Unit:1

Lending Principles and Balance Sheet of a Bank

Lending money to different kinds of borrowers is one of the most important functions of a bank. Lending is a risky business. It is said that banks borrow to lend. Banks collect deposits from people by offering interest to them. They have two sets of obligations. Banks have to pay reasonable dividends to the shareholders for their investment in shares. For this purpose, they must earn profit. In the same way, banks have to repay the amount of deposits when demanded by the customers. To meet these obligations successfully and to win the confidence of the depositors and shareholders banks should follow certain principles of lending.

Banks accept deposits repayable on demand and lend them out to someone. However, they are not mere intermediaries or dealers in money. It is said that they 'create' money. Banks have this important power of credit creation. In this chapter we are going to study the important lending principles, credit creation power of banks and the balance sheet of banks.

5.1 Lending Principles :

Since banks depend largely on lending, the need to adhere to the basic principles of lending isquite inevitable.The principles, if strictly followed, will guarantee depositors and shareholders' funds, increase profitability and make a healthy turn over. Such advances in turn assist in the transformation of rural environment, promote rapid expansion of banking habit and improve and boost the nation's economy. The basic considerations in bank lending are the character of the client seeking loan from the bank. The client must be an honest, upright customer whose record of transaction with the financial institution or in the society is remarkable. The information on the character of the borrower could be obtained through a completed form of his guarantor or his statement of account.For effective credit administration, the bank must assign functioning lending officers, properly trained on lending, to be responsible for evaluation of reports and collection and reporting findings to relevant senior schedule officers, for further consideration and final approval or rejection. An internal credits/ lending policy should be formulated, implemented and pursued vigorously by the bank to minimise the risk of default from borrowers. The successful banks operating within the financial system are those that consider and co-ordinate basic principles of lending and monitor the activities of borrowers regularly.

The major business of banking company is to grant loans and advances to traders as well as commercial and industrial institutes.

The most important use of banks money is lending. Yet,there are risks in lending. While lending loans or advances the banks usually keep such securities and assets as a supports so that lending may be safe and secured. Suppose, any particular state is hit by disasters but the bank shall get advantages from the lending to another states units. Thus, the effect on the entire business of banking is reduced. So the banks follow certain principles to minimize the risk. Following are the important areas to be taken care while lending:

5.1.1 Basic Lending Principles :

The success of banks depends upon the basic principles. These are the prime principles inlending as well as investment. They are explained below :

1) Safety :

"Safety first" is the most important principle of good lending. When a banker lends, he must feel certain that the advance is safe that is, the money will definitely come back. If, for example, the borrower invests the money in an unproductive or speculative venture, or if the borrower himself is dishonest, the advance would be in jeopardy. Similarly, if the borrower suffers losses in his business due to his incompetence, the recovery of the money may become difficult. The banker ensures that the money advanced by him goes to the right type of borrower and is utilized in such a way that it will not only be safe at the time of lending but will remain so throughout, and after serving a useful purpose in the trade or industry where it is employed, is repaid with interest.

2) Liquidity :

It is not enough that the money will come back, it is also necessary that it must come back on demand or in accordance with agreed terms of repayment. The borrower must be in a position to repay within a reasonable time after a demand for repayment is made. This can be possible only if the money is employed by the borrower for short-term requirements and not locked up in acquiring fixed assets, or in schemes which take a long time to pay their way. The source of repayment must also be definite. The reason why bankers attach as much importance to 'liquidity' as to safety' of their funds, is that a bulk of their deposits is repayable on demand or at short notice. If the banker lends a large portion of his funds to borrowers from whom repayment would be coming in but slowly, the ability of the banker to meet the demands made on him would be seriously affected in spite of the safety of the advances. For example, an advance of Rs.50 lakhs on the security of a legal mortgage of a bungalow of the market value of Rs. 100 lakhs, will be very safe. If, however, the recovery of the mortgage money has to be made through a court process, it may take a few years to do so. The loan is safe but not liquid.

3) Profitability :

Equally important is the principle of 'profitability' in bank advance like other commercial institutions, banks must make profits. Firstly, they have to pay interest on the deposits received by them. They have to incur expenses on establishment, rent, stationery, etc. They have to make provision for depreciation of their fixed assets and also for any possible bad or doubtful debts. After meeting all these items of expenditure which enter the running cost of banks, a reasonable profit must be made otherwise, it will not be possible to carry anything to the reserve or pay dividend to the shareholders. It is after considering all these factors that a bank decides upon its lending rate. It is sometimes possible that a particular transaction may not appear profitable in itself, but there may be some ancillary business available, such as deposits from the borrower's other concerns or his foreign exchange business, which may be highly remunerative. In this way, the transaction may on the whole be profitable for the bank. It should, however, be noted that lending rates are affected by the Bank Rate, inter-bank competition and the Federal / Central Bank's directives (e.g Directives of Reserve Bank of India, RBI), if any. The rates may also differ depending on the borrower's credit, nature of security, mode of charge, and form and type of advance, whether it is a cash credit, loan preshipment finance or a consumer loan, etc.

5.1.2 General Lending Principles :

Banks are following certain general principles in order to make a safe lending along with the basic principles. That are explained in detail in the following paragraphs:

1) **Diversification of Risks :**

Another important principle of good lending is the diversification of advances. An element of risk is always present in every advance, however secure it might appear to be. In fact, the entire banking business is one of taking calculated risks and a successful hanker is an expert in assessing such risks. He is keen on spreading the risks involved in lending, over a large number of borrowers, over a large number of industries and areas, and over different types of securities. For example, if he has advanced too large a proportion of his funds against only one type of security, he will run a big risk if that class of security steeply depreciates. If the bank has numerous branches spread over the country, it gets a wide assortment of securities against the advances. Slump does not normally affect all industries and business centres simultaneously.

2) **Purpose :**

The purpose should be productive so that the money not only remain safe but also provides a definite source of repayment. The purpose should also be short termed so that it ensures liquidity. Banks discourage advances for hoarding stocks or for speculative activities. There are obvious risks involved therein apart from the anti-social nature of such transactions. The banker must closely scrutinize the purpose for which the money is required, and ensure, as far as he can, that the money borrowed for a particular purpose is applied by the borrower accordingly. Purpose has assumed a special significance in the present day concept of banking.

