a cheque is a bill of exchange, drawn on a specified banker, the drawee of a cheque must always be a banker. The banker, therefore, is bound to pay the cheque of the drawer, i.e., customer, if the following conditions are satisfied:

- (i) The banker has sufficient funds to the credit of customer's account.
- (ii) The funds are properly applicable to the payment of such cheque, e.g., the funds are not under any kind of lien etc.
- (iii) The cheque is duly required to be paid, during banking hours and on or after the date on which it is made payable.

If the banker is unjustified in refusing to honour the cheque of its customer, it shall be liable for damages.

3. Liability of "Maker" of Note and "Acceptor" of Bill (Section 32)

In the absence of a contract to the contrary, the maker of a promissory note and the acceptor before maturity of a bill of exchange are bound to pay the amount thereof at maturity, according

to the apparent tenor of the note or acceptance respectively. The acceptor of a bill of exchange at or after maturity is bound to pay the amount thereof to the holder on demand:

It follows that the liability of the acceptor of a bill corresponds to that of the maker of a note and is absolute and unconditional but the liability under this Section is subject to the contract to the contrary (e.g., as in the case of accommodation bills) and may be excluded or modified by a collateral agreement. Further, the payment must be made to the party named in the instrument and not to any-one else, and it must be made at maturity and not before.

4. Liability of endorser (Section 35)

Every endorser incurs liability to the parties that are subsequent to him. Whoever endorses and delivers a negotiable instrument before maturity is bound thereby to every subsequent holder in case of dishonour of the instrument by the drawee, acceptor or maker, to compensate such holder of any loss or damage caused to him by such dishonour provided (i) there is no contract to the contrary; (ii) he (endorser) has not expressly excluded, limited or made conditional his own liability; and (iii) due notice of dishonour has been given to, or received by, such endorser. Every endorser after dishonour, is liable upon the instrument as if it is payable on demand.

He is bound by his endorsement notwithstanding any previous alteration of the instrument. (Section 88) •

5. Liability of Prior Parties (Section 36)

Every prior party to a negotiable instrument is liable thereon to a holder in due course until the instrument is duly satisfied. Prior parties may include the maker or drawer, the acceptor and all the intervening endorsers to a negotiable instrument. The liability of the prior parties to a holder in due course is joint and several. The holder in due course may hold any or all prior parties liable for the amount of the dishonoured instrument.

6. Liability interse

Various parties to a negotiable instrument who are liable thereon stand on a different footing with respect to the nature of liability of each one of them.

7. Liability of Acceptor of Forged Endorsement (Section 41)

An acceptor of a bill of exchange already endorsed is not relieved from liability by reason that such endorsement is forged. If he knew or had reason to believe the endorsement to be forged when he accepted the bill.

8. Acceptor's Liability on a Bill drawn in a Fictitious Name

An acceptor of a bill of exchange drawn in a fictitious name and payable to the drawer's order is not, by reason that such name is fictitious, relieved from liability to any holder in due course claiming under an endorsement by the same hand as the drawer's signature, and purporting to be made by the drawer. Negotiation (Section 14)

A negotiable instrument may be transferred by negotiation or assignment. Negotiation is the transfer of an instrument (a note, bill or cheque) for one person to another in such a manner as to convey title and to constitute the transferee the holder thereof. When a negotiable instrument is transferred by negotiation, the rights of the transferee may rise higher than those of the transferor, depending upon the circumstances attending the negotiation. When the transfer is made by assignment, the assignee has only those rights which the assignor possessed. In case of assignment, there is a transfer of ownership by means of a written and registered document.

Importance of Delivery

Negotiation is effected by mere delivery of a bearer instrument and by endorsement and delivery of an order instrument. This shows that "delivery" is essential in negotiable instruments. Section 46 expressly provides that making acceptance or endorsement of negotiable instrument is not complete until delivery, actual or constructive, of the instrument. Delivery made voluntarily with the intention of passing property in the instrument to the person to whom it is given is essential.

Negotiation by Mere Delivery

A bill or cheque payable to bearer is negotiated by mere delivery of the instrument.

An instrument is payable to bearer:

- (i) Where it is made so payable, or
- (ii) Where it is originally made payable to order but the only or the last endorsement is in blank.
- (iv) Where the payee is a fictitious or a non-existing person
- (v) These Instruments do not require signature of the transferor. The person who takes them is a holder, and can sue in his own name on them. Where a bearer negotiates an instrument by mere delivery, and does not put his signature thereon, -he is not liable to any party to the instrument in case the instrument is dishonoured, as he has not lent his credit to it. His obligations are only towards his immediate transferee and to no other holders.

A cheque, originally drawn payable to bearer remains bearer, even though it is subsequently endorsed in full. The rule is once a bearer cheque always a bearer cheque.

Negotiation by Endorsement and Delivery

An instrument payable to a specified person or to the order of a specified person or to a specified person or order is an instrument payable to order. Such an instrument can be negotiated only by endorsement and delivery. Unless the holder signs his endorsement on the instrument, the transferee does not become a holder. Where an instrument payable to order is delivered without endorsement, it is merely assigned and not negotiated and the holder thereof is not entitled to the rights of a holder in due course, and he cannot negotiate it to a third person.

Duties, statutory protection in due course - Collecting Banker

Collecting Banker is one who collects the proceeds of a cheque for a customer. Although a banker collects the proceeds of a cheque for a customer purely as a matter of service, yet the Negotiable Instruments Act, 1881 indirectly imposes statutory obligation, statutory in nature.

collected in good faith and without negligence is upon the banker claiming protection.

Failure to verify the regularity of endorsements, collecting a cheque payable to the account of the company to the credit of the director, etc. are examples of negligence.

(ii) The banker should have collected a crossed cheque, i.e., the cheque should have been crossed before it came to him for collection.

(iii) The proceeds should have been collected for a customer, i.e., a person who has an account with him.

(iv) That the collecting banker has only acted as an agent of the customer. If he had become the holder for value, the protection available under Section 131 is forfeited - Where for instance, the banker allows the customer to withdraw the amount of the cheque before the cheque is collected or where the cheque has been accepted in specific reduction of an overdraft, the banker is *deemed to have become the holder for value and the protection is lost*. But the explanation to Section 131 says that the mere crediting of the amount to the account does not imply that the banker has become a holder for value because due to accounting conveniences the banker may credit the account of the cheque to the customer's account even before proceeds thereof are realised.

Overdue, Stale or Out-of-date Cheques

A cheque is overdue or becomes statute-barred after three years from its due date of issue.

A holder cannot sue on the cheque after that time. Apart from this provision, the holder of a cheque is required to present it for payment within a reasonable time, as a cheque is not meant for indefinite circulation. In India, a cheque, which has been in circulation for more than six months, is regarded by bankers as stale. If, as a result of any delay in presenting a cheque, the drawer suffers any loss, as by the failure of the bank, the drawer is discharged from liability to the holder to the extent of the damage

Collecting Banker as an Agent

A collecting banker acts as an agent of the customer if he credits the latter's account with the amount of the cheque after the amount is actually realized from the drawee banker. Thereafter

As an agent of his customer, the collecting banker does not possess title to the cheque better than that of the customer. If the customer has no title thereto, or his title is defective, the collecting banker cannot have good title to the cheque. In case the cheque collected by him did not belong to his customer, he will be held liable for conversion of money, i.e., illegally interfering with the rights of true owner of the cheque.

Conversion by the Collecting Banker

Sometimes a banker is charged for having wrongfully converted cheques to which his customer had no title or had defective title. Conversion means wrongful or unlawful interference (i.e., using, selling, occupying or holding) with another person's property which is not consistent with the owner's right of possession. Negotiable instruments are included in the term „property“ and hence a banker may be charged for conversion if he collects cheques for a customer who has no title or defective title to the instrument. The basic principle is that rightful owner of the goods can recover the same from anyone who takes it without his authority and in whose hands it can be traced. When the banker acts as an agent of his customer for the collection of his cheques, he cannot escape this liability. However, the right of the true owner is a restricted one and cannot be exercised in case the goods reach the hands of one who (i) receives it in good faith, (ii) for value, and (iii) without the knowledge that the other party had no authority thereon. Except these circumstances, the true owner of the goods (including the negotiable instrument) can file a suit for conversion.

Statutory Protection to Collecting Bank

Section 131 of the Negotiable Instruments Act grants protection to a collecting banker and reads as follows:

Section 131

Non-liability of a banker receiving payment of cheque: 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 cheque proves defective, incur any liability to the true owner of the cheque by reason only of having received such payment.

Explanation: A banker receives payment of a crossed cheque for a customer within the meaning of this section notwithstanding that he credits his customer's account with the amount of the cheque before receiving payment thereof.

The provisions of the above section has been applied to drafts as per Section 131 A of the Negotiable Instruments Act.

Conditions for protection: Though Section 131 grants protection to a collecting banker, the protection is not unconditional. For the collecting banker to claim the protection under Section 131 he has to comply with certain conditions and they are:

The collecting banker should have acted in good faith.

He should have acted without negligence.

He should receive payment for a customer.

The cheque should be crossed generally or specially to himself.

DUTIES OF THE COLLECTING BANK

Section 131 of the Negotiable Instruments Act which affords protection to the collecting bank requires amongst other conditions, that the bank should not have been negligent. To show that the bank has not been negligent the bank will have to prove that it has taken all precautions that would be required of a prudent banker in collecting a cheque. Over the years based on practice and judicial pronouncements, these precautions have been laid down as duties imposed on

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LEGAL ASPECTS OF A PAYING BANKER

The Negotiable Instruments Act, 1881 deals with negotiable instruments like promissory notes, bills of exchange, cheques and similar payment instruments such as demand drafts, dividend warrants, etc. A banker in his capacity as a banker deals with the above mentioned negotiable instruments on different occasions. The NI Act lays down the law relating to payment of a customer's cheque by a banker and also the protection available to a banker. The relationship between a banker and customer, being debtor-creditor relationship the banker is bound to pay the cheques drawn by his customer. This duty on the part of the banker, to honour his customers' mandate, is laid down in Section 31 of the Negotiable Instruments Act.

Sections 10, 85, 85A, 89 and 128 of the Negotiable Instruments Act, 1881 grants protection to a paying banker. We shall in detail, examine individually these Sections and with the help of case laws apply the provisions of these Sections to a given set of facts.

Obligations of a Paying Banker

The customer who has deposited money with a bank being a creditor has the right to ask back the money from the banker who is a debtor. The duty on the part of the banker to pay has been laid down in Section 31 of the Negotiable Instruments Act, 1881 in the following terms:

Section 31

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

Section 31 applies only to Bankers

This is because as per Section 6 of the Negotiable Instruments Act, 1881 "cheque" has been defined as

“a Bill of Exchange drawn on a specified banker and not expressed to be payable otherwise than on demand”.

Sufficient funds: The banker should have sufficient funds of the drawer, i.e. there should be sufficient credit balance in the customer’s account.

Properly available: The funds available in the customer’s account, should also be properly available to the payment of the cheque. The funds may not be available to pay the cheque if the banker has exercised his right of set off for amounts due from the customer; there is an order passed by a Court, competent authority or other lawful authority restraining the bank from making payment.

When duly required to do so: The banker is duty bound to pay the cheque only when he is duly required to do so. This means that the cheque must be properly drawn and signed by the drawer.

Compensate the drawer: In case the banker refuses payment wrongfully, then he is liable only to the drawer of the cheque and not to any endorsee or holder, except when the bank is wound up, in which case the holder becomes a creditor entitled to make a claim; the banker pays a cheque disregarding the crossing, the true owner can hold the banker liable.

Loss or damage caused by default: A banker is liable to the drawer for any loss or damage which may have occurred to the drawer due to the wrongful dishonour of the customer’s cheque.

Protection to paying banker

For a paying banker to claim protection under the Negotiable Instruments Act, one of the criteria he has to satisfy is that the payment is in due course. As to what is payment in due course has been stated in Section 10 which reads as follows:

“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 does not afford a reasonable ground for believing that he is not entitled to, receive payment of the amount therein mentioned.

From the above definition it can be seen that payment in due course requires the payment to be made: – in accordance with the apparent tenor of the instrument;

- in good faith;
- without negligence;
- to the person in possession of the instrument; and
- while making payment the banker should not have reasons to believe” that the person in possession of the instrument is not entitled to receive payment of the amount mentioned in the instrument.

Section 85 of the Negotiable Instruments Act, 1881 grants protection to a banker on his making payment on a cheque. Though this principle may sound as a simple logic it is to be noted that the protection granted as per Section 85 is not absolute.

Section 85 of the Negotiable Instruments Act, 1881 reads as follows: Section 85 Where a cheque payable to order purports to be endorsed by or on behalf of the payee, the drawee is discharged by payment in due course.

Where a cheque is originally expressed to be payable to bearer, the drawee is discharged by payment in due course to the bearer thereof, notwithstanding any endorsement whether in full or in blank appearing thereon, and notwithstanding that any such endorsement purports to restrict or exclude further negotiation.

Section 89 of the Negotiable Instruments Act states the effect of making payment on instrument on which alteration is not apparent and reads as follows:

Section 89

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“Payment of instrument on which alteration is not apparent: Where a promissory note, bill of exchange or cheque has been materially altered but does not appear to have been so altered, or where a cheque is presented for payment which does not at the time of presentation appear to be crossed or to have had a crossing which has been obliterated, payment thereof by a person or banker liable to pay, and paying the sum according to the apparent tenor thereof at the time of payment and otherwise in due course, shall discharge such person or banker from all liability thereon; and such payment shall not be questioned by reason of the instrument having been altered or the cheque crossed.”

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Possible Questions

Part A: Online Multiple Choice Questions

Part B: (5x2=10 Marks)

Answer all questions

1. Define a negotiable instrument.
2. What is meant by crossing of cheques?
3. Write a short note on special crossing
4. What is endorsement?
5. Write different types of endorsement.
6. Who is holder in due course?
7. Who is a collecting banker and a paying banker?
8. What is negligence in terms of collecting banker?
9. What is forged endorsement?
10. How the bank will handle a “ Account payee” crossing ?

Part C (5X6=30 Marks)

Answer all questions

1. What is crossing of cheques? Explain different types of crossing with diagrams.
2. Explain blank and full endorsement with examples.
3. What are the provisions regarding liabilities of parties to negotiable instruments?
4. Write note on statutory protection to the collecting bankers
5. Write note on statutory protection to a paying banker.
6. Explain restrictive and conditional endorsement with examples.
7. Explain the importance of delivery in negotiation.
8. What is conversion by collecting bank? Mention the implications
9. Explain the consequences of negligence in playing the role as agents to customers.
10. Explain the statutory protection to account payee cheques.

S.No	Question	Option A	Option B	Option C	Option D	Answer
1	The following Section of negotiable Instruments Act contains provisions related to "crossing	Section 123-131	Section 131-149	Section 213-311	Section 100-200	Section 123-131
2	The cheque is said to be crossed, when	A word "cross" is written on the left hand top corner of a cheque	A cheque bears two parallel lines on the face of the cheque	A cheque has crossed the border of our country	A cheque bears amount exceeding Rs.10.00 lacs	A cheque bears two parallel lines on the face of the cheque
3	The Negotiable Instruments Act was passed in the year....	1872	1889	1912	1882	1882
4	The validity period of a cheque is	5 months	6 months	3 months	2 months	3 months
5	A demand draft is issued by.....	Bank	customer	Creditor	RBI	Bank
6	The document drawn by a debtor on the credit agreeing to pay a certain sum of money is called.....	Cheque	Demad Draft	Bill of exchange	Promissory note	Promissory note
7	Any person who acquires the title to the instrument bona fide and for value is called.....	Principal	Agent	Trustee	Holder in due course	Holder in due course
8	The person to whom money is payable on a cheque is called	Payee	Debtor	Creditor	Owner	Payee
9	When a cheque is specially crossed to more than one banker , it is called.....	Multiple crossing	Double crossing	Unique crossing	Special crossing	Double crossing
10	... is a small book issued by a banker to his customer to record all dealings between them	Pay in slip	Cheque book	Pass book	Record book	Pass book
11	The cheque which is not presented for payment within reasonable period of time is called.....	Mutilated cheque	Stale cheque	Post dated cheque	Anti dated cheque	Stale cheque
12	MICR stands for	Micro Ink Character Reader	Magnetic Ink character Reader	Recognition	Recognition	
13	The endorser simply signs on the back of the instrument for the purpose of negotiation is called...	Special endorsement	Blank endorsement	Restrictive endorsement	Clean endorsement	Blank endorsement
14	A cheque which is payable to a certain person is called....	Truncated cheque	order cheque	specific cheque	Bearer cheque	order cheque
15	The endorsement on the backside of the cheque is full,a separate paper can be attached is called	Allonge	worksheet	Additional sheet	Allied sheet	Allonge
16	What is stale cheque	A cheque issued without drawer's signature	cheque with only signature of the drawer	A cheque which has completed three months from its date of	A cheque without date	A cheque which has completed three months from
17	A crossed cheque is one , which can be encashed only	By the drawee	through a bank	at the state bank of India	to another person	through a bank
18	If neither the word "bearer " nor "order" is written on a cheque, payment will be made by treating it as	A bearer cheque	An order cheque	At Bank's discretion	cannot be paid at all	An order cheque
19	Account payee crossing is a direction of the drawer	To collecting banker	To drawee banker	To payee	To all endorsees	To collecting banker
20	On dishonouring of a cheque, what kind of remedy is available to the holder of the cheque under NI act	Ombudsman	normal court	metropolitan magistrate	with RBI	with metropolitan magistrate
21	In our country, a cheque remains valid for payment for ---- from the date of issue	3 months	6 months	9 months	12 months	3 months
22	When a bank returns a cheque unpaid , it is called	payment of the cheque	drawing of the cheque	cancelling of the cheque	dishonor of the cheque	dishonor of the cheque
23	"Account Payee" crossing is a	Restricted crossing	Special crossing	General crossing	Both a& b	General crossing
24	Endorsement is defined in which section of negotiable instruments Act	Section 15	section 51	Section 41	Section 105	Section 15
25	The person to whom a cheque is endorsed is known as	Endorser	Endorsee	Payee	Drawer	Endorsee
26	If the endorser signs in his name and adds a direction to pay or to order of a specified person, the endorsement	Full endorsement	Partial endorsement	Conditional Endorsement	Super endorsement	Full endorsement
27	An endorsement which prohibits further negotiation is known as	Partial	Restrictive endorsement	Sans Endorsement	Full endorsement	Restrictive endorsement
28	When an endorser negotiates an instrument and again becomes holder, the instrument is said to be	Negotiation back	Holder back	Original Endorser	Pre endorser	Negotiation back
29	Holder is defined in which section of Negotiable Instruments Act	Section 10	Section 15	Section 25	Section 8	Section 8
30	A person who for consideration obtains possession of a negotiable instrument is known as	Holder	Holder in due course	Drawer	Payee	Holder in due course
31	Holder in due course is defined in which section of Negotiable Instruments Act	Section 9	Section 8	Section 19	Section 18	Section 9
32	A cheque which is specially crossed should not be paid to anyone other than a	Payee	Beneficiary	Drawer	Banker	Banker
33	..... Means wrongful interference with another person's negotiable instrument which is not inconsistent of owner's right of possession	Conversion	Violation	subversion	Impersonation	Conversion
34	If the bank does not make an enquiry before any third party cheques are collected on behalf of the customer, the lapse on the part of bank is known as	Mistake	Casual	Negligence	Careless	Negligence
35	For ensuring protection under Section 85 of Negotiable Instruments Act, a banker is to ensure that the endorsement is	Genuine	Regular	Genuine and regular	Regular and legible	Regular
36	The correct endorsement of a cheque drawn in favour of Delhi Club is	D.Basu	D.Basu, Secretary	For and on behalf of Delhi Club, D.Basu, Secretary	D.Basu, representative	For and on behalf of Delhi Club, D.Basu, Secretary