3) **Security :**

It has been the practice of banks not to lend as far as possible except against security. Security is considered as an insurance or a cushion to fall back upon in case of an emergency. The banker he provides for an unexpected change in circumstances which may affect the safety and liquidity of the advance. It is only to provide against such contingencies that he takes security so that he may realize it and reimburse himself if the well-calculated and almost certain source of repayment unexpectedly fails. It is incorrect to consider an advance proposal from the point of view of security alone. An advance is granted by a good banker on its own merits, that is to say with due regard to its safety, likely purpose etc., and after looking into the character, capacity and capital of the borrower and not only because the security is good. Apart from the fact that taking of security reserves as a safety valve for an unexpected emergency it also renders very difficult, if not impossible, for the borrower to raise a secured advance from another source against the very security.

4) **National Interest, Suitability, etc. :**

Even when an advance satisfies all the aforesaid principles, it may still not be suitable. The advance may run counter to national interest. The Federal / Central Bank (e.g Reserve Bank of India, RBI) may have issued a directive prohibiting banks to allow the particular type of advance. The law and order situation at the place where the borrower carries on his business may not be satisfactory. There may be other reasons of a like nature for which it may not be suitable for the bank to grant the advance.

In the changing concept of banking, factors such as purpose of the advance, viability of the proposal and national interest are assuming a greater importance than security, especially in advances to agriculture, small industries, small borrowers, and export-oriented industries

Conflict Between Liquidity and Profitability :

1) **Trade-Off Between Liquidity And Profitability :**

A commercial bank has to manage its assets and liabilities with three objectives in mind, namely : Liquidity, profitability and solvency.

Liquidity means the capacity of the bank to give cash on demand in exchange for deposits. But a commercial bank is a profit- seeking institution. It has to arrange its assets in such a way that it makes maximum profits. The bank should also maintain the confidence of public by making cash available on demand. Liquidity and profitability are, therefore, conflicting considerations for bankers. Cash has perfect liquidity but yields no return at all, while other income-yielding assets such as loans are profitable but have no liquidity. The bank should strike a balance between liquidity and profitability. Another consideration of the bank is its own solvency and security. This refers to liquidity and shiftability. Liquidity is the capacity to produce cash on demand. Shiftability means the assets acquired by bank should be easily shiftable to other banks or central bank. Those securities would be preferred by a bank which can be shifted easily without any loss to the bank than the risky and more profitable ones. A bank which is solvent may not be liquid. Its assets may exceed its liabilities, but the assets may not be in such a form that they are readily convertible in to cash. Thus, the two motives of a bank's liquidity and profitability are contradictory, but have to be reconciled. A good banker is one who follows a wise investment policy and distributes the assets in such a way that both the requirements of liquidity and profitability are satisfied. The assets should bring in maximum profits and should provide maximum security to the depositors. The secret of success of a bank lies in striking a sound balance between liquidity and profitability.

2) **Reconciling Twin Objectives :**

A good banker is one who follows a wise investment policy and distributes the assets in such a way that both the requirements of liquidity and profitability are satisfied. The secret of success of a bank lies in striking a balance between liquidity and profitability. The commercial bank arranges its assets in an ascending order of profitability and descending order of liquidity. As we move down the balance sheet the assets become less and less liquid and more and more profitable. The more liquid the assets, the less profitable it is. Let us Explain

a) **Cash :**

Cash balances have perfect liquidity, but no profitability. Cash is held to meet the withdrawal needs of depositors.

b) **Money At Call :**

Surplus cash of commercial banks is lend to each other. This earns some interest and is also very liquid.

c) **Investment In Securities :**
Statutorily banks have to invest a part of their assets in government securities. These securities have low rate of interest but banks can borrow from RBI against these securities. Thus investments in securities provide returns as well as liquidity to bank.
d) **Loans And Advances :**
Here liquidity is low but profitability is high.
Thus banks hold various assets in such a way that the requirements of liquidity and profitability are balanced.
3) **Factors Affecting Liquidity Of Banks :**
The amount of liquid assets held by bank, depends upon the following factors :
a) **Statutory Requirements :**
Every commercial bank has to keep minimum cash balance by law. The extent of reserves held by bank depends upon the statutory requirements like CRR and SLR. These limits are fixed by central bank. Commercial banks also have to maintain liquid assets in the form of gold and approved securities.
b) **Nature Of Money Market :**
It will be easy for banks to buy and sell securities if the money markets fully developed. In such case need for cash will be less.
c) **Banking Habits :**
Banking habits of customers have a direct bearing on banks cash balance and liquidity position. In developed countries for making payments cheques are used hence, the use of cash is less. On other hand, in developing
countries banking habits are not fully developed, so banks have to maintain large cash reserves.
d) **Structure Of Banks :**
Under unit banking, every bank is an independent unit and they have to keep a high degree of liquidity. Under branch banking, the cash reserves can be centralized in head office and branches can have smaller liquid reserves.
e) **Business Conditions :**
In Industrialised countries, business in brisk and speculative activities are undertaken so, the demand for money is large. In agricultural countries, during off season, demand is less so, the banks can manage with small cash balances.
f) **Monetary Transactions :**
During busy season such as festival times, harvest season, beginning of month etc. banks will have to keep large percentage of cash. Thus, the size of liquid reserves also depends on the number and magnitude of monetary transactions.
f) **Number And Size Of Deposits :**
When the number and size of deposits rise, banks have to keep more liquidity and vice versa.
g) **Nature Of Deposits :**
The nature of deposits also determines the liquidity requirements of a bank. Deposits are various types such as time deposits, demand deposits etc. Larger the demand and short term deposits, larger will be liquidity.

h) **Clearing House Facility :**

When clearing house facilities are available, then large transactions can be made through book adjustments. This will reduce cash requirements of commercial banks.

i) **Liquidity Policy Of Other Banks :**

A Bank which decides to hold large cash balances will have more customers due to goodwill. Hence other bank will also try to improve their liquidity position to attract customers. Thus, the liquidity position of one bank depends on the liquidity policy of other banks.

4) **Factors Affecting Profitability Of Banks :**

a) **Cost Of Funds :**

Share capital, reserves, deposits, borrowing and other liabilities are the sources of funds for bank. The cost of funds refers to interest expenses.

b) **Yield On Funds :**

Banks fund are used for different sources like CRR, SLR requirement, loans and Advances etc. Many of these give rise to yields mainly in terms of interest income. This depends on the portfolio management of banks.

c) **Spread :**

The difference between interest income and interest expenses in defined as spread. High interest spreads shows the level of efficiency and a relatively less competitive market.

d) **Non-Interest Income :**

Non-Interest income is income derived from non-financial asset and services and includes commission and brokerage on remittance facilities, guarantees underwriting, contracts etc, locker rentals and other service charges.

e) **Amount Of Working Capital :**

Profitability is directly related to the amount of working funds deployed by banks. Working funds are funds deployed by a bank in its business.

f) **Non performing Assets :**

Profitability also depends on NPAs. Larger the NPAs lower will be the profitability and vice versa.

g) **Competition :**

When the level of Competition increases, there is fall in margins and hence it results in lower profitability.

h) **Operating cost :**

If operating cost is higher, profitability of banks will be lower and vice versa. Operating cost includes : Salaries, bonus, gratuity, expenses on stationery, printing, rent, depreciation etc.

i) **Risk Cost :**

Risk cost is the cost which is likely to be incurred on annual loss on assets. For e.g. : provisions for bad and doubtful debts are included under this head. Thus risk cost also affects the profitability of banks.

j) **Burden :**

The total non-interest expenses representing the transaction cost will generally be more than miscellaneous income. The difference between the two is known as Burden. Higher the burden, lesser will be the profitability of banks.

Thus from above we can say that the objectives of liquidity and profitability have to be reconciled. A successful banker will adopt a prudent investment policy keeping the requirements of liquidity and profitability.

5.3 Credit Creation :

Banks accept deposits repayable on demand and lend them out to someone. However, they are not mere intermediaries or dealers in money. It is said that they 'create' money. Banks have this important power of credit creation.

Modern economy uses two kinds of money i.e. legal tender means coins and notes. Similarly, transactions are also carried out with the help of cheques and drafts on a large scale in a modern economy. These cheques and drafts are not money but claims on money. People are sure to get money in exchange of these cheques and drafts from banks and therefore, these are accepted as money. These are called bank money because these are backed by the prestige of the banks, the trust in their ability to pay money.

This bank or credit money comes out of the special method of bank functioning. People deposit their savings in banks. Money can be withdrawn by cheque from these deposits. This is called real or primary deposit which comes from actual savings of the people. Depositors are confident that they will get cash when demanded and so cheques are accepted as money and real cash is rarely demanded.

5.3.1 Meaning :

Bank differs from other financial institutions because it can create credit. Banks have the ability to expand their demand deposits as a multiple of their cash reserves. This is because of the fact that demand deposits of the banks serve as the principal medium of exchange, and, in this way, the banks manage the payments system of the country.

In short, multiple expansion of deposits is called credit creation and the ability of the banks to expand the deposits makes them unique and distinguish them from other non-bank financial institutions. Demand deposits are an important constituent of money supply and the expansion of demand deposits means expansion of money supply. The whole structure of banking is based on credit. Credit means getting the purchasing power (i.e., money) now by a promise to pay at some time in future.

In the words of Kent, "Credit may be defined as the right to receive payment or the obligation to make payment on demand or at some future tune on account of an immediate transfer of goods." In a sense, the words credit, debt and loan are synonymous; credit or loan is the liability of the debtor and the asset of the bank. The word credit is derived from a Latin word 'credo', which means 'I believe'. The creditor believes that the debtor will return the loan and so decides to give the loan. Advancing credit or loan essentially depends upon the (a) confidence, (b) character, (c) capacity, (d) capital, and (e) collateral of the debtor. Bank credit means bank loans and advances. A bank keeps a certain proportion of its deposits as minimum reserve for meeting the demand of the depositors and lends out the remaining excess reserve to earn income. The bank loan is not paid directly to the borrower but is only credited hi his account. Every bank loan creates an equivalent deposit in the bank. Thus, credit creation means multiple expansions of bank deposits. The word 'creation' refers to the ability of the bank to expand deposits as a multiple of its reserves.

In nutshell, credit creation refers to the unique power of the banks lo multiply loans and advances, and hence deposits. With a little cash in hand, the banks can create additional purchasing power lo a considerable degree. It is because of the multiple credits creating power that the commercial banks have been aptly called the 'factories of credit' or 'manufactures of money'.

5.3.2 Definitions :

1) Newlyn :

"Credit creation refers to the power of commercial banks to expand secondary deposits either through the process of making loans or through investment in securities."

2) Halm :

"The creation of derivative deposits is identical with what is commonly called the creation of credit."

5.3.3 Basis of Credit Creation :

The basis of credit money is the bank deposits. The bank deposits are of two kinds viz., **1) Primary deposits, and 2) Derivative deposits.**

1) Primary Deposits:

Primary deposits arise or formed when cash or cheque is deposited by customers. When a person deposits money or cheque, the bank will credit his account. The customer is free to withdraw the amount whenever he wants by cheques. These deposits are called "Primary deposits". These deposits merely convert currency money into deposit money. They do not create money. They do not make any net addition to the stock of money. In other words, there is no increase in the supply of money.

2) **Derivative Deposits:**

Bank deposits also arise when a loan is granted or when a bank discounts a bill or purchase government securities. Deposits which arise on account of granting loan or purchase of assets by a bank are called "derivative deposits". Since the bank play an active role in the creation of such deposits, they are also known as "active deposits". When the banked sanctions a loan to a customer, a deposit account is opened in the name of the customer and the sum is credited to his account. The bank does not pay him cash. The customer is free to withdraw the amount whenever he wants by cheques. Thus the banked lends money in the form of deposit credit. The creation of a derivative deposit does result in a net increase in the total supply of money in the economy. Hartly Withers says "every loan creates a deposit". It may also be said "loans make deposits" or "loans create deposits". It is rightly said that "deposits are the children of loans, and credit is the creation of bank clerk's pen".