37	Which of the following cannot be endorsed	A fixed deposit receipt	A bank draft	A promissory note	A cheque	A fixed deposit receipt
38	Which of the following crossing is in order	Two transverse parallel lines on top right of the cheque	Drawing a line across the cheque	writing a word "pay to cross"	Drawer	Two transverse parallel lines on top right of the cheque
39	Account payee crossing is a direction of the drawer to	To collecting banker	To drawee banker	To payee	To all endorsees	To collecting banker
40	A drawee bank is responsible to one of the following wrongful dishonour of a cheque	The payee, if suffers any loss	The endorsee, if suffers any loss	The presenter, if suffers any loss	The account holder, if suffers loss	The account holder, if suffers loss
41	on dishonouring of a cheque, what kind of remedy is available to the holder of the cheque under NI act	Crossed draft	crossed promissory note	crossed cheque	crossed bill of exchange	crossed cheque
42	The holder of a negotiable instrument is holder in due course, if	he receives the instrument in good faith and without negligence	he receives the instrument for lawful consideration	he receives the instrument before maturity	a to c all	a to c all
43	Who among the following is not a holder in due course	holder of a bearer cheque	holder of a crossed order cheque	holder of a not negotiable cheque	holder of a order cheque	holder of a not negotiable cheque
44	A cheque dated subsequent to the date of its issue is	Post dated cheque	Blank cheque	Crossed cheque	Account payee cheque	Post dated cheque
45	A cheque date before the date of its issue is	Worth cheque	Full worth cheque	Preemptive cheque	Ante dated cheque	Ante dated cheque
46	A drawer in the bill of exchange can also be a	Paymaster	Payee	Banker	Creditor	Payee
47	Who is primarily liable on a promissory note?	Holder	Maker	Drawee	Endorser	Maker
48	How many parties are mainly involved in Promissory Note?	One	two	three	four	two
49	In a bill of exchange, drawee is the person	who draws the bill	on whom the bill is drawn	to whom the payment of the bill is to be made	bank	on whom the bill is drawn
50	----- is a dead cheque	Post dated cheque	Stale cheque	Ante dated cheque	Pre dated cheque	Stale cheque
51	Name the person to whom the amount of the cheque is payable?	Drawer	payee	drawee	acceptor	payee
52	Discounting of bills of exchange is	Clean advance	Secured advance	Neither clean advance nor secured advance	Unsecured advance	Neither clean advance nor secured advance
53	Which section of Negotiable Instruments Act 1881, defines endorsement	Section 10 B	Section 15	C. Section 18	Section 20	Section 15
54	----- is an endorsement in which the endorser merely signs his name on the book of the instrument without mentioning the name of the person to whom the instrument is endorsed	Blank Endorsement	Restrictive Endorsement	Qualified Endorsement	San Frais Endorsement	Blank Endorsement
55	Blank endorsement is otherwise called as	Full Endorsement	Qualified Endorsement	General Endorsement	Special Endorsement	General Endorsement
56	The most important feature of a negotiable instrument is :	free transfer	transfer free from defects	right to sue	(a) and (b) together	(a) and (b) together
57	In the case of a negotiable instrument, the following person generally gets a good title	finder of the lost instrument	holder of a stolen instrument	holder in due course	holder of a forged instrument	holder in due course
58	The reasonable period allowed in India for the presentation of a cheque is----- A. 1 year B. 3 months C. 9 months D. depending upon banking custom ANSWER: B	Depending upon bank custom	3 months	6 months	no limit	3 months
59	The document which can be used only for making local payment is	Demand draft	payorder	cheque	withdrawal form	payorder
60	who among the following can endorse a negotiable instrument	Illiterate	Lunatic	An insolvent	b and c	Illiterate

UNIT III

Syllabus

Banking Lending: Principles of Sound Lending - Secured vs. Unsecured Advances - Types of Advances - Advances Against Various Securities.

Principles of sound lending

There are three cardinal principles of lending followed by commercial banks since very long time. Under Section 8 of the Banking Companies (Acquisition and transfer of undertakings) Act, 1970 in the discharge of their functions, to be guided by such directions in regard to matters of policy involving public interest as the Central Government give.

The principles of lending are:

1. Safety
2. Liquidity
3. Profitability
4. The purpose of loan
5. The principle of diversification of risks

Safety

As the bank lends the funds entrusted to it by the depositors, the first and foremost principle of lending is to ensure the safety of the funds lent. By safety is meant that the borrower is in a position to repay the loan, along with interest, according to the terms of the loan contract. The repayment of the loan depends upon the borrower's capacity to pay, and (2) willingness to pay. The former depends upon his tangible assets and the success of his business; if he is successful in his efforts, he earns profits and can repay the loan promptly. Otherwise, the loan is recovered out of the sale proceeds of his tangible assets. The willingness to pay depends upon the honesty and character of the borrower. The banker should, therefore, taken utmost care in ensuring that the enterprise or business for which a loan is sought is a sound one and the borrower is capable of carrying it out successfully. He should be a person of integrity, good character and reputation. In

addition to the above, the banker generally relies on the security of tangible assets owned by the borrower to ensure the safety of his funds.

Liquidity

Banks are essentially intermediaries for short term funds. Therefore, they lend funds for short periods and mainly for working capital purposes. The loans are, therefore, largely payable on demand. The banker must ensure that the borrower is able to repay the loan on demand or within a short period. This depends upon the nature of assets owned by the borrower and pledged to the banker. For example, goods and commodities are easily marketable while fixed assets like land and buildings and specialized types of plant and equipment can be liquidated after a time interval. Thus, the banker regards liquidity as important as safety of the funds and grants loans on the security of assets which are easily marketable without much loss.

Profitability

Commercial banks are profit-earning institutions; the nationalized banks are no exception to this. They must employ their funds profitably so as to earn sufficient income out of which to pay interest to the depositors, salaries to the staff and to meet various other establishment expenses and distribute dividends to the shareholders (the Government in case of nationalized banks). The rates of interest charged by banks were in the past primarily dependent on the directives issued by the Reserve Bank. Now banks are free to determine their own rates of interest on advances.. The variations in the rates of interest charged from different customers depend upon the degree of risk involved in lending to them. A customer with high reputation is charged the lower rate of interest as compared to an ordinary customer. The sound principle of lending is not to sacrifice safety or liquidity for the sake of higher profitability. That is to say that the banks should not grant advances to unsound parties with doubtful repaying capacity, even if they are ready to pay a very high rate of interest. Such advances ultimately prove to be irrecoverable to the detriment of the interests of the bank and its depositors.

Purpose of the Loan

While lending his funds, the banker enquires from the borrower the purpose for which he seeks the loan. Banks do not grant loans for each and every purpose—they ensure the safety and liquidity of their funds by granting loans for *productive purposes only*, viz., for meeting working capital needs of a business enterprise. Loans are not advanced for speculative and unproductive purposes like social functions and ceremonies or for pleasure trips or for the repayment of a prior loan. Loans for capital expenditure for establishing business are of long-term nature and the banks grant such term loans also. After the nationalization of major banks loans for initial expenditure to start small trades, businesses, industries, etc., are also given by the banks.

Principle of Diversification of Risks

This is also a cardinal principle of sound lending. A prudent banker always tries to select the borrower very carefully and takes tangible assets as securities to safeguard his interests. Tangible assets are no doubt valuable and the banker feels safe while granting advances on the security of such assets, yet some risk is always involved therein. An industry or trade may face recessionary conditions and the price of the goods and commodities may sharply fall. Natural calamities like floods and earthquakes, and political disturbances in certain parts of the country may ruin even a prosperous business. To safeguard his interest against such unforeseen contingencies, the banker follows the principle of diversification of risks based on the famous maxim —do not keep all the eggs in one basket. It means that the banker should not grant advances to a few big firms only or to concentrate them in a few industries or in a few cities or regions of the country only. The advances, on the other hand, should be over a reasonably wide area, distributed amongst a good number of customers belonging to different trades and industries. The banker, thus, diversifies the risk involved in lending. If a big customer meets misfortune, or certain trades or industries are affected adversely, the overall position of the bank will not be in jeopardy.

Bank Credit, National Policy and Objectives

Banking institutions are amongst the commanding heights of an economy. They must serve the national policy and objectives. Twenty major banks in India were nationalized —to serve better the needs of development of the economy in conformity with the national policy and objectives. Necessary changes in the banking policies and practices were urgently necessitated in the wake of nationalization to serve wider social purpose of established democratic socialism in the country.

Significant changes have taken place in the concept of security observed by the bankers in their attitude towards the hitherto weaker and neglected sections of society during the last two decades. Banks have been directed to finance on a large scale agriculturists, small industrialists, professional persons and transporters, etc. Banks have also been asked to help in the implementation of the 20-Point Programme and have been directed to ensure that banks' advances within the priority sectors are given increasingly to the weaker and underprivileged sections at concessional rate of interest. Security of funds lent is not sought exclusively in the tangible assets of the borrower but also in his technical competence, managerial ability, honesty and integrity. Loans are being given in large numbers for the setting up of small businesses and for starting practice by professional persons. It is to be noted that bank credit has to act as an important instrument for achieving wider social purpose, national policies and objectives. However, *the basic principles of sound lending are fundamental* and are observed even by the nationalized banks. *The ways in which the basic principles are followed, of course, may be modified to suit the needs of the times.*

Secured vs unsecured advances

Secured Advances

The banks generally attach much importance to grant loans on the security of tangible assets like large variety of goods, documents and immovable property. Secured advances account for major portion of bank loans. In case of default, the banks recover the loans by sale of the assets created as charge. Such advances are called as Secured advances. A charge is created over assets of the borrower in favour of the banker. (Section 5 of Banking Regulation Act, 1949)

General principles of secured advances:

1. Adequacy of margin: The margin is defined as the difference between the market value of the security and the amount of loan granted against it.
2. Marketability of securities:
3. Documentation: Necessary documents Eg., agreement of pledge, mortgage etc., duly signed by the borrower.
4. Realisation of the advance: On default, the loan is recovered by sale of assets created as charge in favour of the banker

Unsecured advances

An unsecured loan is a loan that is issued and supported only by the borrower's creditworthiness, rather than by any type of collateral. Because unsecured loans, sometimes referred to as signature loans or personal loans, are obtained without the use of property as collateral, the terms of such loans, including approval and receipt, are most often contingent on the borrower's credit score. Borrowers must generally have high credit ratings to be approved for certain unsecured loans. Unsecured loans include credit cards, student loans and personal loans, all of which can be revolving or term loans. A revolving loan is a loan that has a credit limit that can be spent, repaid and spent again. Examples of revolving unsecured loans include credit cards and personal lines of credit.

Term loans, in contrast, are loans that the borrower repays in equal installments until the loan is paid off at the end of its term. While these types of loans are often affiliated with secured loans such as mortgages and car loans, there are also unsecured term loans. A consolidation loan to pay off credit cards or a signature loan from a bank would be considered unsecured term loans.

Types of advances:

Advances are classified into following types:

1. Short term loans
2. Medium term and long term loans \
3. Bridge loans

4. Consumption loans**5. Composite loans**

The business of lending is carried on by banks offering various credit facilities to its customers. Basically various credit facilities offered by banks are generally repayable on demand. A bank should ensure proper recovery of funds lent by him and acquaint itself with the nature of legal remedies available to it and also law affecting the credit facilities provided by it.

Credit facilities broadly may be classified as under depending upon fund and non fund based limits.

Fund Based Credit Facilities

Fund based credit facilities involve outflow of funds meaning thereby the money of the banker is lent to the customer. They can be generally of following types:

- Cash credits/overdrafts
- Demand Loans/Term loans
- Bill finance

Non-Fund Based Credit Facilities

In this type of credit facility the banks funds are not lent to the customer and they include:

- Bank Guarantees
- Letter of Credit

Cash Credit advances :

Cash credit is the main method of lending by banks in India and accounts for about 70 per cent of total bank credit. Under the system, the banker specifies a limit, called the cash credit limit, for each customer, up to which the customer is permitted to borrow against the security of tangible assets or guarantees. Cash credit is a flexible system of lending under which the borrower has the option to withdraw the funds as and when required and to the extent of his

needs. Under this arrangement the banker specifies a limit of loan for the customer (known as cash credit limit) up to which the customer is allowed to draw. The cash credit limit is based on the borrower's need and as agreed with the bank. Against the limit of cash credit, the borrower is permitted to withdraw as and when he needs money subject to the limit sanctioned. It is normally sanctioned for a period of one year and secured by the security of some tangible assets or personal guarantee. If the account is running satisfactorily, the limit of cash credit may be renewed by the bank at the end of year. The interest is calculated and charged to the customer's account. Cash credit, is one of the types of bank lending against security by way of pledge or /hypothecation of goods. 'Pledge' means bailment of goods as security for payment of debt. Its primary purpose is to put the goods pledged in the possession of the lender. It ensures recovery of loan in case of failure of the borrower to repay the borrowed amount. In 'Hypothecation', goods remain in the possession of the borrower, who binds himself under the agreement to give possession of goods to the banker whenever the banker requires him to do so. So hypothecation is a device to create a charge over the asset under circumstances in which transfer of possession is either inconvenient or impracticable.

Other features of cash credit arrangements are as follows:

The banker fixes the cash credit limit after taking into account several features of working of the borrowing concern such as production, sales, inventory levels, past utilization of such limits; etc. The banks are thus inclined to relate the limits to the security offered by their customers.

The advances sanctioned under the cash credit arrangement are technically repayable on demand and there is no specific date of repayment, but in practice they 'roll over' a period of time. Cash accruals arising from the sales are adjusted in a cash credit account from time to time but it is found that on a larger number of accounts no credit balance emerges or debit balance fully wiped out over a period of years as the withdrawals are in excess of receipts.

Under the cash credit arrangement, a banker keeps adequate cash balances so as to meet the demand of his customers as and when it arises. But the customer is charged interest only

on the actual amount utilized by him. To neutralize the loss of interest on the idle funds kept by the banks within the credit limits sanctioned, a commitment charge on the unutilized limits may be charged by the banks.

The Reserve Bank has advised the banks to evolve their own guidelines to ensure credit discipline and levy a commitment charge. Thus the commitment charge depends upon the discretion of individual banks.

Advantages of Cash Credit System

Flexibility: The borrowers need not keep their surplus funds idle with themselves, they can recycle the funds quite efficiently and can minimize interest charges by depositing all cash accruals in the bank account and thus ensures lesser cost of funds to the borrowers and better turnover of funds for the banks.

Operative convenience: Banks have to maintain one account for all the transactions of a customer. The repetitive documentation can be avoided.

Weakness of the System

Fixation of Credit Limits: The cash limits are prescribed once in a year. Hence it gives rise to the practice of fixing large limits than is required for most part of the year. The borrowers misutilise the unutilized gap in times of credit restraint.

Bank's inability to verify the end-use of funds: Under this system the stress is on security aspect. Hence there is no conscious effort on the part of banks to verify the end-use of funds. Funds are diverted, without banker's knowledge, to unapproved purposes.

Lack of proper management of funds: Under this system the level of advances in a bank is determined not by how much the banker can lend at a particular time but by the borrower's decision to borrow at the time. The system, therefore, does not encourage proper management of funds by banks.

These weaknesses of the cash credit system were highlighted by a number of committees appointed for this purpose in India. Guidelines have been issued by the Reserve Bank for

reforming the cash credit system on the basis of recommendations of the Tandon Committee and the Chore Committee.

Overdrafts

When a customer is maintaining a current account, a facility is allowed by the bank to draw more than the credit balance in the account; such facility is called an '**overdraft**' facility. At the request and requirement of customers temporary overdrafts are also allowed. However, against certain securities, regular overdraft limits are sanctioned. Salient features of this type of account are as under

- All rules applicable to current account are applicable to overdraft accounts *mutatis mutandis*.
- Overdraft is a running account and hence debits and credits are freely allowed.
- Interest is applied on daily product basis and debited to the account on monthly basis. In case of temporary overdraft, interest should be applied as and when temporary overdraft is adjusted or at the end of the month, whichever is earlier.
- Overdrafts are generally granted against the security of government securities, shares & debentures, National Savings Certificates, LIC policies and bank's own deposits etc. and also on unsecured basis.

When a current account holder is permitted by the banker to draw more than what stands to his credit, such an advance is called an overdraft. The banker may take some collateral security or may grant such advance on the personal security of the borrower. The customer is permitted to withdraw the amount as and when he needs it and to repay it by means of deposit in his account as and when it is feasible for him. Interest is charged on the exact amount overdrawn by the customer and for the period of its actual utilization.

Generally an overdraft facility is given by a bank on the basis of a written application and a promissory note signed by the customer. In such cases an express contract comes into existence. In some cases, in the absence of an express contract to grant overdraft, such an agreement can be inferred from the course of

business. For example, if an account-holder, even without any express grant of an overdraft facility, overdraws on his account and his cheque is duly honoured by the bank, the transaction amounts to a loan. In *Bank of Maharashtra vs. M/s. United Construction Co. and Others* (AIR 1985 Bombay 432), the High Court concluded that there was an implied agreement for grant of overdraft or loan facility.

Banks should, therefore, obtain a letter and a promissory note incorporating the terms and conditions of the facility including the rate of interest chargeable in respect of the overdraft facility. This is to be complied with even when the overdraft facility might be temporary in nature.

Overdraft facility is more or less similar to ‘cash credit’ facility. Overdraft facility is the result of an agreement with the bank by which a current account holder is allowed to draw over and above the credit balance in his/her account. It is a short-period facility. This facility is made available to current account holders who operate their account through cheques. The customer is permitted to withdraw the amount of overdraft allowed as and when he/she needs it and to repay it through deposits in the account as and when it is convenient to him/her.

Overdraft facility is generally granted by a bank on the basis of a written request by the customer. Sometimes the bank also insists on either a promissory note from the borrower or personal security of the borrower to ensure safety of amount withdrawn by the customer. The interest rate on overdraft is higher than is charged on loan.

Bills Finance

In order to ease the pressures on cash flow and facilitate smooth running of business, Bank provides Bill finance facility to its corporate / non corporate clients. Bill finance facility plugs in the mismatches in the cash flow and relieves the corporates from worries on commitments. Besides the fund based bill finance, we also provide agency services for collection of documentary bills/cheques. Under bills finance mechanism a seller of goods draws a bill of exchange (draft) on buyer (drawee), as per payment terms for the goods supplied. Such bills can be routed through the banker of the seller to the banker of the buyer for effective control.

Clean & Documentary bill :

When documents to title to goods are not enclosed with the bill, such a bill is called Clean Bill. When documents to title to goods along with other documents are attached to the bill, such a bill is called Documentary Bill.

Documents, the due possession of which give title to the goods covered by them such as RR/MTR, bill of lading, delivery orders etc. are called documents to title to goods. Cheques and drafts are also examples of clean bills.

(ii) Demand & Usance bill :

When the bill of exchange either clean or documentary is made payable on demand or sight, such a bill is called Demand Bill. The buyer is expected to pay the amount of such bill immediately at sight. If such a demand bill is a documentary bill, then the documents including document to title to goods are delivered to the buyer only against payment of the bill. (Documents against Payment-D/P Bills).