Granting a loan is not the only method of creating deposit or credit. Deposits also arise when a bank discounts a bill or purchase government securities. When the bank discounts a bill or purchase government securities. When the bank buys government securities, it does not pay the purchase price at ones in cash. It simply credits the account of the government with the purchase price. The government is free to withdraw the amount whenever it wants by cheque. Similarly, when a bank purchase a bill of exchange or discounts a bill of exchange, the proceeds of the bill of exchange is credited to the account of the seller and promises to pay the amount whenever he wants. Thus asset acquired by a bank creates an equivalent bank deposit. It is perfectly correct to state that "bank loans create deposits". The derivate deposits are regarded as bank money or credit. Thus the power of commercial bank to expand deposits through loans, advances and investments is known as "credit creation".

Thus, credit creation implies multiplication of bank deposits. Credit creation may be defined as "the expansion of bank deposits through the process of more loans and advances and investments".

5.3.4 Process of Multiple Credit Creation :

Banks grant loans by accepting some security, the loan amount is credited to the borrower's account and he is entitled to withdraw money from the account. Thus, every loan creates a deposit and bank is bound to pay cash on demand from this deposit also. Similarly, banks may buy shares, furniture or building and credit the amount in the account of the seller. The deposit created in this way has not brought any cash into the bank but has created claims over cash against the bank. These deposits are called secondary or derivative deposits. Every deposit whether real or derivative, is the liability of the bank as bank is duty bound to pay cash on demand by the depositors. Bank's profit increases with grant of more loans. In short, banks create more deposits from the cash available with them and people complete their transactions with these deposits. Therefore, money supply increases to the extent of deposits created by banks. Banks, thus, create money. Banks appear to be in an envious position of buying anything and in return, just, promising to pay. Though, most of the people will not demand cash from banks some will require cash and therefore, to retain the confidence of the people banks always have to ensure that they meet the demand for cash immediately. Experience tells banks how much cash is normally demanded by the people. Thus, they always keep a certain portion of their deposits in cash. This is called cash reserve ratio.

5.3.5 Example :

When more cash by way of primary deposit of say Rs. 100/- comes into a bank A, it will, say, keep 10% of cash and give a loan Rs. 90/-. Now the borrower will draw cheque on the account and the cash will go to other bank, B.Bank B, will keep 10% of Rs. 90/

- cash and give loan of Rs. 81/- which may go to Bank C and so on. Thus, in due course of time an initial primary deposits of Rs. 100/- will create deposits of Rs. 1000/- in the banking system as a whole. Thus, the process of credit creation is not confined to one bank but is the combined result of the banking system. With more banks and lesser cash reserve ratio, the larger will be credit creation and vice-versa. In other words, more deposits are created on the basis of small amount of cash. This power of banks of credit creation is not absolute and infinite.

5.3.6 Limitations :

Heoretically, the banking system can create unlimited amount of credit through expansion of deposits. However, in reality, the powers of banks to create multiple credit or deposits arc subject to a number of limitations as explained below:

1) Amount of Cash :

The extent of credit creation primarily depends upon the amount of cash possessed by the banks. Larger the amount of cash with the banking system, greater will be the credit creation, and vice versa. In the words of Crowther, "The bankers' cash is the level with which the whole gigantic system is manipulated." Thus, the power to create credit is limited by the bank's cash.

2) **Cash-Reserve Ratio :**

The size of credit multiplier is inversely related to the cash- reserve ratio. The higher the cash-reserve ratio, the smaller will be the volume of credit creation and vice versa.

3) **Leakages :**

The actual credit creation by the banking system may be considerably smaller than the potential credit creation due to certain leakages. There are at least two such leakages in the credit creation process:

i) **Excess Reserves :**

The banks may not be willing to utilise their surplus funds for granting loans and may decide to maintain excess reserves. Such a situation arises (a) when there are fear of significant rise in future interest rates or (b) when the economy is heading towards a recession. The greater the excess reserves, the smaller the credit multiplier.

ii) **Currency Drains :**

The credit creation multiplier mechanism assumes that the amounts of loans granted by the banks return to them by way of new deposits. However, the public may not keep the whole amount of loans in the banks and may withdraw some cash to hold it with themselves. This cash withdrawal or currency drain reduces the power of the banks to create credit.

4) **Availability of Borrowers :**

Banks create credit by means of loans and advances. Therefore the extent of credit creation depends on the availability of borrowers. If there are no borrowers, there will be no credit creation.

5) **Availability of Securities :**

Bank loans are granted against securities. In the words of Crowther, "the bank does not create money out of thin air; it transmutes other forms of wealth into money." Thus, the power of the bank to turn other assets into money (i.e. to create credit) is restricted by the availability of good securities.

6) **Credit Policy of Other Banks :**

All banks may not adopt the same credit policy. If some banks decide not to utilise their full capacity for credit creation and keep large cash reserves, the credit creation in the country will be limited to that extent.

7) **Banking Habits :**

Development of banking system and the banking habits of the people also influence the extent of credit creation. If people prefer to make transactions through cash and not by cheques, the banks will be left with a smaller cash and there will be lesser credit creation. Banking habits, in turn, depend upon the development of banking system. In the developed economics due to the large expansion of banking facilities, the banking habits are more conductive to credit creation than in developing economics.

8) **Business Conditions :**

Credit creation is further limited by the nature of business conditions. During depression, when due to low profit expectations businessmen do not come forward to borrow from banks, credit creation will be very small. On the other hand, during the period of business prosperity, the profit expectations are high, the businessmen approach the banks for loans and there will be greater credit creation. Hence credit creation will be smaller during depression and larger during business prosperity.

9) **Monetary Policy :**

The extent of credit creation largely depends upon the monetary policy of the central bank of the country. The central bank has the power to influence the money supply in the country. It can use various methods of credit control to influence the banks to expand and contract credit.

The financial position of a bank can be cleared from its balance sheet. The transactions are shown in the balance sheet of a bank. The form in which the balance sheet is to be maintained is given by law. The banks have to prepare their balance sheets in a specific form.

5.4.1 Items in the Balance Sheet :

1) Capital and Liabilities :

a) Capital :

The capital of the joint stock or co-operative banks is collected by issuing shares. To collect this capital the bank has to obtain permission. The banks get permission for collection of maximum amount which is called authorised capital. Out of this, the amount of the shares which have actually been sold and the value of which has been recovered is called paid-up capital. It is shown under the head of paid-up capital in the balance sheet.

b) **Reserves and Funds :**

It is obligatory for every bank to keep a reserve fund to be used in case of a crisis. So, the banks keep aside small percentage of their profits in these funds. They are called development or extension funds. Such amount is kept aside before the declaration of dividend on shares.

c) **Deposits :**

The largest amount of bank funds collected by every bank is in the form of deposits. So, this is a very important item in the balance sheet. Normally, deposits are of three types :

i) **Time Deposits or Fixed Deposits** :

These deposits are for a specific period. The longer the period of the deposit, the higher is the rate of interest. Banks can use these deposits for that period without the amount being withdrawn by the depositor.

ii) **Saving Deposits :**

People having a limited capacity to save, normally, deposit or invest their money under this category of deposits. Money, upto a certain limit, can be withdrawn by the depositors as and when required. The rate of interest on such deposits is less than that on time deposits.

iii) **Current Deposits :**

The depositor is entitled to withdraw the money deposited in these types of accounts at any time. One can also deposit the money at any time. This type of deposit is extremely suitable for traders and businessmen. These deposits are used like money and normally low interest is paid on these deposits.

d) **Loans / Borrowings :**

Like other business, a bank can obtain loans from the Central Bank and other banks. Out of these, the loans from the Central Bank are very important.

e) **Other Liabilities and Provisions :**

Every bank has certain liabilities. These include the drafts and cheques received by the bank but whose amounts are to be paid, or the hundies which have been accepted but not paid, the interest accrued on time deposits but which has not been disbursed, the profit or loss, etc.

2) **Property and Assets :**

a) Cash and Balance with Reserve Bank of India :

Every bank has to keep a certain amount of cash to meet the day-to-day demands of depositors and its own expenses. In the same way, every bank has to keep a deposit with the Central Bank, prescribed as a percentage of the total deposits collected by the bank.

b) **Money at Call and Short Notice :**

Every bank lends funds which can be recovered on demand or short notice. All such loans are called 'Call Money' or 'Money at Call'. These loans are for a period of 24 hours to 7 days.

c) **Investment :**

Banks invest their surplus money in various types of shares, debentures, government securities, etc. The main aim is to get as much profit as possible. But banks prefer government securities, shares or bonds, etc. because these can be easily disposed off in the open market if they need money.

d) **Loans and Advances :**

All banks give various types of loans. They give other loans in the form of cash credit, overdraft facilities and so on. Discounting hundies, trade bills, etc. is another way of giving loans. Loans are advanced against the security of gold, commodities, land, etc. Some loans are advanced without any security and are called personal loans or advances.

e) **Fixed Assets :**

The money invested in the fixed assets such as premises, building, furniture, etc. is to shown on the asset side of balance sheet.

f) **Other Assets :**

In addition to this, banks undertake the responsibility of recovering bills, hundies and other credit instruments on behalf of their clients. All such bills and other credit instruments, the money to be recovered are shown as dues to the bank.

g) **Contingent Liabilities :**

It includes bills for collection, claims against the bank not acknowledged as debts, liability for partly paid investment, guaranties given on behalf of customer, acceptances, endorsement and other obligations and other items for which the bank is contingently liable. These are the contingent liabilities of the bank.

5.4.2 Format :

C, THE THIRD SCHEDULE

(See Section 29) Form 'A'

Form of Balance Sheet

Balance Sheet of ....

(Here enter name of the Banking company)

Balance Sheet as on 31st March (Year) (000's omitted)

CAPITAL& LIABILITIES SCHEDULE AS ON 31.3...... AS

		(CURRENTYEAR)	(PREVIOUSYEAR)
Capital	1		
Reserve & Surplus	2		
Deposit	3		
Borrowings	4		
Other liabilities and provisions	5		
	Total	----------	----------

Assets			
Cash and Balance with Reserve Bank of India	6		
Balance with banks and money at call and short notice	7		
Investments	8		
Advances	9		
Fixed Assets	10		
Other Assets	11		
	Total	----------	----------
Contingent liabilities			
Bills for collection	12		

Unit:2
Negotiable Instruments

Introduction :

Exchange of goods and services is the basis of every business activity. Goods are bought and sold for cash as well as on credit. All these transactions require flow of cash either immediately or after a certain time. In modern business, large number of transactions involving huge sums of money take place everyday. It is quite inconvenient as well as risky for either party to make and receive payments in cash. Therefore, it is a common practice for businessmen to make use of certain documents as means of making payment. Some of these documents are called negotiable instruments.

6.1 Negotiable Instruments

Negotiable instruments are the most common credit devices which are freely used in handling commercial transactions. These instruments make possible monetary dealings without using cash balances. These instruments include exchanging documents like bill of exchange, promissory notes, cheques etc. These instruments make possible replacement of currency, paper notes and coins i.e. legal tender money. These instruments create a right in favour of some persons.

6.1.1 Meaning :

A negotiable instrument is a method of transferring a debt from one person to another. The word 'negotiable' means transferable from one person to another in return for consideration and instrument means a written document by which a right is created in favour of some person. Thus, a negotiable instrument is a document which entitles a person to a sum of money and which is transferable from one person to another by endorsement and delivery.

6.1.2 Definitions :

1) Section 13 of the Negotiable Instrument Act, 1881 :

"A negotiable instrument means a promissory note, bill of exchange or cheque payable either to order or to bearer."

2) Justice Willis :

"A negotiable instrument is one the property in which is acquired by anyone who takes it bona fide and for value notwithstanding any defect of title of the person from whom he took it."

6.1.3 Characteristics of Negotiable Instruments :

The Characteristics of Negotiable Instruments includes:

1) Freely Transferable :

A negotiable instrument is freely transferable which means that it can be transferred from one person to another easily and no legal formalities are necessary to be complied with a transfer. Usually, when we transfer any property to somebody, we are required to make a transfer deed, get it registered, pay stamp duty, etc. But, such formalities are not required while transferring a negotiable instrument. The ownership is changed by mere delivery (when payable to the bearer) or by valid endorsement and delivery (when payable to order). Further, while transferring it is also not required to give a notice to the previous holder.

Example :

S draws a bill on T as, "Pay to T Rs.80000." It is a valid negotiable instrument which is freely transferable from A to B.

2) Rights Of The Holder :

The holder of a negotiable instrument has the right to file a suit in his name for payment from all or any of the concerned parties. Holder in due course can sue in his own name without giving notice to the debtor (drawer) of his becoming holder. All prior parties are liable to him. A holder in due course can recover the full amount of the instrument.