When a bill, either clean or documentary is drawn payable after certain period or on a specified date, the bill is called Usance Bill. Such bill is presented to the buyer once for Acceptance, when he accepts to pay the bill on due date and on due date the bill is presented again for Payment. In case of documentary usance bill, the documents are delivered to the buyer (drawee/acceptor) against his acceptance of bill (Documents against acceptance - DA Bills).

Finance against bills of exchange: Difference between Bills Purchase and Bills Discounting

Banks consider working capital finance to meet the post- sale requirements of borrowers through Bill finance either by Purchasing bills or Discounting them.

(a) Bill Purchase facility is extended against clean demand bills like cheques / drafts/ bills of exchange/hundies & demand documentary bills, whereby the bank lends money to the payee of the cheque/ draft and to the drawer of the bills by purchasing the same against tendering of such bills by the payee/ drawer. The bank in turn sends the bills for collection, preferably to its own branch at the place of drawee or to its correspondent bank or to the buyers (drawee's) bank.

b) Bills Discounting facility is extended against usance bills: In such cases, the seller tenders the usance bill drawn by him usually along with documents to title to goods, to his banker who discounts the bill i.e. levies discount charges for the unexpired portion of the duration of the bill and credits the balance amount to the seller's account. Thereafter the drawer's bank sends the bill to collecting bank at the centre of drawee either to its own branch or drawee's bank, with instructions to release the documents to title against acceptance and thereafter, to recover the bill amount on due date. Sometimes the accepted usance bills are also tendered and discounted by the bank.

Apart from sanctioning loans and advances, discounting of bills of exchange by bank is another way of making funds available to the customers. Bills of exchange are negotiable instruments which enable debtors to discharge their obligations to the creditors. Such Bills of exchange arise out of commercial transactions both in inland trade and foreign trade. When the seller of goods has to realize his dues from the buyer at a distant place immediately or after the lapse of the agreed period of time, the bill of exchange facilitates this task with the help of the banking institution. Banks invest a good percentage of their funds in discounting bills of exchange. These bills may be payable on demand or after a stated period.

In discounting a bill, the bank pays the amount to the customer in advance, i.e. before the due date. For this purpose, the bank charges discount on the bill at a specified rate. The bill so discounted, is retained by the bank till its due date and is presented to the drawee on the date of maturity. In case the bill is dishonoured on due date the amount due on bill together with interest and other charges is debited by the bank to the customers

Procedure for Assessment of Working Capital

The term —Working Capital means, the funds required by a company, enterprise to carry on with daily operations.

The features of Working Capital (WC) are:

WC is the short term funds required to meet the daily operating expenses.

WC = Current Assets – Current Liabilities.

Managing the short term fund requirements through the firm's short term assets and short liabilities is known as —Working Capital Managementl.

One of the main objective of Working Capital Management is to convert **Cash to Cash (C to C)** in a cyclical form called as —working capital cyclel.

Working Capital Cycle

The Working Capital Cycle operates in the following manner:

A borrowing company, avails of working capital finance from the bank. The bank after necessary credit appraisal , grants the working capital finance. The company withdraws funds (cash). The borrower converts the cash into raw material, raw material is used in the manufacturing activities, and gets converted into semi- finished and finished goods depending upon the production schedule. The finished goods are sold invariably on credit sales basis. Bills of exchange are drawn by the seller of the goods on the buyer, which becomes the bills receivable for the seller. On the due date when the bills are paid by the drawee (buyer), the seller repays the working capital loan amount to the bank.

The Working Capital Cycle covers two important financing functions viz., Inventory financing and receivables financing. The items consisting of cash- raw materials- semi finished goods-finished goods called as Inventory, and the other items of the cycle, consisting of Bills receivables is called Receivables. In view of the above, it can be recognized that the Working Capital Management is the management of Inventory and Receivables. Efficient management of both inventory and receivables enables the firm to ensure that **(Cash to Cash)** if properly handled could result in effective cost management and increase in profitability for the firm.

Generally, the length of the working capital cycle depends upon:

- the stocks of raw material to be held
- the period of time for converting the raw materials to semi- finished and finished goods
- the credit period extended to the purchasers (debtors). The longer the working capital cycle, the funds requirement of the firm would be more

- Broadly, working capital is classified into: Gross Working Capital and Net Working Capital

The total current assets are referred as the gross working capital. It is also known as the qualitative or circulating capital.

Current Assets: Short term Assets (maturing within a year) which are used in the ordinary course of business (ii) Such assets can be converted into cash within a particular period (maximum period is one year)

Current Liabilities: Short term Liabilities (maturing within a year) which are used in the ordinary course of business (ii) Such liabilities are payable within a particular period (maximum period is one year) (iii) Usually the payment of current liabilities are made out of the current assets or revenue of the firm.

Net Working Capital:

It represents the excess of current assets over the current liabilities.

Banks should be able to assess the adequate working capital required by the firm/company. Because excess working capital means that the firm is having idle funds, which does not earn profit for the firm. It also blocks the bank's funds which could have been lent to another needy borrowing company/firm. However, if the working capital is inadequate, it indicates that the firm is not having sufficient funds for its operations, which can result in lower production

Permanent and Temporary Working Capital:

Permanent working capital is the minimum investment kept in the form of inventory of raw materials, work-in-progress, finished goods, and book debts to ensure continuous operation of a firm.

Temporary Working Capital:

When a firm maintains additional current asset over and above the permanent working capital to cover the cyclical (seasonal) demands, it is called temporary working capital.

For example, a garment exporter may require additional funds to meet his exports to US and European markets for their festival season (Christmas, New Year). He approaches his bank for additional WC, and if the bank allows the exporter to avail of additional funds, then it is called temporary or seasonal WC

Working Capital – Bank Finance:

Banks grant working capital finance to their clients based on certain norms. The steps involved are

Level of Turnover of the firm: This is one of the important step involved in deciding the working capital limit. In respect of existing firms, the past performance is used for deciding the limit. However, in case of new firms, the assessment is based on the availability of raw materials, production capacity, industry norm, etc., are taken into consideration to fix the working capital limit.

Banks are now free to decide the method of calculating the working capital requirements based on the bank's own policy, generally banks use any of the following methods:

Method I:

In this method, the firm is required to contribute at least 25% of the working capital gap. The working capital gap = total current assets minus total current liabilities excluding bank finance.

Method II:

In this method, the firm has to bring in at least 25% of the total current assets.

Method III:

In this method, the firm is required to bring in 100% of those current assets called as —core assets and at least 25% of the remaining current assets.

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In the case of **Method II**, the current ratio should be at least 1.33 and in the first case, it could be less and in the third method it may be more.

Working capital management calls for skills good planning and strategy. A good working capital management would depend upon many factors, such as,

Size of business (ii) Seasonal demand for funds (iii) Production Cycle Process (iv) Availability or non-availability of raw materials (v) inventory and receivables management policies (vi) Turnover of inventory (vii) Efficient receivable management

Working Capital finance is granted by banks in the form of cash credit (CC) and overdraft (OD). Cash Credit is given against hypothecation/pledge of stocks/movable assets for various purposes. While granting cash credit limit, the bank requires the borrower to contribute the margin say 25% of the value of assets (pledged/hypothecated). Bank allows the customer to drawdown subject to margin which is called the drawing power. If the limit is ₹ 100 lakhs and with the margin of 25% the drawing power subject to the security (stock/value of assets pledged/hypothecated) would be ₹ 75 lakhs or less. In case of OD accounts also the drawdown of funds would be subject to margin and drawing power of the borrower. Banks should follow all the required guidelines of closely monitoring the operations in the CC accounts. Banks should also take necessary precautions in ensuring regular inspections of stocks and also the value of stocks are regularly valued at market price (mark to market concept) to avoid any risks. Banks stocks and assets should have insurance cover and all terms and conditions of the credit needs to be complied with.

Invariably, CC is given against movable goods/assets, and the OD is given against financial securities like bills of exchange, fixed deposit receipts, shares and tradable market instruments, and book debts. In the case of OD also, all applicable credit norms need to be observed by banks without any deviation. Based on the nature of securities, they are either hypothecated, pledged, assigned, to banks or kept under lien with banks.

The loan is disbursed by way of single debit/stage-wise debits (wherever sanction so accorded) to the account. The amount may be allowed to be repaid in lump sum or in suitable installments,

as per terms of sanction. Loan is categorized Demand Loan if the repayment period of the loan is less than three years, in case the repayment of the loan is three years and above the loan be considered as Term Loan.

Under the loan system, credit is given for a definite purpose and for a predetermined period. Normally, these loans are repayable in installments. Funds are required for single non-repetitive transactions and are withdrawn only once. If the borrower needs funds again or wants renewal of an existing loan, a fresh request is made to the bank. Thus, a borrower is required to negotiate every time he is taking a new loan or renewing an existing loan. Banker is at liberty to grant or refuse such a request depending upon his own cash resources and the credit policy of the central bank.

Types of Term Loans:

Term loans are granted by banks to borrowers for purchase of fixed assets like land and building, factory premises, embedded machinery etc., to enable their manufacturing activities, and their business expansion, if the amounts are repayable after a specific period of time, they are all called as term finance. On the basis of the period for which the funds are required by the borrowers, these loans are classified as short, medium and long term loans.

Banks have been given freedom to fix their own interest rate for loans and advances. As per bank's lending and interest rate policies applicable interest and other charges would be applicable to CC, OD, Term loan accounts. Each bank should decide —base rate of interest on advances as per RBI directives.

Loans which are repayable within 1 – 3 years are classified as Short term, 3-5 years are classified as Medium Term and above 5 years are classified as long term.

Term Loans - Important aspects:

Term loans are given to the manufacturing, trading and service sector units which require funds for purchasing various items of fixed assets, such as, land and building, plant and machinery, electrical installation and other preliminary and pre-operative expenses.

Repayment of term loans would depend upon the firm's capacity to produce goods or services by using the fixed assets as financed by banks.

Like any other loan, a term loan is sanctioned by the bank, after evaluation of credit proposal (application). The bank before granting term loans needs to carry out a clear due diligence as to the borrower's requirement, capacity and other aspects.

While considering a term loan proposal, the bank needs to verify the financial status, economic viability and the firm's production capacity.

After proper verification and satisfaction of various requirements, banks can grant a term loan, on certain terms and conditions, covenants, including repayment terms.

Term loans like any other credit facility need to cover Six C concepts and the banks should follow bank's lending policy, exposure norms and the RBI's guidelines and directives.

All required valid collateral security, duly executed should be one of the pre conditions for the loan amount to be disbursed.

The assets created out of the bank loan, are charged depending upon the nature of security (hypothecation, mortgage, etc.,

At the time of fixing the limit and quantum of finance, a banker is required to make assessment of actual cost of assets to be acquired, margin to be contributed, sources of repayment, etc.

Bridge Loans

Bridge loans are essentially short term loans which are granted to industrial undertakings to meet their urgent and essential needs during the period when formalities for availing of the term loans sanctioned by financial institutions are being fulfilled or necessary steps are being taken to raise the funds from the capital market. These loans are granted by banks or by financial institutions themselves and are automatically repaid out of amount of the term loan or the funds raised in the capital market.

In April, 1995, Reserve Bank of India banned bridge loans granted by banks and financial institutions to all companies. But in October, 1995, Reserve Bank of permitted the banks to sanction bridge loans/interim finance against commitment made by a financial institutions or another bank where the lending institution faces temporary liquidity constraint subject to the following conditions:

The prior consent of the other bank/financial institution which has sanctioned a term loan must be obtained.

The term lending bank/financial institution must give a commitment to remit the amount of the term loan to the bank concerned.

The period of such bridge loan should not exceed four months.

No extension of time for repayment of bridge loan will be allowed.

To ensure that bridge loan sanctioned is utilized for the purpose for which the term loan has been sanctioned.

In November, 1997, Reserve Bank permitted the banks to grant bridge loans to companies (other than non-banking finance companies) against public issue of equity in India or abroad. The guidelines for sanction of such loans are to be laid down by each bank and should include the following aspects:

- Security to be obtained for the loan.
- The quantum of outstanding bridge loan (or the limit sanctioned, whichever is higher) during the year.
- Compliance with individual/group exposure norms.

The maximum period of the bridge loan to be one year.

Composite Loans

When a loan is granted both for buying capital assets and for working capital purposes, it is called a composite loan. Such loans are usually granted to small borrowers, such as artisans, farmers, small industries, etc.

Consumption Loans

Though normally banks provide loans for productive purposes only but as an exception loans are also granted on a limited scale to meet the medical needs or the educational expenses or expenses relating to marriages and other social ceremonies etc. of the needy persons. Such loans are called consumption loans.

In the business of lending, a banker also extends non-fund based facilities. Non-fund based facilities do not involve immediate outflow of funds. The banker undertakes a risk to pay the amounts on happening of a contingency.

Non-based facilities can be of following types among other:

Bank Guarantees

Letter of Credit

Underwriting and credit guarantee

As part of Non-fund based facilities, banks issue guarantees on behalf of their clients. A Bank Guarantee is a commitment given by a banker to a third party, assuring her/ him to honour the claim against the guarantee in the event of the non- performance by the bank's customer. A Bank Guarantee is a legal contract which can be imposed by law. The banker as guarantor assures the third party (beneficiary) to pay him a certain sum of money on behalf of his customer, in case the customer fails to fulfill his commitment to the beneficiary.

Types of Guarantee

Banks issue different types of guarantees, on behalf of their customers, as illustrated below:

1) Financial Guarantee:

The banker issues guarantee in favour of a government department against caution deposit or earnest money to be deposited by bank's client. At the request of his customer, in lieu of a caution deposit/ earnest money, the banker issues a guarantee in favour of the government department. This is an example of a Financial Guarantee. This type of guarantee helps the bank's customer to bid for the contract without depositing actual money. In case, the contractor does not

take up the awarded contract, then the government department would invoke the guarantee and claim the money from the bank.

(2) Performance Guarantee:

Performance Guarantees are issued by banks on behalf of their clients.

For example:

XYZ Ltd, the Indian engineering company undertakes an overseas project. The project is to construct highways in one of the African nations. XYZ Ltd, required to furnish a bank guarantee. Since the company has undertaken an overseas project, the company is called as project exporter. XYZ Ltd approaches his banker to issue a bank guarantee in favour of the African nation to whom the company is going to construct the highways. XYZ's bank issues a bank guarantee and it will be a performance guarantee. Bank as guarantor guarantees the beneficiary that in case the project exporter (XYZ company) does not perform to the satisfaction of the beneficiary, then within the validity period (including the claim period if any) of the guarantee, the beneficiary can invoke the

guarantee and the banker has to honour his commitment and pay the amount mentioned in the guarantee. There are three parties in a guarantee:

(Applicant)

(Beneficiary) and

the Banker (guarantor)

Deferred Payment Guarantee:

Under this guarantee, the banker guarantees payments of installments spread over a period of time.

For example:

A purchases a machinery on a long-term credit basis and agrees to pay in installments on specified dates over a period of time. In terms of the contract of sale, B (the seller) draws Bills of Exchange on the customer for different maturities. These bills are accepted by A. The banker

(guarantor) guarantees payment of these bills of exchange on the due date. In the event of default by A, the banker need to honour the claim to the seller (beneficiary).

Letter of credit :

A Letter of Credit is issued by a bank at the request of its customer (importer) in favour of the beneficiary (exporter). It is an undertaking/ commitment by the bank, advising/informing the beneficiary that the documents under a LC would be honoured, if the beneficiary (exporter) submits all the required documents as per the terms and conditions of the LC.

Importance of letter of credit in trade activities

The trade can be classified into Inland and International. Due to the geographical proximities of the importers and the exporters, banks are involved in LC transactions to avoid default in payment (credit risks). To facilitate trade and also to enable the exporter and importer to receive and pay for the goods sold and bought, letter of credit is used as a tool. Letter of credit mechanism that the payment and receipts (across the globe) are carried out in an effective manner

Letters of Credit – Parties

1. Applicant (importer) requests the bank to issue the LC
2. Issuing bank (importer's bank which issues the LC [also known as Opening banker of LC])
3. Beneficiary (exporter)

Different types of banks:

- Opening bank (a bank which issues the LC at the request of its customer [importer])
- Advising bank (the issuing banker's correspondent who advises the LC to beneficiary's banker and/ or beneficiary)
- Negotiating bank (the exporter's bank, which handles the documents submitted by the exporter. The bank also finances the exporter against the documents submitted under a LC)

- Confirming bank (the bank that confirms the credit)
- Reimbursing bank (reimburses the LC amount to the negotiating/ confirming bank)

Types of LC's

Sight Credit – Under this LC, documents are payable at sight/ upon presentation

Acceptance Credit/ Time Credit – The Bills of Exchange which are drawn, payable after a period, are called usance bills. Under acceptance credit usance bills are accepted upon presentation and eventually honoured on due dates.

Revocable and Irrevocable Credit – A revocable LC is a credit, the terms and conditions of the credit can be amended/ cancelled by the Issuing bank, without prior notice to the beneficiaries. An irrevocable credit is a credit, the terms and conditions of which can neither be amended nor cancelled without the consent of the beneficiary. Hence, the opening bank is bound by the commitments given in the LC.

Confirmed Credit – Only Irrevocable LC can be confirmed. A confirmed LC is one when a banker other than the Issuing bank, adds its own confirmation to the credit. In case of confirmed LCs, the beneficiary's bank would submit the documents to the confirming banker.

Back-to-Back credit – In a back to back credit, the exporter (the beneficiary) requests his banker to issue a LC in favour of his supplier to procure raw materials, goods on the basis of the export LC received by him. This type of LC is known as Back-to-Back credit.

Example: An Indian exporter receives an export LC from his overseas client in Netherlands. The Indian exporter approaches his banker with a request to issue a LC in favour of his local supplier of raw materials. The bank issues a LC backed by the export LC.

Transferable Credit – While a LC is not a negotiable instrument, the Bills of Exchange drawn under it are negotiable. A Transferable Credit is one in which a beneficiary can transfer his rights to third parties. Such LC should clearly indicate that it is a 'Transferable' LC

—Red Clause Credit & —Green Clause Credit – In a LC a special clause allows the beneficiary (exporter) to avail of a pre-shipment advance (a type of export finance granted to an exporter, prior to the export of goods). This special clause used to be printed (highlighted in red colour, hence it is called —Red Clause Credit. The issuing bank undertakes to repay such advances, even if shipment does not take place.

In case of a ‘Green clause’ credit, the exporter is entitled for an advance for storage (warehouse) facilities of goods. The advance would be granted only when the goods to be shipped have been warehoused, and against an undertaking by the exporter that the transportation documents would be delivered by an agreed date.

Standby LC: In certain countries there are restrictions to issue guarantees, as a substitute these countries use standby credit. In case the guaranteed service is not provided, the beneficiary can claim under the terms of the standby credit. In case of Standby LCs, the documents required are proof of non-performance or a simple claim form.

Documents handled under Letters of Credit

Documents play a crucial role in trade transactions. Documents are integral part of LCs. The banks involved in LC transactions deal only with documents and on the evidence of the correct and proper documents only the paying banks (opening bank/confirming bank) need to make payment. In view of these factors, banks have to be careful while handling documents/ LCs.

At various stages, different banks (Negotiating bank {beneficiary's bank}, confirming bank, opening bank) have to verify whether all the required documents are submitted strictly as per the terms and conditions of credit. The important documents handled under LCs are broadly classified as

(a) Bill of Exchange:

Bill of exchange, is drawn by the beneficiary (exporter) on the LC issuing bank. When the bill of exchange is not drawn under a LC, the drawer of the bill of exchange (exporter), draws the bill of exchange on the drawee (importer). In such a case, the exporter takes credit risk on the importer, whereas, when the Bill of Exchange is drawn under LC, the credit risk for the exporter is not on

the importer but on the LC issuing bank. Banks should be careful in ensuring that the Bill of Exchange is drawn strictly as per the terms and conditions of the credit. Some others important aspects are:

It should be drawn by the beneficiary on the opening bank (ii) It should clearly indicate the amount and other details (iii) Depending upon the LC terms a Bill of Exchange may be drawn as a sight bill or an usance bill (iv) It should clearly indicate the LC number.

(b) Commercial Invoice:

This is another important document. Commercial invoice is prepared by the beneficiary, which contains (i) relevant details about goods in terms of value, quantity, weights (gross/net), importer's name and address, LC number (ii) Commercial invoice should exactly reflect the description of the goods as mentioned in LC. (iii) Another important requirement is that the commercial invoice should indicate the terms of sale contract (Inco terms) like FOB, C&F, CIF, etc (iv) Other required details like shipping marks, and any specific detail as per the LC terms should also be covered.

(c) Transport Documents:

When goods are shipped from one port to another port the transport document issued is called the bill of lading. Goods can be transported by means of airways, roadways and railways depending upon the situations. In case goods are transported by means of water ways, the document is called bill of lading, by airways it is known as airway bills and by roadways called as lorry receipt and by railways it is known as railway receipt. In case of a single transaction, when different modes are used to transport the goods from the beneficiary's country to the importer's destination, a single transport document can be used viz., Multi modal transport document. For ease of reference the most commonly used document i.e., Bill of Lading is discussed here.

(d) Bill of Lading (B/ L):

The B/ L is the shipment document, evidencing the movement of goods from the port of acceptance (in exporter's country) to the port of destination (in importer's country). It is a

receipt, signed and issued by the shipping company or authorized agent. It should be issued in sets (as per the terms of credit).

Advances against securities

1. Advances against goods:

These advances are secured against goods and commodities. These advances meet the working capital of a large number of industrial and business concerns. They are classified into four categories;

- Food articles
- Industrial raw materials
- Plantation products
- Manufactures and materials

2. Advances against documents of title to goods like bill of lading, warehouse receipts, railway receipts, etc.,
3. Advances against stock exchange securities: Securities are securities issued by Central Government and state Governments like National Savings Scheme, Kisan Vikas Patra,, Securities issued by port trust, shares and debentures of joint stock Companies, advances against mutual funds.
4. Advances against life insurance policies:
5. Advances against real estate
6. Advances against fixed deposit receipts
7. Advances against book debts
8. Advances against supply bills: These bills are furnished by persons who supply goods ,articles, materials to various departments of Central Government and Semi-Government bodies, Companies and by contractors who undertake Government Contract work.
9. Advances against Gold ornaments and jewellery

Possible Questions

Part A: Online Multiple Choice Questions

Part B: (5x2=10 Marks)

Answer all questions

1. What do you understand by lending and credit?
2. Write a note on unsecured advances
3. What are secured advances?
4. What are fund based credit facilities?
5. Mention the non fund based credit facilities
6. What is a cash credit advance?
7. What do you understand by Bill finance?
8. What is working capital?
9. What is working capital cycle?
10. What is a term loan?

Part C (5X6=30 Marks)

Answer all questions

1. What are the principles of lending? Write briefly about them.
2. Explain different kinds of secured advances.
3. Explain different kinds of unsecured advances
4. Explain different types of advances.
5. What are the advances for working capital? Explain Overdraft facility
6. What are different types of bill finance? Discuss about the differences between purchase and discounting of bills
7. Explain working capital cycle?
8. What is net working capital, gross working capital and net working capital?
9. Explain different methods for calculating the working capital.
10. What are bridge loans, consumption loans and composite loans?

S.No	Questions	Option A	Option B	Option C	Option D	Answer
1	The term ____ refers to the amount borrowed by one person from another.	Deposits	Fund	Loan	Interest	Loan
2	The _____ refers to the rate of interest paid by a bank on its deposits.	Borrowing rate	Lending rate	Commission	Rent	Borrowing rate
3	When the RBI lends money to commercial banks, the rate of interest it charges for lending is known as _____.	Commission	Borrowing Rate	Lending Rate	Bank Rate	Bank Rate
4	The rate at which commercial banks make funds available to people is known as _____.	Success rate	Bank rate	Borrowing rate	Lending rate	Lending rate
5	A _____ is a loan which is payable on demand by the bank or it is repayable at short notice.	Demand loan	Home Loan	Jewel loan	Cash credit	Demand loan
6	_____ are granted for more than a year and repayment of such loans is spread over a longer period.	Term Loan	Home Loan	Jewel loan	Cash credit	Term Loan
7	_____ are raised normally for working capital purposes, like purchase of raw materials etc.	Home Loan	Jewel loan	Cash credit	Demand loan	Demand loan
8	_____ loans are generally secured against the mortgage of land, plant and machinery, building etc.	Home Loan	Jewel loan	Term loan	Demand loan	Term loan
9	_____ is a flexible system of lending under which the borrower has the option to withdraw the funds as when required and to the extent of his needs.	Jewel Loan	Cash credit	Consumer loan	Home loan	Cash credit
10	_____ means bailment of goods as security for payment of debt.	Hypothecation	Overdraft	Pledge	Consumer credit	Pledge
11	In _____, goods remain in the possession of the borrower, who binds himself whenever the banker requires him to do so.	Overdraft	Pledge	Consumer credit	Hypothecation	Hypothetication
12	_____ is more or less similar to cash credit facility.	Overdraft facility	Pledge	Consumer credit	Jewel Loan	Overdraft facility
13	_____ is the result of an agreement with the bank by which a current account holder is allowed to draw over and above the credit balance in his account.	Pledge	Consumer credit	Jewel Loan	Overdraft facility	Overdraft facility
14	In _____ the bank pays the amount to the customer in advance that is before the due date.	Discounting a bill	Cash credit	Pledge	Consumer credit	Discounting a bill
15	_____ is generally granted by a bank on the basis of a written request by the customer.	Hypothetication	Overdraft facility	Pledge	Consumer credit	Overdraft facility
16	_____ are negotiable instruments which enable debtors to discharge their obligations to the creditors.	Government bonds	White paper	Bill of exchange	Sealed paper	C. Bill of exchange
17	_____ are granted by banks to meet the working capital needs of the business.	Short term loans	Long term loans	Medium term loans	Home loans	Short term loans

18	Short term loans are granted by banks to its borrowers to be repaid within a short period of time not exceeding _____.	10 Months	12 Months	15 Months	20 Months	15 Months
19	_____ are normally granted against the security of tangible assets like goods in stock, shares etc.	Long term loans	Medium term loans	Home loans	Short term loans	Short term loans
20	Medium and long term loans are generally known as _____.	Term loans	Jewel loans	Home loans	Consumer loans	Term loans
21	In case of medium term loan, the period ranges from _____.	10 months to less than 2 years	15 months to less than 5 years	18 months to less than 3 years	8 months to less than 1 year	15 months to less than 5 years
22	_____ are generally granted for heavy repairs, expansion of existing units, renovation etc.	Long term loans	Home loans	Short term loans	Medium term loans	Medium term loans
23	_____ are those loans which are not covered by the security of tangible assets.	Unsecured loans	Secured loans	Jewel loans	Home loans	Unsecured loans
24	_____ are those loans which are granted against the security of tangible assets.	Unsecured loans	Secured loans	Home loans	Jewel loans	Secured loans
25	A loan offered to students which is used to pay off education related expenses, such as college tuition fees, text books, room at the university is called _____.	Home loans	Consumer loans	Educational loans	Term loans	Educational loans
26	_____ loans are granted for the purchase of two wheelers and four wheelers by individuals.	Vehicle loans	Personal loans	Home loans	Term loans	Vehicle loans
27	A loan issued by an insurance company that uses the cash value of a persons life insurance policy as known as _____ collateral is	Personal loans	Home loans	Term loans	Policy loan	Policy loan
28	The individual takes the loan by a mortgaging the house property is known as _____.	Loan against property	Policy loan	Consumer loans	Stock loans	
29	_____ are short term, high interest loans designed to bridge the gap from one pay check to the next.	Policy loan	Consumer loans	Stock loans	Pay day loans	Pay day loans
30	Banks often lend against their term deposits such as fixed deposits, cumulative deposits, recurring deposits etc is	Loan against term deposits	Loan against property	Consumer loans	Stock loans	Loan against term deposits
	known as _____.					
31	Regular repayment , honesty and character of the borrower ensures of the banks	Safety	Credibility	Reputation	Fame	Safety
32	Banks maintain by extending mostly short term loans	Profitability	Creditability	Current ratio	Liquidity	Liquidity
33	Banks grant advances and low cost deposits to maintain profitability	High yielding	Low yielding	Costly	Business	High yielding
34	Banks extend loans to small traders, businesses, industries only for the .....purpose	Profit	Productive	Speculative	short term	Productive

35	The risks in bank lending is mitigated by	Loans to big business people	Loans to big industries	Loan to traders	Loans to different types of sectors	Loans to different types of sectors
36	Bank credit is an important tool for achieving national policies and objectives, such policies are framed by	Government of India	SBI	State Government	Individual banks	Government of India
37	The difference between the market value of the security and the amount of loan granted against it is known as.....	Variance	Margin	Gap	Buffer	Margin
38	A .....loan is a loan issued and supported only by the borrower"s creditworthiness rather than collateral	Unsecured	Secured	Consumer	Credit	Unsecured
39	Example of unsecured loan is	Loan against deposits	Property loans	Credit card	Debit card	Credit card
40	Advances are classified as .....based on period of repayment	Short, medium and long term	Short term	Medium term	Long term	Short, medium and long term
41	Cash credit, demand and bill finance are .....loans	Non fund based loans	Fund based loans	Demand loans	Bill loans	Fund based loans
42	In this type of loans, bank funds are not lent to the customers immediately	Fund based advances	Demand loans	Non fund based loans	Bridge loans	Non fund based loans
43	.....is the main method fo lending by banks in India	Collateral	Secured	Unsecured	Cash Credit	Cash Credit
44	Cash credit loans are granted based on two types	Hypothecation and pledge	Secured and unsecured	Interest and non interest	Clean and secured	Hypothecation and pledge
45	A facility is allowed by bank to draw more than a credit balance in the account is called	Overcredit	Overdebit	Excess debit	Overdraft	Overdraft
46	In order to ease out the pressure on cash flow and facilitate smooth business, banks give loans	Credit facility	Ease loans	Bill finance	Export loans	Bill finance
47	When documents to title to goods are not enclosed with the bill, such a bill is called as	Clean bill	Fault bill	Bad bill	Improper bill	Clean bill
48	When the bill of exchange is payable on demand , such bills are called as	Usance bills	Demand bill	Sudden bills	Current bills	Demand bill
49	The funds required by a Company to carry on with daily operations is	Term loans	Working capital	Fixed capital	Daily loans	Working capital
50	The longer working capital cycle, the funds requirement of the firm will be	Less	More	Adequate	Not required	More
51	..... assets are converted into cash within a period of one year	Fixed assets	Current assets	Pledge assets	Secured assets	Current assets

52	The loans are granted by banks to acquire land and building, Machinery	Term loans	Demand loans	Land loan	Composite loans	Term loans
53	..... Loans are granted to indsutries to meet urgent requirements , when formalities for availing loans are being fulfilled	Standby loans	Bridge loans	Urgent credit	Gap credit	Bridge loans
54	When a loan is given both for buying capital assets and for working capital, it is called as	Composite loans	Dual loans	Multiple loans	Special loans	Composite loans
55	Bank guarantees are .....types of facilities	Non fund based loans	Fund based loans	Commission	Long term	Non fund based loans
56	A is issued by a bank at the request of importer in favour of exporter	Letter of credit	Export credit	Bilateral credit	Super credit	Letter of credit
57	Advances given against gold jewellery is called as	Gold loans	Metal loans	Secured loans	Unsecured loans	Gold loans
58	Credit needs of the borrowers met by two or more banks jointly is known as	Joint loans	Consortium loans	Convenience loans	Consolidated loans	Consortium loans
59	Loans to meet the marriages, medical expenses and social ceremonies are called as	Family laons	Consumption loans	Demand loans	Term loans	Consumption loans
60	The following document is required to grant loans against commodities	Warehouse receipt	Bill	Invoice	Land and building	Warehouse receipt

Unit IV

Syllabus

Internet Banking : Meaning - Benefits, - Home Banking - Mobile Banking - Virtual banking - E-payments - ATM Card/Biometric Card - Debit/Credit Card, Smart Card – NEFT – RTGS – ECS
Innand benefitsinternet banking : Meaning (credit/debit), E-money - Electronic Purse - Digital Cash.

Internet banking: meaning and benefits:

E-BANKING

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. The online banking system will typically connect to or be part of the core banking system operated by a bank and is in contrast to branch banking which was the traditional way customers accessed banking services. Fundamentally and in mechanism, online banking, internet banking and e-banking are the same thing.

To access a financial institution's online banking facility, a customer with internet access would need to register with the institution for the service, and set up a password and other credentials for customer verification. The credentials for online banking is normally not the same as for telephone or mobile banking. Financial institutions now routinely allocate customers numbers, whether or not customers have indicated an intention to access their online banking facility. Customers' numbers are normally not the same as account numbers, because a number of customer accounts can be linked to the one customer number. The customer number can be linked to any account that the customer controls, such as cheque, savings, loan, credit card and other accounts.

The customer visits the financial institution's secure website, and enters the online banking facility using the customer number and credentials previously set up.

The types of financial transactions which a customer may transact through online banking usually includes obtaining account balances, lists of the latest transactions, electronic bill payments and funds transfers between a customer's or another's accounts. Most banks also enable a customer to download copies of bank statements, which can be printed at the customer's premises (some banks charge a fee for mailing hardcopies of bank statements). Some banks also enable customers to download transactions directly into the customer's accounting software. The facility may also enable the customer to order cheque-books, statements, report loss of credit cards, stop payment on a cheque, advise change of address and other routine actions.

Features of E-Banking

Online banking facilities typically have many features and capabilities in common, but also have some that are application specific.

The common features fall broadly into several categories:

A bank customer can perform non-transactional tasks through online banking, including –

- o Viewing account balances
 - o Viewing recent transactions
 - o Downloading bank statements, for example in PDF format
 - o Viewing images of paid cheques
 - o Ordering cheque books
 - o Download periodic account statements
 - o Downloading applications for M-banking, E-banking etc.
- Bank customers can transact banking tasks through online banking, including
 - o Funds transfers between the customer's linked accounts
 - o Paying third parties, including bill payments (see, e.g., BPAY) and third party fund transfers (see, e.g., FAST)

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- Investment purchase or sale
- Loan applications and transactions, such as repayments of enrollments
- Credit card applications
- Register utility billers and make bill payments
- Financial institution administration
- Management of multiple users having varying levels of authority
- Transaction approval process

Some financial institutions offer special internet banking services, for example:

- Personal financial management support, such as importing data into personal accounting software. Some online banking platforms support account aggregation to allow the customers to monitor all of their accounts in one place whether they are with their main bank or with other institutions.

Advantages of E-Banking

There are some advantages on using e-banking both for banks and customers:

- Permanent access to the bank
- Lower transaction costs / general cost reductions
- Access anywhere

Security aspects of E-Banking

Security of a customer's financial information is very important, without which online banking could not operate. Similarly the reputational risks to the banks themselves are important.^[5] Financial institutions have set up various security processes to reduce the risk of unauthorized online access to a customer's records, but there is no consistency to the various approaches adopted. The use of a secure website has been almost universally embraced. Though single password authentication is still in use, it by itself is not considered secure enough for online banking in some countries. Basically there are two different security methods in use for online banking:

- The PIN/TAN system where the PIN represents a password, used for the login and TANs representing one-time passwords to authenticate transactions. TANs

can be distributed in different ways, the most popular one is to send a list of TANs to the online banking user by postal letter. Another way of using TANs is to generate them by need using a security token. These token generated TANs depend on the time and a unique secret, stored in the security token (two-factor authentication or 2FA).

- More advanced TAN generators (chip TAN) also include the transaction data into the TAN generation process after displaying it on their own screen to allow the user to discover man-in-the-middle attacks carried out by Trojans trying to secretly manipulate the transaction data in the background of the PC.
- Another way to provide TANs to an online banking user is to send the TAN of the current bank transaction to the user's (GSM) mobile phone via SMS. The SMS text usually quotes the transaction amount and details, the TAN is only valid for a short period of time. Especially in Germany, Austria and the Netherlands many banks have adopted this "SMS TAN" service.
- Usually online banking with PIN/TAN is done via a web browser using SSL secured connections, so that there is no additional encryption needed.
- Signature based online banking where all transactions are signed and encrypted digitally. The Keys for the signature generation and encryption can be stored on smartcards or any memory medium, depending on the concrete implementation (see, e.g., the Spanish ID card *DNI electrónico*).

Home banking

Home banking is the practice of conducting banking transactions from home rather than at branch locations. Home banking generally refers to either banking over the telephone or on the internet (i.e. online banking). The first experiments with internet banking started in the early 1980s, but it did not become popular until the mid-1990s when home internet access was widespread. Today, a variety of internet banks exist which maintain few, if any, physical branches.

Breaking down Home Banking'

The increasing popularity of home banking has fundamentally changed the character of the banking industry. Many people are able to arrange their affairs so that they seldom have need of a physical branch. Online-only banks have profited from this shift in the industry. The absence of brick and mortar locations allows many online banks to offer favorable interest rates, lower service charges, and many other incentives for those willing to bank online.

Home Banking Versus Online Banking

Online banking has become nearly synonymous with home banking as most prefer to bank via the internet instead of over the telephone. Online banks (or banks with online options) allow access for the majority of daily, traditional transactions, including deposits, checking account services, and some basic financial products like savings accounts. Online banking is generally available for both individuals and small businesses.

Mobile banking

Mobile banking is a service provided by a bank or other financial institution that allows its customers to conduct financial transactions remotely using a mobile device such as a smartphone or tablet. Unlike the related internet banking it uses software, usually called an app, provided by the financial institution for the purpose. Mobile banking is usually available on a 24-hour basis. Some financial institutions have restrictions on which accounts may be accessed through mobile banking, as well as a limit on the amount that can be transacted.

Transactions through mobile banking may include obtaining account balances and lists of latest transactions, electronic bill payments, and funds transfers between a customer's or another's accounts. Some apps also enable copies of statements to be downloaded and sometimes printed at the customer's premises; and some banks charge a fee for mailing hardcopies of bank statements.

From the bank's point of view, mobile banking reduces the cost of handling transactions by reducing the need for customers to visit a bank branch for non-cash withdrawal and deposit transactions. Mobile banking does not handle transactions involving cash, and a customer needs to visit an ATM or bank branch for cash withdrawals or deposits. Many apps now have a remote deposit option; using the device's camera to digitally transmit cheques to their financial institution.

Mobile banking differs from mobile payments, which involves the use of a mobile device to pay for goods or services either at the point of sale or remotely, analogously to the use of a debit or credit card to effect an EFTPOS payment.

IMPS Immediate Payment service

Immediate Payment Service (IMPS) is an instant inter-bank electronic fund transfer service available 24x7, throughout the year including Sundays and any bank holiday. The beneficiary account is credited immediately when a Fund Transfer request is made through Mobile phone / Internet Banking. Customers can transfer and receive funds via IMPS using their registered Mobile number and Mobile Money Identifier (MMID) or using their Account number and IFSC code.