Example :

C signs a negotiable instrument "I promise to B or order Rs. 100,000." It is a valid negotiable instrument where B has the right to recover Rs.100,000 from C.

3) Better Title:

This means that the title of holder is free from all defects and a person who receives a negotiable instrument has a clear and undisputable title to the instrument. However, the title of the receiver will be absolute, only if he has got the instrument in good faith and for a consideration. Also the receiver should have no knowledge of the previous holder having any defect in his title. Such a person is known as holder in due course.

Example :

Mr. X sold goods to Mr. Y worth Rs. 100,000 and received a promissory note in return from him. Afterwards B refused to honour promissory note claiming that the goods were not of agreed quality.

1) If Mr. X sues Mr. Y on the pro-note, Mr. Y's defence is good.

2) If Mr. X negotiates pro-note to Mr. Z (who is holder in due course), Mr. Y's defence will be of no avail.

4) Promise Or Order:

Promise or Order to pay must be unconditional which means that it contains an unconditional promise or order to pay. Negotiable instruments are payable to order which is expressed to a particular person. An instrument which does not restrict its transferability expressly is negotiable whether the word 'order' is mentioned or not. The word 'order' or 'bearer' is no longer necessary to render an instrument negotiable

Example:

Mr. A signs a negotiable instrument as "I promise to pay Mr. B or order Rs.100,000."

5) **Certain Amount:**

Payment must be in specific sum of money. This characteristic of negotiable instrument means that the person liable to pay on the instrument has to pay that sum of money mentioned in the instrument and nothing else than that and payment can be asked in currency but not in goods, etc.

Example:

Mr. P signs a note to Mr. Q, "I promise to pay Mr. Q Rs. 100,000 on 1st January next" is a valid note.

6) **Presumptions :**

Certain presumptions apply to all negotiable instruments.

a) **Consideration Present :**

Every Negotiable instrument is made, or drawn accepted, endorsed, negotiated or transferred for consideration.

b) **Date Drawn :**

Date mentioned on the instrument is the date on which it was made or drawn.

c) **Time of Acceptance :**

Every accepted bill of exchange was accepted within a reasonable time after its date and before its maturity.

d) **Time of Transfer :**

Every transfer of a negotiable instrument was made before maturity.

e) **Order Of Endorsement :**

Endorsements appearing on the negotiable instrument were made in the order in which they appear thereon.

f) **Stamp Duty :**

A lost or destroyed instrument was duly stamped and the stamp was duly cancelled.

g) **Holder :**

The holder of negotiable instrument is a holder in due course.

h) **Proof Of Protest :**

The proof of protest is evidence of dishonour.

7) **In Writing :**

A negotiable instrument needs to be in written form and an oral promise or order is not considered as a negotiable instrument.

Example :

A draws a bill on B as, "Pay Rs.50000 to Z or order." (in writing)

6.2 Promissory Note

6.2.1 Meaning :

A promissory note is a term used for accounting for a statutory document that declares the intention of an individual or an entity to pay an amount on demand or at a specified time.A promissory note can be written on the face value of a debt for an amount that would include accrued interest.

Example :

Suppose you take a loan of Rupeess Five Thousand from your friend Ramesh. You can make a document stating that you will pay the money to Ramesh or the bearer on demand. Or you can mention in the document that you would like to pay the amount after three months. This document, once signed by you, duly stamped and handed over to Ramesh, becomes a negotiable instrument. Now Ramesh can personally present it before you for payment or give this document to some other person to collect money on his behalf. He can endorse it in somebody else's name who in turn can endorse it further till the final payment is made by you to whosoever presents it before you. This type of a document is called a Promissory Note.

6.2.2 Definitions :

Section 4 of the Negotiable Instrument Act :

"A promissory note is an instrument in writing (not being a banknote or a currency note) containing an unconditional undertaking signed by the maker, to pay a certain sum of money only to, or to the order of a certain person, or to the bearer of the instrument".

The person who promises to pay is called the maker. The person who promises the payment is called the payee.

6.2.3 Characteristics :

1) **It Must be in Writing :**

A promissory note must always take the form of a written document. Mere verbal promise to pay will not do. The instrument may be written on any paper, on book or any other substitute for paper. The writing may be in pencil or ink. Writing includes printing, photography, and lithography.

2) **The Promise to Pay Must be Express :**

The essential of a promissory note is and express promise to pay. A mere acknowledgment of debt without express promise to pay is not a promissory note. A mere implied promise will not do. The words, "I am bound to pay" or "I am liable to pay" only constitute an acknowledgment of liability to pay and do not amount to an undertaking to pay.

3) **The Promise to Pay Must be Unconditional :**

A promissory note must contain an unconditional promise to pay. The promise to pay must not depend on the happening of a contingency. A conditional promissory note is not negotiable and hence invalid. A promise to pay 'when able' or as soon as I possibly can' is conditional. But the promise to pay does not become conditional if the amount is made payable at a particular place or after a specified time or on the happening of an event which must happen. Thus, a promise to pay Rs. 500 seven days after the death of B is not conditional for it is certain that B will die though the exact time of his death is uncertain. But a written promise to pay a sum of money within so many days after the marriage of the maker was not recognized as a promissory note because the maker may never marry and the sum may never become payable.

4) **It Must be Signed by the Maker :**

The signature of the maker on the face of the note is the most essential feature. In the absence of the signature of the maker, an instrument cannot be called a promissory note. Signing means writing one's name on some document or paper. Such signature need not be at the foot or at any particular part of the promissory note, but it must be so placed as to show that the person signing it is the author of the instrument. It may be a thumb-mark, initials or any other mark. Thumb-mark is sufficient when the maker is illiterate, but when he is able to write this mark will not be sufficient.

5) **The Maker Must be Certain :**

The maker of the note must be definite. The note must show on its face the person who is liable as a maker. He may be described by his name or designation. A promissory note may be made by two or more makers, and they may be liable thereon jointly or severally. Where a person signs in an assumed name, he is liable as a maker. A note signed "A or Else B" is not invalid. It is good against A and B but B becomes liable only on default by A.

6) **Promise Must be to Pay a Certain Sum :**

The amount promised to be paid by the promissory note must be certain and definite. If the amount to be paid is uncertain the instrument will not operate as a promissory note. The promise must be to pay a definite sum and nothing else. Thus, a promise to pay Rs. 2,000 and such other sums as may be due would not make the promissory note valid, because the amount promised is uncertain.

The sum promised to be paid does not become uncertain merely because:

a) There is a promise to pay the amount with interest at a specified rate;

b) There is a promise to pay compound interest;

c) The amount is to be paid at an indicated rate of exchange; or

d) The amount is payable by installments even with a provision that default being made in payment of an installment, the whole shall become due.

7) The Promise Should be to Pay Money and Money Only :

It is essential that the medium of payment must be money only and not bonds, bills or any other article. Thus, a document containing a promise to pay money and paddy is not a promissory note.

8) **The Payee Must be Certain :**

It is essential to the validity of a promissory note that the person who is to receive the money should be capable of being ascertained from the instrument itself. Where a document does not specify the person to whom the money is to be paid, it is not a promissory note. The payee should be certain on the face of the instrument and at the time of execution. The payee must be ascertained by name or by designation. A promissory note payable to the secretary of a club, or a manager of a bank or the principal of a college is regarded as payable to a certain person. A promissory note payable to several individuals is not invalid on the ground of uncertainty. Similarly a promissory note payable to either of the two persons specified therein cannot be said to be uncertain. A bank note or a currency note is not a promissory note as both of them are treated as money itself.

9) **It Should be Dated :**

The date of a promissory note is not material unless the amount is made payable at particular time after date. Even then, the absence of date does not invalidate the pro-note and the date of execution can be independently proved. However to calculate the interest or fixing the date of maturity or lm\imitation period the date is essential. It may be ante-dated or post-dated. If post-dated, it cannot be sued upon till ostensible date.

10) Demand :

The promissory note may be payable on demand or after a certain definite period of time. The rate of interest- It is unusual to mention in it the rated of interest per annum. When the instrument itself specifies the rate of interest payable on the amount mentioned it, interest must be paid at the rate from the date of the instrument.

11) Other formalities :

Formalities like number, place, attestation, etc., are usually found in the promissory note, but they are not essential to the validity of a promissory note that it should contain the name of the place where it is made or the place where it is payable. Similarly a promissory note under the Indian stamps act and must also be properly cancelled. An unstamped promissory note is not admissible in evidence and no suit can be maintained thereon.

6.2.4 Parties to Promissory Note :

There are primarily two parties involved in a promissory note. They are

1) The Maker or Drawer :

The person who makes the note and promises to pay the amount stated therein. In the above specimen, Sanjeev is the maker or drawer.

2) The Payee :

The person to whom the amount is payable. In the above specimen it is Ramesh.

In course of transfer of a promissory note by payee and others, the parties involved may be :

a) The Endorser :

The person who endorses the note in favour of another person. In the above specimen if Ramesh endorses it in favour of Ranjan and Ranjan also endorses it in favour of Puneet, then Ramesh and Ranjan both are endorsers.

b) The Endorsee :

The person in whose favour the note is negotiated by endorsement. In the above, it is Ranjan and then Puneet.

Specimen of promissory Note :

Rs. 3000/-	Mumbai
	5th January, 2005
Three months after date, I promise to pay Mr. Agarwal ororder a sum of Rs. 3000/- (Rupees Three thousand only)for value received.	
	Stamp
Mr. Agarwal	S/d

6.3 Bill of Exchange :

6.3.1 Meaning :

A bill of exchange is a written unconditional order by one party to another to pay a certain sum,either immediately or on a fixed date,for payment of goods and for services received.The drawee accpets the bill by signing it,thus converting it into a post dated cheque and a binding contract

6.3.2 Definition :

According to Section 5 or Negotiable Instrument Act :

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

6.3.3 Characteristics of Bill of Exchange :

1) Writing :

It must be in writing and may be in any language and in any form. No particular form of words is necessary. It may be written in ink or pencil or may even be printed or cyclostyled. It may be in any form but the words shall be visible.

2) Parties :

There must be three parties to the bill of exchange. They are drawer, drawee and payee. The person who draws a bill is called a drawer or maker. The person on whom the bill is drawn is called a drawee and the person to whom the money is to be paid is called a payee.

3) Order to Pay :

The bill of exchange must contain an order by the drawer to the drawee to pay under any circumstances. The order must be imperative and not in the form of excessive request.

4) Unconditional :

The order in the bill must be unconditional. It means that it must be payable under all events and circumstances. A promise or order to pay is not conditional simply because the time for payment of amount or any installment thereof being expressed to be payable on the happening of a specified event which is certain to happen although the time of its happening may be uncertain.

5) Signature :

The bill must be signed by the drawer.

6) Person Directed i.e., the Drawee Must be Certain :

The order to pay must be directed to a certain person. Certainty of the drawee helps the payee to present the bill for acceptance or payment to a certain person and also helps the drawee to know whether it is addressed to him or not. Drawee must be designated with reasonable certainty.

7) Money :

The order must be to pay money only.

8) Payee Must be Certain :

It must be payable to a definite person or his order. The payee must be certain. Bill may be made payable to two or more payees jointly or in the alternative.

9) Certain Sum :

The sum payable must be certain. The sum payable may be certain although it includes future interest or is payable at an indicated rate of exchange or is according to the course of exchange. Where rate of exchange is not specified, it shall be determined in the course of exchange on its maturity.

10) Stamping :

Bill of exchange is chargeable with stamp duty.

6.3.4 Parties to Bill of Exchange :

There are three parties involved in a bill of exchange. They are

1) Drawer :

The maker of a bill of exchange is called the 'drawer'.

2) Drawee :

The person directed to pay the money by the drawer is called the 'drawee',

3) Acceptor :

After a drawee of a bill has signed his assent upon the bill, or if there are more parts than one, upon one of such pares and delivered the same, or given notice of such signing to the holder or to some person on his behalf, he is called the ' acceptor'.

4) Payee :

The person named in the instrument, to whom or to whose order the money is directed to be paid by the instrument is called the 'payee'. He is the real beneficiary under the instrument. Where he signs his name and makes the instrument payable to some other person, that other person does not become the payee.

5) Indorser :

When the holder transfers or indorses the instrument to anyone else, the holder becomes the 'indorser'.