Benefits of IMPS

- Instant credit to the beneficiary
- Available 24x7, throughout the year including Sundays and bank holidays
- Send and receive funds with just the mobile number and MMID

Virtual Banking

A bank that offers services predominately or exclusively over the Internet. A virtual bank offers normal banking services, including access to one's checking and savings accounts and personal and business loans. Even non-virtual banks almost always offer virtual banking services. A virtual bank offers of some or all the same types of accounts and services that traditional bricks-and-mortar banks do, but virtual banks exist only online. They typically charge lower fees and pay higher interest because of low overhead. Virtual bank transactions can be checked in real time, as they happen, rather than at the end of the banking day or the end of the month -- though those services may also be available through the online branches of traditional banks. Virtual banks don't have branches or own ATM machines, so you make deposits electronically or by mail. Your virtual bank may reimburse your ATM fees for using other banks' machines. However, there may be a limit to the number of transactions a virtual bank will cover each month.

E payments (electronic Payments)

A payment system is any system used to settle financial transactions through the transfer of monetary value, and includes the institutions, instruments, people, rules, procedures, standards, and technologies that make such an exchange possible. A common type of payment system is the operational network that links bank accounts and provides for monetary exchange using bank deposits.

What makes a payment system a system is the use of cash-substitutes; traditional payment systems are negotiable instruments such as drafts (e.g., checks) and documentary credits such as letters of credit. With the advent of computers and electronic communications a large number of alternative electronic payment systems have emerged. These include debit cards, credit cards, electronic funds transfers, direct credits, direct debits, internet banking and e-commerce payment systems. Some payment systems include credit mechanisms, but that is essentially a different aspect of payment. Payment systems are used in lieu of tendering cash in domestic and international transactions and consist of a major service provided by banks and other financial institutions.

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Payment systems may be physical or electronic and each has its own procedures and protocols. Standardization has allowed some of these systems and networks to grow to a global scale, but there are still many country- and product-specific systems. Examples of payment systems that have become globally available are credit card and automated teller machine networks. Specific forms of payment systems are also used to settle financial transactions for products in the equity markets, bond markets, currency markets, futures markets, derivatives markets, options markets and to transfer funds between financial institutions both domestically using clearing and real-time gross settlement (RTGS) systems and internationally using the SWIFT network. The term electronic payment can refer narrowly to e-commerce—a payment for buying and selling goods or services offered through the Internet, or broadly to any type of electronic funds transfer.

Requirements for E-payments

1. Security

Since payments involve actual money, payment systems will be a prime target for criminals. Since Internet services are provided today on networks that are relatively open, the infrastructure supporting electronic commerce must be usable and resistant to attack in an environment where eavesdropping and modification of messages is easy.

2. Reliability

As more commerce is conducted over the Internet, the smooth running of the economy will come to depend on the availability of the payment infrastructure, making it a target of attack for vandals. Whether the result of an attack by vandals or simply poor design, an interruption in the availability of the infrastructure would be catastrophic. For this reason, the infrastructure must be highly available and should avoid presenting a single point of failure.

3. Scalability

As commercial use of the Internet grows, the demands placed on payment servers will grow too. The payment infrastructure as a whole must be able to handle the addition of users and merchants without suffering a noticeable loss of performance. The existence of central servers

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through which all transactions must be processed will limit the scale of the system. The payment infrastructure must support multiple servers, distributed across the network.

4. Anonymity

For some transactions, the identity of the parties to the transaction should be protected; it should not be possible to monitor an individual's spending patterns, nor determine one's source of income. An individual is traceable in traditional payment systems such as checks and credit cards. Where anonymity is important, the cost of tracking a transaction should outweigh the value of the information that can be obtained by doing so.

5. Acceptability

The usefulness of a payment mechanisms is dependent upon what one can buy with it. Thus, a payment instrument must be accepted widely. Where payment mechanisms are supported by multiple servers, users of one server must be able to transact business with users of other servers.

6. Customer base

The acceptability of a payment mechanism is affected by the size of the customer base, i.e. the number of users able to make payments using the mechanism. Merchants want to sell products, and without a large enough base of customers using a payment mechanism, it is often not worth the extra effort for a merchant to accept the mechanism.

7. Flexibility

Alternative forms of payment are needed, depending on the guarantees needed by the parties to a transaction, the timing of the payment itself, requirements for auditability, performance requirements, and the amount of the payment. The payment infrastructure should support several payment methods including instruments analogous to credit cards, personal checks, cashier's checks, and even anonymous electronic cash. These instruments should be integrated into a common framework.

8. Convertibility

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Users of the Internet will select financial instruments that best suit their needs for a given transaction. It is likely that several forms of payment will emerge, providing different tradeoffs with respect to the characteristics just described. In such an environment it is important that funds represented by one mechanism be easily convertible into funds represented by others.

9. Efficiency

Royalties for access to information may generate frequent payments for small amounts. Applications must be able to make these "micropayments" without noticeable performance degradation. The cost per transaction of using the infrastructure must be small enough that it is insignificant even for transaction amounts on the order of pennies.

10. Ease of integration

Applications must be modified to use the payment infrastructure in order to make a payment service available to users. Ideally, a common API should be used so that the integration is not specific to one kind of payment instrument. Support for payment should be integrated into request-response protocols on which applications are built so that a basic level of service is available to higher level applications without significant modification.

11. Ease of use

Users should not be constantly interrupted to provide payment information and most payments should occur automatically. However, users should be able to limit their losses. Payments beyond a certain threshold should require approval. Users should be able to monitor their spending without going out of their way to do so.

Types of E-payments

The following types of electronic payments are most common today. That said, it is important to realize that new payment types are continual being discovered and there are additional methods that exist or are being developed continuously.

Cards

Credit cards, debit cards and prepaid cards currently represent the most common form of electronic payments. For all 3 types of cards the consumer or the business most often uses a plastic card, commonly with a magnetic stripe. The cardholder gives his or her card or card number to a merchant who swipes the card through a terminal or enters the data to a PC. The terminal transmits data to his or her bank, the acquirer. The acquirer transmits the data through a card association to the card issuer who makes a decision on the transaction and relays it back to the merchant, who gives goods or services to the cardholder. Funds flow later for settlement with credit cards and are debited immediately for debit or pre-paid cards.

Along with magnetic stripe cards, smart cards are and will increasingly be used for payments. Smart cards are at present overwhelmingly plastic credit cards with an embedded computer chip. Until recently, many smart cards operated using proprietary rather than common standards. A standard set of specifications, EMV, has been developed and is being used increasingly so that the chips on smart cards are interoperable. Korea and Japan are among the most advanced countries in Asia for smart card payments, with Malaysia catching up fast due to government mandates for banks to issue smart cards. Most credit and debit cards are expected to be issued or reissued as smart cards by 2008 or earlier.

Over time, the chip for payment can be expected to move onto other devices. A smart card might then become the computer chip in a phone, PDA or other device that can perform the same function as chip in a plastic card, eliminating the need for the actual plastic card. Smart cards could thus evolve into smart phones, smart PDAs or other smart devices.

Internet

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Online payments involve the customer transferring money or making a purchase online via the internet. Consumers and businesses can transfer money to third parties from the bank or other account, and they can also use credit, debit and prepaid cards to make purchases online.

Current estimates are that over 80% of payments for online purchases are made using a credit card or debit card. At present, most online transactions involve payment with a credit card. While other forms of payment such as direct debits to accounts or pre-paid accounts and cards are increasing, they currently represent a less developed transaction methodology.

Mobile Payments

Mobile phones are currently used for a limited number of electronic transactions. However, the percentage seems likely to increase as mobile phone manufacturers enable the chip and software in the phone for easier electronic commerce.

Consumers can use their mobile phone to pay for transactions in several ways. Consumers may send an SMS message, transmit a PIN number, use WAP to make online payments, or perform other segments of their transaction with the phone. As phones develop further, consumers are likely to be able to use infrared, Bluetooth and other means more frequently to transmit full account data in order to make payments securely and easily from their phone.

Additionally, merchants can obtain an authorization for a credit or debit card transaction by attaching a device to their mobile phone. A consortium in the US also recently announced Power Swipe, for example, which physically connects to a Nextel phone, weighs 3.1 ounces, and incorporates a magnetic stripe reader, infrared printing port, and pass-through connector for charging the handset battery.

Financial Service Kiosks

Companies and service providers in several countries, including Singapore and the US, have set up kiosks to enable financial and non-financial transactions. These kiosks are fixed stations with phone connections where the customer usually uses a keyboard and television-like screen to

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transaction or to access information. At AXS stations in Singapore, for example, consumers can make electronic bill payments, send email or SMS message and make phone calls. Kiosks in the United States enable the customer to send money via wire transfers, cash checks, make purchases using cash, and make phone calls.

Located at convenient public locations such as bus or subway stations, convenience stores or shopping malls, these kiosks enable electronic payments by individuals who may not have regular access to the internet or mobile phones.

Television Set-Top Boxes and Satellite Receiver

Specialized boxes attached to a television can also be used for payments in some locations. The set-top box attaches to the television and a keyboard or other device, and customers can make purchases by viewing items on the television. Payment is made electronically using a credit card or other account. While usage is presently low, it could grow substantially in countries with a strong cable or satellite television network.

Biometric Payments

Electronic payments using biometrics are still largely in their infancy. Trials are underway in the United States, Australia and a limited number of other countries. Most biometric payments involve using fingerprints as the identification and access tool, though companies like Visa International are piloting voice recognition technology and retina scans are also under consideration. Essentially, a biometric identifier such as a fingerprint or voice could replace the plastic card and more securely identifies the person undertaking the transaction. The electronic payment is still charged to a credit card or other account, with the biometric identifier replacing the card, check or other transaction mechanism.

Electronic Payments Networks

Various countries have electronic payments networks that consumer can use to make payments electronically. ACH (Automated Clearing House) in the US, domestic EFTPOS networks in Australia and Singapore, and other networks enable electronic payments between businesses and

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between individuals. The consumer can go online, to a financial service kiosk or use other front-end devices to access their account and make payments to businesses or other individuals.

Person-to-Person (P2P) Payments

P2P payments enable one individual to pay another using an account, a prepaid card or another mechanism that stores value. PayPal in the US, which was recently purchased by Ebay, is one of the most frequently used P2P mechanisms. The Tower Group estimates that the volume of P2P payments will grow from 105 million transactions in 2002 to 1.4 billion transactions by 2005. P2P payments can be made through a variety of means, including services like PayPal, transfers using card readers, or other. In the future other devices, such as mobile phones or PDAs, could also be used to enable P2P electronic payments.

Automated Teller Machine (ATM):

:

ATM is designed to perform the most important function of bank. It is operated by plastic card with its special features. The plastic card is replacing cheque, personal attendance of the customer, banking hours restrictions and paper based verification. There are debit cards. ATMs used as spring board for Electronic Fund Transfer. ATM itself can provide information about customers account and also receive instructions from customers - ATM cardholders. An ATM is an Electronic Fund Transfer terminal capable of handling cash deposits, transfer between accounts, balance enquiries, cash withdrawals and pay bills. It may be on-line or Off-line. The on-line ATN enables the customer to avail banking facilities from anywhere. In off-line the facilities are confined to that particular ATM assigned. Any customer possessing ATM card issued by the Shared Payment Network System can go to any ATM linked to Shared Payment Networks and perform his transactions.

Cards/Debit Cards:

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The Credit Card holder is empowered to spend wherever and whenever he wants with his Credit Card within the limits fixed by his bank. Credit Card is a post paid card.

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Debit Card, on the other hand, is a prepaid card with some stored value. Every time a person uses this card, the Internet Banking house gets money transferred to its account from the bank of the buyer. The buyers account is debited with the exact amount of purchases. An individual has to open an account with the issuing bank which gives debit card with a Personal Identification Number (PIN). When he makes a purchase, he enters his PIN on shops PIN pad. When the card is slurped through the electronic terminal, it dials the acquiring bank system - either Master Card or VISA that validates the PIN and finds out from the issuing bank whether to accept or decline the transactions. The customer can never overspend because the system rejects any transaction which exceeds the balance in his account. The bank never faces a default because the amount spent is debited immediately from the customers account. . **Smart Card:** : Banks are adding chips to their current magnetic stripe cards to enhance security and offer new service, called Smart Cards. Smart Cards allow thousands of times of information storable on magnetic stripe cards. In addition, these cards are highly secure, more reliable and perform multiple functions. They hold a large amount of personal information, from medical and health history to personal banking and personal preferences.

Tele Banking:

Undertaking a host of banking related services including financial transactions from the convenience of customers chosen place anywhere across the GLOBE and any time of date and night has now been made possible by introducing on-line Telebanking services. By dialing the given Telebanking number through a landline or a mobile from anywhere, the customer can access his account and by following the user-friendly menu, entire banking can be done through Interactive Voice Response (IVR) system. With sufficient numbers of hunting lines made available, customer call will hardly fail. The system is bi-lingual and has following facilities offered

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- Automatic balance voice out for the default account.
- Balance inquiry and transaction inquiry
- All Inquiry of all term deposit account
- Statement of account by Fax, e-mail or ordinary mail.
- Cheque book request
- Stop payment which is on-line and instantaneous
- Transfer of funds with CBS which is automatic and instantaneous
- Utility Bill Payments
- Renewal of term deposit which is automatic and instantaneous Voice out of last five transactions.

E-Cheque:

An e-Cheque is the electronic version or representation of paper cheque. The Information and Legal Framework on the E-Cheque is the same as that of the paper cheque's. It can now be used in place of paper cheques to do any and all remote transactions.

An E-cheque work the same way a cheque does, the cheque writer "writes" the e-Cheque using one of many types of electronic devices and "gives" the e-Cheque to the payee electronically. The payee "deposits" the Electronic Cheque receives credit, and the payee's bank "clears" the e-Cheque to the paying bank. The paying bank validates the e-Cheque and then "charges" the check writer's account for the check.

Electronic Clearing Service (ECS)

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ECS is an electronic mode of payment / receipt for transactions that are repetitive and periodic in nature. ECS is used by institutions for making bulk payment of amounts towards distribution of dividend, interest, salary, pension, etc., or for bulk collection of amounts towards telephone / electricity / water dues, cess / tax collections, loan instalment repayments, periodic investments in mutual funds, insurance premium etc. Essentially, ECS facilitates bulk transfer of monies from one bank account to many bank accounts or vice versa. ECS includes transactions processed under National Automated Clearing House (NACH) operated by National Payments Corporation of India (NPCI). Primarily, there are two variants of ECS - ECS Credit and ECS Debit.

ECS Credit is used by an institution for affording credit to a large number of beneficiaries (for instance, employees, investors etc.) having accounts with bank branches at various locations within the jurisdiction of a ECS Centre by raising a single debit to the bank account of the user institution. ECS Credit enables payment of amounts towards distribution of dividend, interest, salary, pension, etc., of the user institution.

ECS Debit is used by an institution for raising debits to a large number of accounts (for instance, consumers of utility services, borrowers, investors in mutual funds etc.) maintained with bank branches at various locations within the jurisdiction of a ECS Centre for single credit to the bank account of the user institution. ECS Debit is useful for payment of telephone / electricity / water bills, cess / tax collections, loan installment repayments, periodic investments in mutual funds, insurance premium etc., that are periodic or repetitive in nature and payable to the user institution by large number of customers etc.

Based on the geographical location of branches covered, there are three broad categories of ECS Schemes – Local ECS, Regional ECS and National ECS. These schemes are either operated by RBI or by the designated commercial banks. NACH is also one of the form of ECS system operated by NPCI and further details about NACH is available at NPCI web site under the link http://www.npci.org.in/clearing_faq.aspx.

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Local ECS – this is operating at 81 centres / locations across the country. At each of these ECS centres, the branch coverage is restricted to the geographical coverage of the clearing house, generally covering one city and/or satellite towns and suburbs adjoining the city.

Regional ECS – this is operating at 9 centres / locations at various parts of the country. RECS facilitates the coverage all core-banking-enabled branches in a State or group of States and can be used by institutions desirous of reaching beneficiaries within the State / group of States. The system takes advantage of the core banking system in banks. Accordingly, even though the inter-bank settlement takes place centrally at one location in the State, the actual customers under the Scheme may have their accounts at various bank branches across the length and breadth of the State / group of States.

National ECS – this is the centralized version of ECS Credit which was launched in October 2008. The Scheme is operated at Mumbai and facilitates the coverage of all core-banking enabled branches located anywhere in the country. This system too takes advantage of the core banking system in banks. Accordingly, even though the inter-bank settlement takes place centrally at one location at Mumbai, the actual customers under the Scheme may have their accounts at various bank branches across the length and breadth of the country. Banks are free to add any of their core-banking-enabled branches in NECS irrespective of their location. Details of NECS Scheme are available on the website of Reserve Bank of India. The list of centres where the ECS facility is available has been placed on the website of Reserve Bank of India. Similarly, the centre-wise list of bank branches participating at each location is available on the website of Reserve Bank of India.

ECS (CREDIT) ECS Credit payments can be initiated by any institution (called ECS Credit User) which needs to make bulk or repetitive payments to a number of beneficiaries. The institutional User has to first register with an ECS Centre. The User has to also obtain the consent of beneficiaries (i.e., the recipients of salary, pension, dividend, interest etc.) and get their bank account particulars prior to participation in the ECS Credit scheme. ECS Credit payments can be put through by the ECS User only.

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through his / her bank (known as the Sponsor bank). ECS Credits are afforded to the beneficiary account holders (known as destination account holders) through the beneficiary account holders' bank (known as the destination bank). The beneficiary account holders are required to give mandates to the user institutions to enable them to afford credit to their bank accounts through the ECS Credit mechanism. The User intending to effect payments through ECS Credit has to submit details of the beneficiaries (like name, bank / branch / account number of the beneficiary, MICR code of the destination bank branch, etc.), date on which credit is to be afforded to the beneficiaries, etc., in a specified format (called the input file) through its sponsor bank to one of the ECS Centres where it is registered as a User. The bank managing the ECS Centre then debits the account of the sponsor bank on the scheduled settlement day and credits the accounts of the destination banks, for onward credit to the accounts of the ultimate beneficiaries with the destination bank branches. Further details about the ECS Credit scheme are contained in the Procedural Guidelines and available on the website of Reserve Bank of India.

ECS (DEBIT)

ECS Debit transaction can be initiated by any institution (called ECS Debit User) which has to receive / collect amounts towards telephone / electricity / water dues, cess / tax collections, loan installment repayments, periodic investments in mutual funds, insurance premium etc. It is a Scheme under which an account holder with a bank branch can authorise an ECS User to recover an amount at a prescribed frequency by raising a debit to his / her bank account.

The User institution has to first register with an ECS Centre. The User institution has to also obtain the authorization (mandate) from its customers for debiting their account along with their bank account particulars prior to participation in the ECS Debit scheme. The mandate has to be duly verified by the beneficiary's bank. A copy of the mandate should be available on record with the destination bank where the customer has a bank account. The ECS Debit User intending to collect receivables through ECS

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Debit has to submit details of the customers (like name, bank / branch / account number of the customer, MICR code of the destination bank branch, etc.), date on which the customer's account is to be debited, etc., in a specified format (called the input file) through its sponsor bank to the ECS Centre.

The bank managing the ECS Centre then passes on the debits to the destination banks for onward debit to the customer's account with the destination bank branch and credits the sponsor bank's account for onward credit to the User institution. Destination bank branches will treat the electronic instructions received from the ECS Centre on par with the physical cheques and accordingly debit the customer accounts maintained with them. All the unsuccessful debits are returned to the sponsor bank through the ECS Centre (for onward return to the User Institution) within the specified time frame. For further details about the ECS Debit scheme, the ECS Debit Procedural Guidelines – available on the website of Reserve Bank of India

The advantages of ECS Debit to customers are many and include,

ECS Debit mandates will take care of automatic debit to customer accounts on the due dates without customers having to visit bank branches / collection centres of utility service providers etc.

Customers need not keep track of due date for payments.

The debits to customer accounts would be monitored by the ECS Users, and the customers alerted accordingly.

Cost effective.

Core Banking (Centralised Online Real time Electronic Banking)

Core banking is a banking service provided by a group of networked bank branches where customers may access their bank account and perform basic transactions from any of the member branch offices. Core banking is often associated with retail banking and many banks treat the retail customers as their core banking customers. Businesses are usually managed via the Corporate banking division of the institution. Core banking covers basic depositing and lending of money. Normal Core Banking functions will include

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transaction accounts, loans, mortgages and payments. Banks make these services available across multiple channels like ATMs, Internet banking, mobile banking and branches. The core banking services rely heavily on computer and network technology to allow a bank to centralise its record keeping and allow access from any location. It has been the development of banking software that has allowed core banking solutions to be developed.

Electronic Fund Transfer (EFT)

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. EFTs include direct-debit transactions, wire transfers, direct deposits, ATM withdrawals and online bill pay services. Transactions are processed through the Automated Clearing House (ACH) network, the secure transfer system of the Federal Reserve that connects all U.S. banks, credit unions and other financial institutions.

For example, when you use your debit card to make a purchase at a store or online, the transaction is processed using an EFT system. The transaction is very similar to an ATM withdrawal, with near-instantaneous payment to the merchant and deduction from your checking account. Direct deposit is another form of an electronic funds transfer. In this case, funds from your employer's bank account are transferred electronically to your bank account, with no need for paper-based payment systems.

The increased use of EFTs for online bill payments, purchases and pay processes is leading to a paper-free banking system, where a large number of invoices and payments take place over digital networks. EFT systems play a large role in this future, with fast, secure transactions guaranteeing a seamless transfer of funds within institutions or across banking networks. EFT transactions, also known as an online transaction or PIN-debit transaction, also offer an alternative to signature debit transactions, which take place through one of the major credit card processing systems, such as Visa, MasterCard or Discover, and can cost as much as 3% of the total purchase price. EFT processing, on the other hand, only charges an average of 1% for debit card transactions.

Real Time Gross Settlement (RTGS)

The acronym 'RTGS' stands for Real Time Gross Settlement, which can be defined as the continuous (real-time) settlement of funds transfers individually on an order by order basis (without netting). 'Real Time' means the processing of instructions at the time they are received rather than at some later time; 'Gross Settlement' means the settlement of funds transfer instructions occurs individually (on an instruction by instruction basis). Considering that the funds settlement takes place in the books of the Reserve Bank of India, the payments are final and irrevocable.

NEFT is an electronic fund transfer system that operates on a Deferred Net Settlement (DNS) basis which settles transactions in batches. In DNS, the settlement takes place with all transactions received till the particular cut-off time. These transactions are netted (payable and receivables) in NEFT whereas in RTGS the transactions are settled individually. For example, currently, NEFT operates in hourly batches. [There are twelve settlements from 8 am to 7 pm on week days and six settlements from 8 am to 1 pm on Saturdays.] Any transaction initiated after a designated settlement time would have to wait till the next designated settlement time. Contrary to this, in the RTGS transactions are processed continuously throughout the RTGS business hours. The RTGS system is primarily meant for large value transactions. The minimum amount to be remitted through RTGS is ` 2 lakh. There is no upper ceiling for RTGS transactions. Under normal circumstances the beneficiary branches are expected to receive the funds in real time as soon as funds are transferred by the remitting bank. The beneficiary bank has to credit the beneficiary's account within 30 minutes of receiving the funds transfer message.

National Electronic Fund Transfer (NEFT)

National Electronic Funds Transfer (NEFT) is a nation-wide payment system facilitating one-to-one funds transfer. Under this Scheme, individuals, firms and corporates can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country

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participating in the Scheme. For being part of the NEFT funds transfer network, a bank branch has to be NEFT-enabled. The list of bank-wise branches which are participating in NEFT is provided in the website of Reserve Bank of India.

Individuals, firms or corporates maintaining accounts with a bank branch can transfer funds using NEFT. Even such individuals who do not have a bank account (walk-in customers) can also deposit cash at the NEFT-enabled branches with instructions to transfer funds using NEFT. However, such cash remittances will be restricted to a maximum of Rs.50,000/- per transaction. Such customers have to furnish full details including complete address, telephone number, etc. NEFT, thus, facilitates originators or remitters to initiate funds transfer transactions even without having a bank account. Individuals, firms or corporates maintaining accounts with a bank branch can receive funds through the NEFT system. It is, therefore, necessary for the beneficiary to have an account with the NEFT enabled destination bank branch in the country.

The NEFT system also facilitates one-way cross-border transfer of funds from India to Nepal. This is known as the Indo-Nepal Remittance Facility Scheme. A remitter can transfer funds from any of the NEFT-enabled branches in to Nepal, irrespective of whether the beneficiary in Nepal maintains an account with a bank branch in Nepal or not. The beneficiary would receive funds in Nepalese Rupees. No. There is no limit – either minimum or maximum – on the amount of funds that could be transferred using NEFT. However, maximum amount per transaction is limited to Rs.50,000/- for cash-based remittances within India and also for remittances to Nepal under the Indo-Nepal Remittance Facility Scheme. No. There is no restriction of centres or of any geographical area within the country. The NEFT system takes advantage of the core banking system in banks. Accordingly, the settlement of funds between originating and receiving banks takes places centrally at Mumbai, whereas the branches participating in NEFT can be located anywhere across the length and breadth of the country. Presently, NEFT operates in hourly batches - there are twelve settlements from

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8 am to 7 pm on week days (Monday through Friday) and six settlements from 8 am to 1 pm on Saturdays.

Working of NEFT system

Step-1 : An individual / firm / corporate intending to originate transfer of funds through NEFT has to fill an application form providing details of the beneficiary (like name of the beneficiary, name of the bank branch where the beneficiary has an account, IFSC of the beneficiary bank branch, account type and account number) and the amount to be remitted. The application form will be available at the originating bank branch. The remitter authorizes his/her bank branch to debit his account and remit the specified amount to the beneficiary. Customers enjoying net banking facility offered by their bankers can also initiate the funds transfer request online. Some banks offer the NEFT facility even through the ATMs. Walk-in customers will, however, have to give their contact details (complete address and telephone number, etc.) to the branch. This will help the branch to refund the money to the customer in case credit could not be afforded to the beneficiary's bank account or the transaction is rejected / returned for any reason.

Step-2 : The originating bank branch prepares a message and sends the message to its pooling centre (also called the NEFT Service Centre).

Step-3 : The pooling centre forwards the message to the NEFT Clearing Centre (operated by National Clearing Cell, Reserve Bank of India, Mumbai) to be included for the next available batch.

Step-4 : The Clearing Centre sorts the funds transfer transactions destination bank-wise and prepares accounting entries to receive funds from the originating banks (debit) and give the funds to the destination banks(credit). Thereafter, bank-wise remittance messages are forwarded to the destination banks through their pooling centre (NEFT Service Centre).

Step-5 : The destination banks receive the inward remittance messages from the Clearing Centre and pass on the credit to the beneficiary customers' accounts.

IFSC

IFSC or Indian Financial System Code is an alpha-numeric code that uniquely identifies a bank-branch participating in the NEFT system. This is an 11 digit code with the first 4 alpha characters representing the bank, and the last 6 characters representing the branch. The 5th character is 0 (zero). IFSC is used by the NEFT system to identify the originating / destination banks / branches and also to route the messages appropriately to the concerned banks / branches. Bank-wise list of IFSCs is available with all the bank-branches participating in NEFT. List of bank-wise branches participating in NEFT and their IFSCs is available on the website of Reserve Bank of India . All the banks have also been advised to print the IFSC of the branch on cheques issued to their customers. Further, banks have also been advised to ensure that their branch staff provide necessary assistance to customers in filling out the required details, including IFSC details, in the NEFT application form, and also help in ensuring that there is no mismatch between the IFSC code and branch details of beneficiary branch as provided by the customer.

E-purse

Electronic money, or e-money, is the money balance recorded electronically on a stored-value card. These cards have microprocessors embedded which can be loaded with a monetary value. Another form of electronic money is network money, software that allows the transfer of value on computer networks, particularly the internet. Electronic money is a floating claim on a private bank or other financial institution that is not linked to any particular account.^[1] Examples of electronic money are bank deposits, electronic funds transfer, direct deposit, payment processors, and digital currencies.

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Possible Questions

Part A: Online Multiple Choice Questions

Part B: (5x2=10 Marks)

Answer all questions

1. What is internet banking?
2. What is virtual banking?
3. What is home banking?
4. What is IMPS?
5. What is biometric payments?
6. What is a credit card?
7. Mention the features available in telebanking.
8. What is ECS?.Mention the types of ECS.
9. What is IFSC?
10. What is debit card and POS?

Part C (5X6=30 Marks)

Answer all questions

1. Explain the features of internet banking?
2. What are the advantages of internet banking to banks and customers?
3. Explain various features in mobile banking.
4. What is e -payment? Mention the requirements of e-payment.
5. Explain various types of e payments.
6. Explain the banking facilities available in ATM
7. Explain how NEFT functions.
8. Write the differences between NEFT and RTGS. Explain them in detail.
9. What e purse? Give examples.
10. —It is better to avail services online rather than going to branches|. Do you agree with this statement? Critically comment on this statement

UNIT 4

S.No	Question	Option A	Option B	Option C	Option D	Answer
1	“Buy now and Pay later” is the motto of a _____.	ATM	Debit card	credit card	MICR	credit card
2	Credit card allow one to buy goods now and pay later called?	Buying on credit	Buying on debit	Cash credit	Cash Payment	Buying on debit
3	TPIN Stands for	Timing of the preparation of interest rate	Techniques of personal index number	Technological personal Index number	Telephone personal identification number	Telephone personal identification number
4	E- Purse is a prepaid card and is known as _____	Stored value card	Electronic Card	e-Cash	Electronic Credit Card	Stored value card
5	Card issuers, consumers, merchants and payment sever/Service producer are four parties in _____	Cheque truncation	e -purse	Debit Card	EFT	e -purse
6	_____ means the transfer of money from one bank account to another electronically.	EFT	SWIFT	NEFT	E-Purse	EFT
7	Bank all over the world are enter - linked through satellite provided by _____	PSAM	SWIFT	EFT	NEFT	SWIFT
8	EFT is also known as	Easy Fund Transfer	Maintenance Fund Transfer	Exchange Fund Transfer	Paperless Banking	Paperless Banking
9	FIRPS stands for	Foreign inward Remittance Payment Scheme	Foreign Internal Remittance Payment Scheme	Foreign Investment Remittance Payment Scheme	Foreign Investment Rural Payment System	Foreign inward Remittance Payment Scheme
10	_____ is a system that facilitates individuals, firms and corporate to electronically transfer funds from any bank branch to any individual having an account with any other bank branch in the country.	NEFT	EFT	SAA	Demand draft	NEFT

UNIT 4

11	In case of non-credit or delay in credit to the beneficiary account, the NEFT of the respective bank can be contacted to _____	ECS	KYC	CFC	IFSC	CFC
12	_____ is an alpha-numeric code that uniquely identifies a bank branch participating NEFT System.	IFS	IFSC	FSC	ISC	IFSC
13	IFSC is an _____ digit code	8	14	12	11	11
14	IFTP means _____	Inter-bank finance settlement process	Inter-bank fund transfer process	Inter-bank fund transfer programme	Inter-bank fund transfer payment	Inter-bank fund transfer process
15	In RTGS Minimum amount to be remitted is _____	Rs. 1,00,000	Rs. 2,00,000	Rs. 1,50,000	Rs. 50,000	Rs. 2,00,000
16	In India, RTGS has been implemented on _____	26 March 2004	26 March 1998	26-Mar-94	26 March 2002	26-Mar-04
17	_____ is a funds transfer mechanism where transfer of money takes place from one bank account to another bank account is real time.	NEFT	EFT	ECS	RTGS	RTGS
18	BACS means _____	Bankers Automated clearing services	Bankers Automatic clearing system	Bankers Automatic collection service	Bankers Automatic clearance scheme	Bankers Automated clearing services
19	_____ Credit is used for fund transfer to large number of beneficiaries by a single debit to an account of bank.	EFT	IFSC	ECS	Now of the above	ECS
20	ECS payment _____ code is essential	MICR	RTGS	IFSC	CTS	MICR
21	MICR is a numeric code that uniquely identifies a bank-branch participating in the _____ scheme.	IFSC Credit Scheme	EFT Credit Scheme	RTGS Credit Scheme	ECS Credit Scheme	ECS Credit Scheme
22	MICR is a _____ digit code.	9	11	7	13	9
23	Cheque Truncation system was introduced RBI in _____	February 1995	Jan-06	July 2004	February 2008	February 2008
24	_____ conversion of physical cheque into electronic form for transmission to the paying bank.	CTS	ECS	RTGS	ETS	CTS

UNIT 4

25	CORE stands for _____	Central operations of exchange	Centralized Online Real time exchange	Central Overseas Realtime Exchange	Centralized Online Real time Efficiency	Centralized Online Real time exchange
26	Banking services that increasingly rest on technology and communication systems is popularly known as _____	Hi-tech banking	Internet Banking	Mobile banking	Off shore banking	Hi-tech banking
27	_____ is also called virtual banking or anywhere banking.	Hi tech banking	Offshore banking	Internet banking	Interbanking	Internet Banking
28	_____ banking implies co-operation among group of banks for various large scale banking operations and to enjoy the economics of scale.	Multiple banking	Consortium banking	Mixed banking	Social banking	Consortium banking
29	In _____ banking, different banks provide different banking services to a single borrower without					
30	having a common arrangement or understanding between the lenders.	Mixed banking	Group banking	Multiple banking	Off-shore banking	Multiple banking
31	_____ banking refers to the establishment of banking unit which deal only with foreign currencydenominated assets & liabilities.	Unit banking	Off-shore banking	Foreign bank	Internet banking	Off-shore banking
32	The banking activities performed by foreign banks in a foreign country are known as _____	Foreign bank	Hi-tech banking	Off-shore bank	oversea Bank	Off-shore bank
33	E banking involves	High cost	Low cost	Difficicult to operate	Low access	Low cost
34	E banking has two security methods	PIN/TAN	PAN/TAN	RAM/PIN	PIN/SECURE	PIN/TAN
35	TAN in e banking represents	Customer ID	Bank code	One time pass word to authenticate transactions	Branch Code	One time pass word to authenticate transactions
36	Home Banking is a practice of banking transactions wherein	Banks do door delivery	Banks open branches at homes	Mobile banking	Banking operations done at home	Banking operations done at home

UNIT 4

37	Mobile is timing is usually	12 hours	24 hours	48 hours	Depends upon customer request	24 hours
38	IMPS refers to	Immediate Payment Service	Interbank Payment service	Intercity payment service	International Payment Service	Immediate Payment Service
39	Mobile Money Identifier (MMID) is used in Banking to transfer money	Mobile banking	Virtual Banking	Offshore banking	Consortium banking	Mobile banking
40	The following are required to transfer money through mobile banking	MMID	Bank code	mobile number	MMID and mobile number	MMID and mobile number
41	Electronic payment can be referred to as	e commerce	e marketing	e cash	e swift	e commerce
42	Electronic payment includes	Debit cards	credit cards	Prepaid cards	Credit,debit and prepaid cards	Credit,debit and prepaid cards
43	POS refers to	Point of sale	Position of sale	Pass of sale	Pin of sale	Point of sale
44	Financial Kiosks represents	Fixed stations to transact banking	Grocery shops	Market exchange	Offshore exchange	Fixed stations to transact banking
45	Biometric payments involve	Mobile banking	ATM with pin operations	Payments using fingerprints	Payments using metrics	Payments using fingerprints
46	One of the following operation cannot be done with ATM	Withdrawing cash	Account statement	Payment of bills	Closing of deposit	Closing of deposit
47	PIN refers to	Personal Identification Number	Point Identification Number	Place Identification Number	Pure Identification Number	Personal Identification Number
48	The following banking is done through Interactive Voice Response system(IVRS)	Internet Banking	Mobile banking	Virtual banking	Telebanking	Telebanking

UNIT 4

49	The electronic version of the paper cheque is called as	e cheque	Green cheque	Virtual cheque	Electro cheque	e cheque
50	ECS refers to	Eligible Clearance Service	Electronic Clearing Service	Embedded Clearance service	Electronic Credit Service	Electronic Clearing Service
51	Electronic Clearance service operations are handled by	National Payment Corporation of India	RBI	SBI	NSE	National Payment Corporation of India
52	When an institution require credit to be given to large number of beneficiaries , it uses	ECS Debit	Telebanking	ECS credit	Internet Banking	ECS credit
53	When an institution require to raise debits from a large number of accounts , it uses	ECS Debit	RBI	NPCI	SBI	ECS Debit
54	Continuous settlement (real time)of funds individually on an order by order basis is known as	ETGS	RTGS	ECS	EFT	RTGS
55	In NEFT , the maximum amount per transaction is	Rs. 50,000	Rs.2.00 lacs	Rs.1.00 lacs	Rs. 10,000	Rs. 50,000
56	IFSC code refers to	Indian Financial System Code	International Financial Sytem code	Indian Financial Security Code	Indian Future System Code	Indian Financial System Code
57	In IFSC code , the first 4 alpha characters represent	Customer	Bank	RBI	Branch	Bank
58	In IFSC code , the last 6 characters represent	Bank	Customer	Branch	RBI	Branch
59	The money value recorded electronically on a stored value card is known as	e purse	smart money	virtual money	e swift	e purse
60	E-Cheque refers to _____	Electronic version of paper cheque	paper cheque	Eligible Cheque	Error cheque	Electronic version of paper cheque

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UNIT V

SYLLABUS

Insurance: Basic Concept of Risk - Types of Business Risk - Assessment and Transfer- Basic Principles of Utmost Good Faith – Indemnity - Economic Function- Proximate Cause, Subrogation and Contribution -Types of Insurance: Life and Non-life - Re-insurance - Risk and Return Relationship - Need for Coordination – Power - Functions and Role of IRDA - Online Insurance.

Basic Concepts of risk:

The term risk refers to exposure to adverse situations. The indeterminateness of outcome is one of the criteria to define a risk situation.

“Risk is a condition in which there is a possibility of an adverse deviation from a desired outcome that is expected or hoped for “- Dictionary definition.

In most of the risky situations, two elements are commonly found , they are :

1. The outcome is uncertain i.e., there is a possibility that one or others may occur. Therefore, there is chance that atleast two possible outcomes may occur for a given situation.
2. Out of possible outcomes, one is unfavourable or not liked by the individual or analyst.

Risk vs Uncertainty

Uncertainty refers to state of mind characterized by doubt, on the lack of knowledge about what will or what will not happen in the future. Decision under uncertain situations is very difficult for the decision maker. It will depend upon the skill, the judgment and luck.

Loss and chance of loss:

A risk is a situation where there is possibility of a loss. Loss in accounting sense means that portion of the expired cost for which no compensating value has been received. The chance of loss in insurance sense is the probability of loss.

Types of risks:

1. Financial and non financial risks
2. Individual and group risks
3. Pure and speculative risks
4. Static and dynamic risks
5. Quantifiable and non quantifiable risks

1. Financial and non financial risk

Financial risks involve the simultaneous existence of three elements in a risky situation.

- a. Someone is adversely affected by the happening of an event
- b. The assets or income is likely to be exposed to a financial loss from the occurrence of the event
- c. The peril can cause loss.

When the possibility of financial loss do not exist, it is called as Non financial loss.

2. Individual and group risks.

Group or fundamental risk refers to situation when it affects the economy. They affect most of the social segments or entire population. Eg., earthquakes, floods, wars, unemployment. Individual risks are related to individuals or small groups. Eg., Robbery, theft, fire etc.,

3. Pure and speculative risks

Pure risk is a situation where there is possibility of loss or no loss. If the loss due to accident occurs, there is gain.

Speculative risks are those where there is possibility of gain as well as loss. Eg., Investment in stocks.

Pure risk	Speculative risk
Insurable	Non insurable
Risk pooling concept applied	Risk pooling not applied
Some uninsured catastrophies are highly damaging	Carry inherent advantage to economy

4. Static and dynamic risks

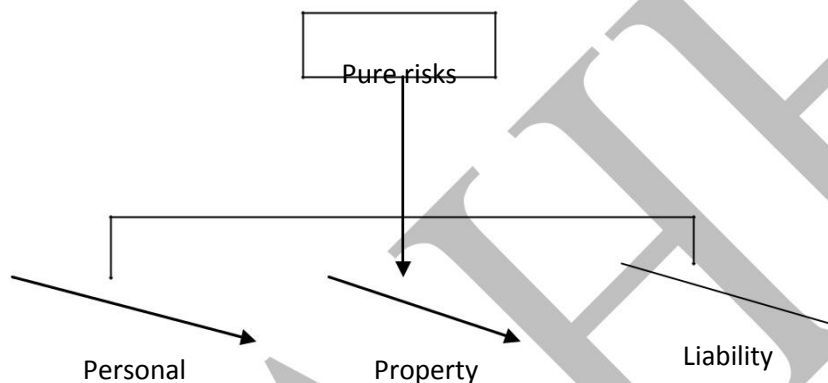
Dynamic risks are risks resulting in change in economy or environment. E.g., inflation, income and output levels, technology changes. These are very difficult to anticipate and quantify.

Static risks are more or less predictable and not affected by economic conditions .Eg., Possibility of loss in a business or unemployment after undergoing a professional qualification., loss due to act of others. These risks are suitable for insurance.

5. Quantifiable and non quantifiable risks

The risks that can be measured like financial loss is known as quantifiable risks. Non quantifiable risks involve non financial E.g., situations which may result in repercussions like tension or loss of peace.

Classification of pure risks (Insurable)



- Personal risks affect directly the individuals' capability to earn income .Eg., premature death, old age, sickness or disability, unemployment
- Property risks relate to damage or loss of property of persons Eg., land and building, flood, earthquake or fire, movable like appliances damage
- Liability risks are arising out of intentional or unintentional injury to the persons or damages to their properties through negligence or carelessness. Liability risks arise generally from law. Eg., liability of the employer under workmen compensation law

Methods of handling pure risk

1. **Avoidance** : Eg., avoiding visiting border areas at times of war, avoiding manufacturing of products of which patent is doubtful
2. **Loss control**: Loss prevention: Eg., Not to smoke in a factory Loss reduction: Deployment of fire fighting equipments, first aid boxes
3. **Retention** ; to retain full or a part of risk. Retention means an individual fully aware of risk and retaining the same.

4. **Transfer:** Transfer the risk to another individual or organization either by contractual agreements like insurance , derivatives, diversification strategies etc., or corporating ie., converting the sole proprietorship/partnership business into a Company. For example, the

proprietor or partnership are individually, severally or jointly liable and the liability is unlimited whereas the liability to shareholders is limited to their capital only.

Risk Assessment and transfer

Risk assessment is a term used to describe the overall process or method where you:

- Identify hazards and risk factors that have the potential to cause harm (hazard identification).
- Analyze and evaluate the risk associated with that hazard (risk analysis, and risk evaluation).
- Determine appropriate ways to eliminate the hazard, or control the risk when the hazard cannot be eliminated (risk control).

A **risk assessment** is the combination effort of

1. identifying and analyzing potential (future) events that may negatively impact individuals, assets, and/or the environment (i.e., risk analysis); and
2. making judgments "on the tolerability of the risk on the basis of a risk analysis" while considering influencing factors (i.e., risk evaluation).

Put in simpler terms, a risk assessment analyzes what can go wrong, how likely it is to happen, what the potential consequences are, and how tolerable the identified risk is. As part of this process, the resulting determination of risk may be expressed in a quantitative or qualitative fashion. The risk assessment plays an inherent part of an overall risk management strategy, which attempts to, after a risk assessment, "introduce control measures to eliminate or reduce" any potential risk-related consequences.

The Five Step Guide to Risk Assessment

- "What is a risk assessment?" ...
- Step 1: Identify the hazards. ...
- Step 2: Decide who might be harmed and how. ...
- Step 3: Evaluate the risks and decide on control measures. ...

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- Step 4: Record your findings. ...
- Step 5: Review your assessment and update as and when necessary.

Risk transfer

Risk transfer means that the exposed party transfers the whole or part of the losses consequential to risk exposure to another party for a cost. The insurance contracts fundamentally involve risk transfers.

- Insurance transfers : Insurance is a contractual transfer of risk. The insurance Company indemnifies the loss arising out of an occurrence predetermined and charges some cost called „ Premium”.
- Non insurance transfers: Most common transfers are
 - a. Hold harmless agreements or indemnity agreements. Eg., Landlord having agreement with tenant with tenant to bear all losses
 - b. Incorporation : Conversion of proprietorship or partnership into Company
 - c. Hedging : Derivatives contracts
 - d. Diversification : Diversification business across locations .
 - e.

Principles of Insurance

The basic principles which govern the insurance are -

- (1) **Utmost good faith**
- (2) **Insurable interest**
- (3) **Indemnity**
- (4) **Contribution**
- (5) **Subrogation**
- (6) **Causa proxima**
- (7) **Mitigation of loss**

1. **Principle of utmost good faith** : A contract of insurance is a contract of

„Uberrimae Fidei“ i.e., of utmost good faith. Both insurer and insured should display the utmost good faith towards each other in relation to the contract. In other words, each party must reveal all material information to the other party

whether such information is asked or not. There should not be any fraud, non disclosure or misrepresentation of material facts.

Example – in case of life insurance, the insured must reveal the true age and details of the existing illness/diseases. If he does not disclose the true fact while getting his life insured, the insurance company can avoid the contract.

Similarly, incase of the insurance of a building against fire, the insured must disclose the details of the goods stored, if such goods are of hazardous nature

A material fact means important facts which would influence the judgment of the insurer in fixing the premium or deciding whether he should accept the risk, on what terms. All material facts should be disclosed in true and full form

2. Principle of Insurable Interest: This principle requires that the insured must have a insurable interest in the subject matter of insurance. Insurance interest means some pecuniary interest in the subject matter of contract of insurance. Insurance interest is that interest, when the policy holders get benefited by the existence of the subject matter and loss if there is death or damage to the subject matter.

For example – **In life insurance**, a man cannot insured the life of a stranger as he has no insurable interest in him but he can get insured the life of himself and of persons in whose life he has a pecuniary interest. So in the life insurance interest exists in the following cases:-

- Husband in the life of his wife and wife in the life of her husband
- Parents in the life of a child if there is pecuniary benefit derived from the life of a Child
- Creditor in the life of debtor
- Employer in the life of an employee
- Surety in the life of a principle debtor

In life insurance, insurable interest must be present at the time when the policy is taken. In fire insurance, it must be present at the time of insurance and

at the time of loss of the subject matter. In marine insurance, it must be present at the time of loss of the subject matter.

3. Principle of Indemnity : This principle is applicable in case of fire and marine insurance only. It is not applicable in case of life, personal accident and sickness insurance. A contract of indemnity means that the insured in case of loss against which the policy has been insured, shall be paid the actual cost of loss not exceeding the amount of the insurance policy. The purpose of contract of insurance is to place the insured in the same financial position, as he was before the loss.

Example – A house is insured against fire for Rs. 50000. It is burnt down and found that the expenditure of Rs. 30000 will restore it to its original condition. The insurer is liable to pay only Rs. 30000.

In life insurance, principle of indemnity does not apply as there is no question of actual loss. The insurer is required to pay a fixed amount upon in advance in the event of accident, death or at the expiry of the fixed term of the policy. Thus, a contract of a life insurance is a contingent contract and not a contract of indemnity.

4. Principle of Contribution: The principle of contribution is a corollary to the doctrine of indemnity. It applies to any insurance which is a contract of indemnity. So it does not apply to life insurance. A particular property may be insured with two or more insurers against the same risks. In such cases, the insurers must share the burden of payment in proportion to the amount insured by each. If one of the insurer pays the whole loss, he is entitled to contribution from other insurers

Example – B gets his house insured against fire for Rs. 10000 with insurer P and for Rs. 20000 with insurer Q. a loss of Rs. 15000 occurs, P is liable to pay for Rs. 5000 and Q is liable to pay Rs 10000. If the whole amount of loss is paid by Q, then Q can recover Rs. 5000 from P. The liability of P & Q will be determined as under:

Sum insured with Individual insurer (i.e. P or Q) x Actual Loss = Total sum insured

$$\text{Liability of P} = \frac{10000}{30000} \times 15000 = \text{Rs.5000}$$

$$\text{Liability of Q} = \frac{20000}{30000} \times 15000 = \text{Rs.10000}$$

- f. The right of contribution arises when:
- g. (a) There are different policies which related to the same subject matters;
- h. (b) The policies cover the same period which caused the loss;
- i. (c) All the policies are in force at the time of loss; and
- j. (d) One of the insurer has paid to the insured more than his share of loss.
- k. **5. Principle of Subrogation :** The doctrine of subrogation is a collorary to the principle of indemnity and applies only to fire and marine insurance. According to doctrine of subrogation, after the insured is compensated for the loss caused by the damage to the property insured by him, the right of ownership to such property passes to the insurer after settling the claims of the insured in respect of the covered loss.
- l. *Example* – Furniture is insured for Rs. 1 lacs against fire, it is burnt down and the insurer pays the full value of Rs. 1 Lacs to the insured, later on the damage Furniture is sold for Rs. 10000. The insurer is entitled to receive the sum of Rs. 10000.
- m. A loss may occur accidentally or by the action or negligence of third party. If the insured suffer a loss because of action of third party and he is in a position to recover the loss from the insurer then insured can not take action against third party, his right is subrogated (substituted) to the insurer on settlement of the claim. The insurer, therefore, can recover the claim from the third party.

- n. If the insured recovers any compensation for the loss (due to third party), from the third party, after he has already been indemnified by the insurer, he holds the amount of such compensation as the trustee of the insurer.
- o. The insurer is entitled to the benefits out of such rights only to the extent of the amount he has paid to the insured as compensation
- p. **6. Principle of Causa Proxima :** Causa proxima, means proximate cause or cause which, in a natural and unbroken series of events, is responsible for a loss or damage. The insurer is liable for loss only when such a loss is proximately caused by the peril insured against. The cause should be the proximate cause and can not be the remote cause. If the risk insured is the remote cause of the loss, then the insurer is not bound to pay compensation. The nearest cause should be considered while determining the liability of the insured. The insurer is liable to pay if the proximate cause is insured.
- q. *Example* – In a marine insurance policy, the goods were insured against damage by sea water, some rats on the board made a hole in the bottom of the ship causing sea water to pour into the ship and damage the goods. Here, the proximate cause of loss is sea water which is covered by the policy and the hole made by the rats is a remote cause. Therefore, the insured can recover damage from the insurer
- r. *Example* – A ship was insured against loss arising from collision. A collision took place resulting in a few days delay. Because of the delay, a cargo of oranges becomes unsuitable for human consumption. It was held that the insurer was not liable for the loss because the proximate cause of loss was delay and not the collision of the ship.
- s. **7. Principle of Mitigation of Loss:** An insured must take all reasonable care to reduce the loss. We must act as if the property was not insured.
- t. *Example* – If a house is insured against fire, and there is accidental fire, the owner must take all reasonable steps to keep the loss minimum. He is supposed

to take all steps which a man of ordinary prudence will take under the circumstances to save the insured property.

Types of Insurance

Business Point of View :

The insurance can be classified into three categories from business point of view:

(i) Life Insurance, (ii) General Insurance, and (iii) Social Insurance.

Life Insurance is different from other insurance in the sense that, here, the subject matter of insurance is life of human being. The insurer will pay the fixed amount of insurance at the time of death or at the expiry of certain period. At present, life insurance enjoys maximum scope because the life is the most important property of the society or an individual. Each and every person requires the insurance. This insurance provides protection to the family at the premature death or gives adequate amount at the old age when earning capacities are reduced. Under personal insurance a payment is made at the accident. The insurance is not only a protection but is a sort of investment because a certain sum is returnable to the insured at the death or at the expiry of a period. The business of life insurance is wholly done by that Life insurance Corporation of India.

(ii) General Insurance :

The general insurance includes property insurance, liability insurance and other forms of insurance. Fire and marine insurances are strictly called property insurance. Motor, theft, fidelity and machine insurances include the extent of liability insurance to a certain extent. The strictest form of liability insurance is fidelity insurance, whereby the insurer compensates the loss to the insured when he is under the liability of payment to the third party.

(iii) Social Insurance:

The social insurance is to provide protection to the weaker section of the society who is unable to pay the premium for adequate insurance. Pension plans, disability benefits, unemployment benefits, sickness insurance and industrial insurance are the various forms of social insurance. With the increase of the socialistic ideas, the social insurance is an obligatory duty of the nation. The Government of a country must provide social insurance to its masses.

Risk Point of View:

Insurance is divided into property liability and other form from high point of view

A. Property Insurance:

Under the property insurance property of person/persons are insured against a certain specified risk. The risk may be fire or marine perils, theft of property or goods, damage to property at accident.

(a) Marine Insurance:

Marine insurance provides protection against loss of marine perils. The marine perils are collision with rock, or ship attacks by enemies, fire and capture by pirates, etc. These perils cause damage, destruction or disappearance of the ship and cargo and non-payment of freight. So, marine insurance insures ship (Hull), cargo and freight. Previously only certain nominal risks were insured but now the scope of marine insurance had been divided into two parts: (i) Ocean Marine Insurance and (ii) Inland Marine Insurance. The former insures only the marine perils while the latter covers inland peril which may arise with the delivery of cargo (goods) from the godown of the insured and may extend up to the receipt of the cargo by the buyer (importer) at his godown.

(b) Fire Insurance:

Fire insurance covers risks of fire. In the absence of fire insurance, the fire waste will increase not only to the individual but to the society as well. With the help of fire

insurance, the losses, arising due to fire are compensated and the society is not losing much. The individual is protected from such losses and his property or business or industry will remain approximately in the same position in which it was before the loss. The fire insurance does not protect only losses but it provides certain consequential losses also. War risk, turmoil, riots, etc., can be insured under this insurance, too.

(c) Miscellaneous Insurance:

The Property, goods, machine, furniture, automobile, valuable articles, etc., can be insured against the damage or destruction due to accident or disappearance due to theft. There are different forms of insurances for each type of the said property whereby not only property insurance exists but liability insurance and personal injuries are also insured.

B. Liability Insurance:

The general insurance also includes liability insurance whereby the insured is liable to pay the damage of property or to compensate the loss of personal injury or death. This insurance is seen in the form of fidelity insurance, automobile insurance and machine insurance, etc.

C. Other Forms:

Besides the property and liability insurances, there are certain other insurances which are included under general insurance. The examples of such insurances are export-credit insurances, State employees insurance, etc., whereby the insurer guarantees to pay certain amount at the certain events. This insurance is extending rapidly these days.

1. Personal Insurance:

The personal insurance includes insurance of human life which may suffer loss due to death, accident and disease. Therefore, the personal insurance is further sub-classified into life insurance, personal accident insurance and health insurance.

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2. Property Insurance:

The property of an individual and of the society is insured against the loss of fire and marine perils, the crop is insured against unexpected decline in production, unexpected death of the animals engaged in business, break-down of machines and theft of the property and goods.

3. Liability Insurance:

The liability insurance covers the risks of third party, compensation to employees, liability of the automobile owners and reinsurances.

4. Guarantee Insurance:

The guarantee insurance covers the loss arising due to dishonesty, disappearance and disloyalty of the employers or second. The party must be a party of the contract. His failure causes loss to the first party. For example, in export insurance, the insurer will compensate the loss at the failure of the importers to pay the amount of debt.

Life Insurance and Non Life Insurance

Types

Life insurance is a non-personal insurance contract. This means that the policyholder and the person being insured do not have to be the same person. General insurance is always a personal contract where the insurance company contracts with you directly for insurance protection.

Function

Both life insurance and general insurance accept premiums in exchange for insurance benefits. Insurance premiums are invested into bonds or bond-like investments that produce stable and consistent returns for the insurance company. The investments, plus premium payments, also ensure that the insurance company can pay the promised benefits that are outlined in the insurance policy. When you need to file a claim, both types of insurance require a claim form for

you to fill out. The payment of benefits, and the amount of the benefit that is payable, are always spelled out in your insurance contract.

Significance

Life insurance insures your life or the life of someone that you have an economic interest in, like your spouse, children, siblings or business partners. When the insured individual dies, the life insurance policy pays a death benefit that is fixed. This is called a valued contract. A valued contract pays a fixed sum of money, regardless of the nature of the loss insured by the contract.

General insurance insures homes, automobiles and other personal property. This type of insurance is sometimes referred to as "property and casualty" insurance. General insurance is indemnity insurance. Indemnity insurance pays just enough money to you to repair or replace the insured property. For example, your homeowner's insurance may cover your entire home and the contents of it. However, if your roof is damaged in a storm, the policy only pays enough to repair the damage.

Types of Life Insurance Policies

1. Term Policy

In case of Term assurance plans, insurance company promises the insured for a nominal premium to pay the face value mentioned in the policy in case he is no longer alive during the term of the policy.

Term assurance policy has the following features:

It provides a risk cover only for a prescribed period. Usually these policies are short-term plans and the term ranges from one year onwards. If the policyholder survives till the end of this period, the risk cover lapses and no insurance benefit payment is made to him.

The amount of premium to be paid for these policies is lower than all other life insurance policies. As savings and reserves are not accumulated under this policy, it has no surrender value and loan or paid-up values are not allowed on these policies.

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This plan is most suitable for those who are initially unable to pay high premium when income is low as required for Whole Life or Endowment policies, but requires life cover for a high amount.

This policy runs for the whole life of the assured. The sum assured becomes payable to the legal heir only after the death of the assured.

2. Whole life policies:

The whole life policy can be of three types.

- (1) Ordinary whole life policy – In this case premium is payable periodically throughout the life of the assured.
- (2) Limited payment whole life policy – In this case premium is payable for a specified period (Say 20 Years or 25 Years) Only.
- (3) Single Premium whole life policy – In this type of policy the entire premium is payable in one single payment.

In this policy the insurer agrees to pay the assured or his nominees a specified sum of money on his death or on the maturity of the policy whichever is earlier. The premium for endowment policy is comparatively higher than that of the whole life policy. The premium is payable till the maturity of the policy or until the death of the assured whichever is earlier. It provides protection to the family against the untimely death of the assured.

3. Health insurance schemes

An individual is subject to uncertainty regarding his health. He may suffer from ailments, diseases, disability caused by stroke or accident, etc. For serious cases the person may have to be hospitalized and intensive medical care has to be provided which can be very expensive. It is here that medical insurance is helpful in reducing the financial burden. These days the vulnerability to lifestyle diseases such as heart, cancer, neurotic, and pollution based, etc are on the increase. So it makes sense for an individual to go for medical insurance cover.

This policy is taken on the lives of two or more persons simultaneously. Under this policy the sum assured becomes payable on the death of any one of those who have taken the joint life policy. The sum assured will be paid to the survivor(s). For example, a joint life policy may be taken on the lives of husband and wife, sum assured will be payable to the survivor on the death of the spouse.

Under with profit policy the assured is paid, in addition to the sum assured, a share in the profits of the insurer in the form of bonus. Without profit policy is a policy under which the assured does not get any share in the profits earned by the insurer and gets only the sum assured on the maturity of the policy. With profit and without profit policies are also known as participating and non-participating policies respectively.

4. Double Accident Benefit Policy

This policy provides that if the insured person dies of any accident, his beneficiaries will get double the amount of the sum assured.

5. Annuity Policy

Under this policy, the sum assured is payable not in one lump sum payment but in monthly, quarterly and half-yearly or yearly instalments after the assured attains a certain age. This policy is useful to those who want to have a regular income after the expiry of a certain period e.g. after retirement. Annuity is paid so long as the assured survives. In annuity policy medical check-up is not required. Annuity is paid so long as the assured survives.

1. Policies For Women

Women, now a days are free to take life assurance policies. However, some specially designed policies suit their needs in a unique manner; important policies for women are

A. Jeevan Sathi is also known a Life Partner plan where the husband and wife are covered under this endowment policy

B. Jeevan Sukanya

2. Group Insurance

Group life insurance is a plan of insurance under which the lives of many persons are covered under one life insurance policy. However, the insurance on each life is independent of that on the other lives. Usually, in group insurance, the employer secures a group policy for the benefit of his employees. Insurer provides coverage for many people under single contract.

3. Policies For Children

Policies for children are meant for the various needs of the children such as education, marriage, security of life etc. Some of the major children policies are:

- (1) Children's deferred assurances
- (2) Marriage endowment and educational annuity plans
- (3) Children endowment policy

9. Money Back Policy

In this case policy money is paid to the insured in a number of separate cash payments. Insurer gives periodic payments of survival benefit at fixed intervals during the term of policy as long as the policyholder is alive.

Types of General Insurance

Basically there are four type of general insurance stated below. Beside these a number of different kinds of policies for hedging against the various kind of risk are available in the market these days.

- Fire Insurance
- Marine Insurance
- Motor Insurance
- Health Insurance

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- Miscellaneous Insurance
- Personal Accident Policy
- Aviation insurance
- Travel Insurance

Risk Points of View

The insurance can be classified into three categories from Risk point of view

1. Property Insurance
2. Liability Insurance
3. Other forms of Insurance

1. Property Insurance: Property of the individual and business is exposed to risk of fire, theft marine peril etc. This needs insurance. This is insured with the help of:-

- (i) Fire Insurance
- (ii) Marine Insurance
- (iii) Miscellaneous Insurance

(i) Fire Insurance: Fire insurance covers risks of fire. It is contract of indemnity. Fire insurance is a contract under which the insurer agrees to indemnify the insured, in return for payment of the premium in lump sum or by instalments, losses suffered by the him due to destruction of or damage to the insured property, caused by fire during an agreed period of time. It includes losses directly caused through fire or ignition. There are various types of fire insurance policies.

- Consequential loss policy
- Comprehensive policy
- Valued policy

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- Valuable policy
- Floating policy
- Average policy

(ii) Marine Insurance: Marine insurance is an arrangement by which the insurer undertakes to compensate the owner of the ship or cargo for complete or partial loss at sea. So it provides protection against loss because of marine perils. The marine perils are collisions with rock, ship attack by enemies, fire etc. Marine insurance insures ship, cargo and freight.

The following kinds of marine policies are -

- Voyage policy
- Time policy
- Valued policy
- Hull Policy
- Cargo Policy
- Freight Policy

(iii) Miscellaneous Insurance: It includes various forms of insurance including property insurance, liability insurance, personal injuries are also insured. The property, goods, machine, furniture, automobile, valuable goods etc. can be insured against the damage or destruction due to accident or disappearance due to theft.

Miscellaneous insurance covers

- Motor
- Disability
- Engineering and aviation risks

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- Credit insurance
- Construction risks
- Money Insurance
- Burglary and theft insurance
- All risks insurance

Duties , Powers and Functions of IRDA

Section 14 of the IRDA Act, 1999 lays down the duties, powers and functions of IRDA.

Registering and regulating insurance companies

Protecting policyholders' interests

Licensing and establishing norms for insurance intermediaries

Promoting professional organisations in insurance

Regulating and overseeing premium rates and terms of non-life insurance covers

Specifying financial reporting norms of insurance companies

Regulating investment of policyholders' funds by insurance companies

Ensuring the maintenance of solvency margin by insurance companies

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Possible Questions

Part A: Online Multiple Choice Questions

Part B: (5x2=10 Marks)

Answer all questions

1. What is risk in terms of insurance ?
2. What is the difference between risk and uncertainty?
3. What are financial and non financial risks?
4. How you assess the risk?
5. What is utmost good faith in insurance ?
6. What is marine insurance?
7. What is life insurance?
8. What is non life insurance/
9. What is a term policy in life insurance?
10. What is health insurance ?

Part C (5X6=30 Marks)

Answer all questions

1. Explain individual and group risks?
2. What is pure risk related to insurance ? Explain different types of pure risks/
3. What are the principles governing insurance? Explain Insurable interest and indemnity.

4. What are the principles governing insurance? Explain Contribution and subrogation.
5. Explain the term policy in life insurance.
6. Explain whole life policy and annuity policy in life insurance.
7. Mention the types of insurance from risk point of view and explain them.
8. Explain features in a health insurance. What are the benefits to the insured?
9. What is fire policy and mention the types.
10. What is reinsurance? Write a brief on on-line insurance.

S.No	Question	Option A	Option B	Option C	Option D	Answer
1	Insurance business in India is now regulated by the provision of	The Insurance Act,1938	IRDA Act,1999	The Banking Regulation AcT,1949	The Indian Companies Act,1956	IRDA Act,1999
2	In Life Insurance, the policy amount is payable	After the death of assured	After expiry of policy period	On death of insured or on expiry of policy period whichever is earlier	Only when the insured has incurred loss	On death of insured or on expiry of policy period whichever is earlier
3	In General Insurance,the policy amount is payable	After the death of assured	After expiry of policy period	Only when the loss occurs or the liability raises	Only when the insured ha attained a certain age	Only when the loss occurs or the liability raises
4	Loss of theft are covered by	Burglary	Causality	Annuity	premium	Burglary
5	Fire insurance can be taken in respect of	Movable and immovable property	Person	Immovable property only	Stock	Movable and immovable property
6	Motor Insurance provides insurance cover to	Private vehicles	Consumer vehicles	Motor cycles	All of these	All of these
7	Insurance providing financial support to farmers in the event of a crop failure due to drought or flood is called	Cattle	Crop	Burglary	Drought	Crop
8	Medical expenses insurance is also known as	Personal Insurance	Liability insurance	Medicclaim	Fidelity	Medicclaim
9	In Group insurance,the rate of premium is comparatively	Less	More	Moderate	Higher than individual policy	Less
10	The insurer agrees to compensate the insured in consideration of a sum of money is called	Premium	Policy	Subject matter	Loss	Premium
11	Group risks are those	Affects the economy	Affects individuals	Affects specific groups	Affects small groups	Affects the economy
12	In -----risks there is possibility of gain as well as loss	Pure risks	Speculative risks	Group risks	Personal risk	Speculative risks
13	Inflation is an example of ----- risks	Dynamic	Static	Monetary	Business	Dynamic
14	Derivative contracts are ----- risk transfers	Insurance	Non insurance	Market	Current	Non insurance
15	Principle of revealing material information in	Insurable	Utmost good	Indemnity	Disclosure	Utmost good faith

	insurance is	Interest	faith			
16	Insurance interest means	Pecuniary interest in the subject matter of contract of insurance	Insurance premium	Charge for insurance	interest of the insurance company	Pecuniary interest in the subject matter of contract of insurance
17	In Life Insurance, the insurable interest must be present	At the time of loss	At the time when policy is taken	At the time of loss of subject matter	At the Company says when Insurance	At the time when policy is taken
18	One of the following in Life insurance is not possible	husband insuring for wife	Wife insuring in the life of husband	Employer insuring in the life of an employee	Husband insuring for his friend	Husband insuring for his friend
19	In marine insurance , insurable interest should be present	at the time of loss in the subject matter	When the policy is taken	At the time of policy taken	On board of marine	at the time of loss in the subject matter
20	Principle of indemnity is applicable in the following insurance	Life insurance	Personal accident insurance	sickness insurance	Fire and marine insurance	Fire and marine insurance
21	Contract of life insurance is a	Indemnity contract	Contingent contract	Pledge contract	Life contract	Contingent contract
22	Principle of contribution is applicable to	Life insurance	Fire insurance	Marin insurance	Both Fire and marine insurance	Both Fire and marine insurance
23	In the following principle of insurance, the right of ownership passes to insurer after claim	Principle of indemnity	Principle of insurable interest	Principle of contribution	Principle of Subrogation	Principle of Subrogation
24	In the principle of cause proxima,the insurer is liable only for the	Proximate clause	remote clause	Loss clause	Locational clause	Proximate clause
25	Principle of mitigation of loss means	The insured should reduce loss	The insured should avoid loss	The insured should take reasonable care to reduce loss	The insured should not create loss	The insured should take reasonable care to reduce loss
26	Life insurance is a form of	Investment	Protection to life	Expenditure	Investment and protection	Investment and protection
27	Fire and marine insurance are called as	Property insurance	Peril insurance	Liability insurance	Havoc insurance	Property insurance
28	Motor,theft,machine insurance includes in	Property insurance	Liability insurance	Non property insurance	General Insurance	Liability insurance

29	Social insurance gives protection to	Social media	Weaker sections	Social groups	Rich class	Weaker sections
30	Personal insurance includes	Life insurance	Personal accident insurance	Health insurance	Life, personal accident and health insurance	Life, personal accident and health insurance
31	The liability insurance covers	Risks to third party	compensation to employees ,	Liability of automobile owners insurance	Risks to third party , compensation to employees , Liability of automobile owners insurance	Risks to third party
32	Export insurance falls under	Guarantee insurance	Indemnity insurance	Liability insurance	Foreign insurance	Guarantee insurance
33	A term policy has	Surrender value	No surrender value	Policy for a term of 10,20, 30 years	Policy taken on special occasions	No surrender value
34	Husband and wife are covered under	Jeevan Sathi policy	Jeevan Bheema policy	Jeevan Anand policy	Family policy	Jeevan Sathi policy
35	Under this policy, the sum assured is payable monthly,quarterly,half yearly or yearly instalments	Term policy	Annuity policies	Stock policies	Fixed policies	Annuity policies
36	.....insurance occurs when multiple insurance companies share risk	Reinsurance	Multiple insurance	Composite insurance	Risk insurance	Reinsurance
37	If the risk is high, the insurance companies charge	Normal premium	High premium	Low premium	Very low premium	High premium
38	IRDA stands for	Insurance Regulatory and Development Authority	Indian Regulatory and Development Authority	Insurance Regional Development Agency	Insurance Rural Development Authority	Insurance Regulatory and Development Authority
39	One of the most important benefit of online insurance is	Less cost	Advise	Marketing	Attraction	Less cost
40	Insurance sold through banks is known as	Bancassurance	National Insurance	Finance insurance	Easinsurance	Bancassurance
41	The following is a General Insurance Companies	LIC	IRDA	IDBI	National Insurance Company	National Insurance Company

42	Head Quarters of LIC is situated at	Kolkatta	Delhi	Mumbai	Hyderabad	Mumbai
43	Which was an oldest insurance Co., found in 1906	LIC	National Insurance Co.,	United India Insurance Co.,	Bharat Insurance	National Insurance Co.,
44	LIC was founded in	1 st April 1955	11-Sep-60	1 st September 1956	4 th September 1956	1 st September 1956
45	The things or property insured is called	subject matter	insurable interest	policy	premium	subject matter
46	The document which lays down the terms of the contract of insurance is called	subject matter	Policy	premium	insurable interest	policy
47	The interest which the insured has in the subject matter of is called	premium	insurable interst	ownership	Liability	insurable interest
48	A contract of insurance is _____ agreement	contingent	Constant	special	Limited	contingent
49	_____ is a valid contract between the insured and the insurer	policy	Insurance	warantees	conditional	insurance
50	One of these is not Motor insurance	Private vehicles	commercial vehicles	motor cycles	Motors and Pumpsets	Motors and Pumpsets
51	Employee's state insurance Corportion was established in	1968	1988	1958	1948	1988
52	Burglary insurance policy covers the risk of	theft	Voyage	perils	any of these	theft
53	_____ refers to the right of an insurer to refuse admittance of the	replication	repudiation	defalcation	retention	repudiation
54	Property insurance may not include	burglary	Fidelity	insolvency	sickness	sickness
55	Rashtriya Krishi Bima Yojana is known as	crop insurance	hull insurance	property insurance	sickness insurance	crop insurance
56	Crop insurance scheme came into existence in India in	1998	1999	1997	2000	1999
57	From the following, which is not a type of public liability risk insurance ?	Indsutrial risk insurance	Industrial all risk insurance	Non industrial risk insurance	Business premises insurance	Business premises insurance
58	.....provides evidence of insurance to police and registration authorities under Motor vehicles Act.	Endorsement	Assignment	Cover note	Certificate of insurance	Certificate of insurance
59	A health insurance should be	continuous	Simple	risk free	free from regulation	continuous
60 are extra benefits under policy	Loans	Riders	death benefit	claim benefits	riders



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Coimbatore-641021

DEPARTMENT OF COMMERCE

Name: **PADMAAVATHY.PA (Assistant Professor)**

Department: **Commerce-**

Subject Code: **17CMU502B**

Semester: **V**

Year: **2017-20 Batch**

Subject: **Banking and Insurance- Lesson Plan**

UNIT - 1			
S. No	Lecture Hours	Contents	References
1.	1	Introduction – origin of banking	W1,W2
2.	1	Definition – banker customer relationship	T1- 2.3-2.17
3.	1	General and special types of customers	T1- 2.92- 2.115
4.	1	Types of deposits – Demand, Time	T1- 2.48- 2.55,2.56-2.65
5.	1	Origin and growth of commercial banks in India	T1- 1.3-1.26
6.	1	Origin and growth of commercial banks in India	T1-1.3-1.26
7.	1	Financial services offered by banks	W3
8.	1	Financial services offered by banks	W3
9.	1	Changing role of commercial banks	W4
10.	1	Types of banks	T1- 1.1
11.	1	Types of banks	T1- 1.1
12.	1	Recapitulation and Discussion of Important Questions	-
Total no. of Hours planned for Unit 1			12
UNIT - 2			
1.	1	Cheques and Paying banker	T1- 3.23 -3.25
2.	1	Crossing and endorsement-meaning	T1- 3.26-3.29
3.	1	Types of crossing	T1- 3.34-3.36
4.	1	Rules of crossing	T1- 3.37-3.41
5.	1	Duties of collecting bankers,	T1- 3.83-3.85
6.	1	Statutory protection in due course-collecting bankers	T1- 3.86-3.93
7.	1	Duties of holder in due course,	T1-3.14
8.	1	Statutory protection for holder in due course	T1-3.14
9.	1	Statutory protection for holder in due course	T1-3.14
10.	1	Concept of negligence	W5
11.	1	Concept of negligence	W5
12.	1	Recapitulation and Discussion of Important Questions	
Total no. of Hours planned for Unit 2			12

UNIT – 3			
1.	1	Banking Lending	T 4.15
2.	1	Principles of lending	T.4.15
3.	1	Secured advances	T 4.37 -4.75
4.	1	Unsecured advances	T 4.76 – 4.104
5.	1	Types of advances –cash credit , overdraft	T 4.18 -4.28
6.	1	Types of advances – Term loans	T 4.29 -4.30
7.	1	Types of advances – bridge, composite, consumption	T 4.31 -4.36
8.	1	Advances against securities	T 4.60
9.	1	Advances against securities	T 4.81
10.	1	Advances against securities	T 4.60
11.	1	Advances against securities	T 4.81
12.	1	Recapitulation and Discussion of Important Questions	-
Total number of hours planned for Unit 3			12
UNIT – 4			
1	1	Internet banking –meaning - benefits	W6,W10
2	1	Home banking – mobile banking –virtual banking	W7
3	1	E payments ,ATM card/biometric	W8, W9
4	1	Debit cards , credit cards, smart cards	W10,W11,W12
5	1	NEFT,RTGS	W13,W14
6	1	NEFT,RTGS	W13,W14
7	1	ECS(credit and debit)	W13,W14
8	1	ECS(credit and debit)	W13,W14
9	1	E money, electronic purse, digital cash	W15,W16,W17
10	1	E money, electronic purse, digital cash	W15,W16,W17
11	1	E money, electronic purse, digital cash	W15,W16,W17
12	1	Recapitulation and Discussion of Important Questions	-
Total no. of Hours planned for Unit 4			12
UNIT – 5			
1	1	Basic concepts of risk- types of business risk	T 3-22
2	1	Assessment and transfer	T 15-16
3	1	Basic principles of utmost good faith- indemnity	T 34-35
4	1	Economic function-proximate cause, subrogation and contribution	T 35-36
5	1	Types of insurance –Life	T 37-38
6	1	Types of insurance – Non life	T 39-40
7	1	Re insurance – risk and relationship, need for coordination	T 507-530, W18
8	1	Power-functions and role of IRDA	T 104-124, W19
9	1	Recapitulation & Discussion on important questions	-
10	1	Revision of previous year question paper	-
11	1	Revision of previous year question paper	-
12	1	Revision of previous year question paper	-
Total no. of Hours planned for Unit 5			12

Suggested Readings:

Textbooks: T1 – Varshney,P.N (2014) “Banking Law and Practice”, Sultan Chand and Sons,New Delh

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W2-Shodhganga.inflibnet.ac.in via google

W3- <https://wikifinancepedia.com> via google

W4- kalian-city.blogspot.com via google

W5- <https://indiankanoon.org> via google

W6 – <https://en.m.wikipedia.org> Google –online banking

W7 – <https://en.m.wikipedia.org> Google –mobile banking

W8 – <https://en.m.wikipedia.org> Google – payment and settlement systems in India

W9 – <https://bioenabletech.com> Google – Bio metric ATM

W10- <https://www.onlinesbi.com> Google – Internet banking

W11- <https://www.thebalance.com> Google – The Difference between credit card and a debit card

W12 - www.smartcardbasics.com Google – Smart card basics

W13 - https://www.onlinesbi.com/personal/neft_rtgs_faq.html - NEFT, RTGS

W14 - <https://www.quora.com> –Google –Difference between RTGS and NEFT

W15 - <https://www.investopedia.com> – Electronic money,

W16 –www.indianbank.in -e purse

W17 - <https://whatis.techtarget.com> – digital cash

W18 - <https://www.investopedia.com> – what is Reinsurance

W19 - <https://www.irdai.gov.in> –IRDA – about us - duties and responsibilities