6) Indorsee :

The person to whom the bill is indorsed is called an 'indorsee'.

7) Holder :

A person who is legally entitled to the possession of the negotiable instrument in his own name and to receive the amount thereof, is called a 'holder'. He is either the original payee, or the indorsee. In case the bill is payable to the bearer, the person in possession of the negotiable instrument is called the 'holder'.

8) Drawee in Case of Need :

When in the bill or in any endorsement, the name of any person is given, in addition to the drawee, to be resorted to in case of need, such a person is called 'drawee in case of need'. In such a case it is obligatory on the part of the holder to present the bill to such a drawee in case the original drawee refuses to accept the bill. The bill is taken to be dishonoured by non-acceptance or for nonpayment, only when such a drawee refuses to accept or pay the bill.

9) Acceptor for honour :

In case the original drawee refuses to accept the bill or to furnish better security when demanded by the notary, any person who is not liable on the bill, may accept it with the consent of the holder, for the honour of any party liable on the bill. Such an acceptor is called 'acceptor for honour'.

6.3.5 Specimen of Bill of Exchange :

Rs. 10,000/- Mumbai

12th November, 2012

Three months after date pay to XYZ, or order the sum of ten thousand rupees for value received.

To,

ABC, Juhu Road,

Mumbai.

Signed

6.4 Cheque :

6.4 Cheque

Although forms of cheques have been in use since ancient times and at least since the 9th century, it was during the 20th century that cheques became a highly popular non-cash method for making payments and the usage of cheques peaked. By the second half of the 20th century, as cheque processing became automated, billions of cheques were issued annually; these volumes peaked in or around the early 1990s. Since then cheque usage has fallen, being partly replaced by electronic payment systems. In some countries like Poland cheques have become a marginal payment system or have been phased out completely.

6.4.1 Meaning :

A cheque is a document that orders a payment of money from a bank account. The person writing the cheque, the drawer, usually has an account where their money was previously deposited.

The drawer writes the various details including the monetary amount, date, and a payee on the cheque, and signs it, ordering their bank, known as the drawee, to pay that person or company the amount of money stated. Cheques are a type of bill of exchange and were developed as a way to make payments without the need to carry large amounts of money. While paper money evolved from promissory notes, another form of negotiable instrument, similar to cheques in that they were originally a written order to pay the given amount to whoever had it in their possession. Technically, a cheque is a negotiable instrument instructing a financial institution to pay a specific amount of a specific currency from a specified transactional account held in the drawer's name with that institution. Both the drawer and payee may be natural persons or legal entities. Specifically, cheques are order instruments, and are not in general payable simply to the bearer (as bearer instruments are) but must be paid to the payee. In some countries, such as the US, the payee may endorse the cheque, allowing them to specify a third party to whom it should be paid.

6.4.2 Definition :

According to Section 6 Negotiable Instrument Act. :

"Cheque is an instrument drawn on specific banker, ordering to pay specific amount, to a specific person, after the specific date." A cheque is also a bill of exchange, and it has two important features :

1) It is always drawn on specific banker by an account holder.

2) It is always payable on demand. This instrument has also three parties-drawer, drawee and payee. It is also an unconditional order on the banker.

6.4.3 Characteristics of Cheque :

The Characteristics of cheque are given below :

1) Instrument in Writing :

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

2) Unconditional Order :

Cheque must contain definite and an unconditional order to pay. A conditional instrument is invalid. For instance, if the cheque has a receipt form attached to it and the following words are added, "provided the receipt form at the foot is duly signed and dated," or if the amount is made payable out of a particular fund, the order will be regarded as conditional and hence the instrument containing such a direction cannot be regarded as a cheque.

3) On a Specified Banker Only :

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

4) Certain Sum of Money Only :

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

5) Amount of Cheque :

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

6) Payee to be Certain :

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

7) Signature :

The cheque must be signed by the drawer.

6.4.4 Parties to a Cheque :

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

1) Drawer :

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

2) Drawee :

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

3) Payee :

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

6.4.5 Types of Cheque :

Cheques are of following types :

1) Bearer Cheque :

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

2) Order Cheque :

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

3) Crossed Cheque :

When two parallel lines are drawn on the top left side of the cheque, it is called crossed cheque. The lines should be conspicuous. The lines may or may not contain the words '& Co'. When a cheque is crossed, the payment is not made across the counter but the amount is credited to the payee's account. He can then withdraw the amount from his account. A crossed cheque is an express instruction to the banker not to make cash payment. This is the safest type of cheque. This is called general crossing. Sometimes, name of a specific bank and branch is wrlitten between the lines. It means the cheque must be presented through that bank only. This is called special crossing. In such case, the amount is paid to the specific bank which in turn credits the amount to the payee's account. The words 'not negotiable' between the lines destroy the negotiability of the cheque.

4) Uncrossed/open cheque :

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

5) Anti Date Cheque :

If a cheque bears a date earlier than the date on which it is presented to the bank, it is called as "anti-dated cheque". Such a cheque is valid upto six months from the date of the cheque. For Example, a cheque issued on 10th Jan 2010 may bear a date 20th Dec 2009.

6) Post-dated Cheque :

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

7) Stale Cheque :

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

8) Multilated Cheque :

When a cheque is torn into two or more pieces and presented for payment, such a cheque is called a mutilated cheque. The bank will not make payment against such a cheque without getting confirmation of the drawer.

6.4.6. Crossing Of Cheque:

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

1) Meaning :

a) Meaning of Cross Cheque :

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

b) Crossed Cheque :

When two parallel lines are drawn on the top left side of the cheque, it is called crossed cheque. The lines should be conspicuous. The lines may or may not contain the words '& Co'. When a cheque is crossed, the payment is not made across the counter but the amount is credited to the payee's account. He can then withdraw the amount from his account. A crossed cheque is an express instruction to the banker not to make cash payment. This is the safest type of cheque. This is called general crossing. Sometimes, name of a specific bank and branch is written between the lines. It means the cheque must be presented through that bank only. This is called special crossing. In such case, the amount is paid to the specific bank which in turn credits the amount to the payee's account. The words 'not negotiable' between the lines destroy the negotiability of the cheque.

2) Types Of Crossing :

Crossing of cheques is of different types. They can be given as follows:

a) General Crossing :

A cheque is crossed generally when :

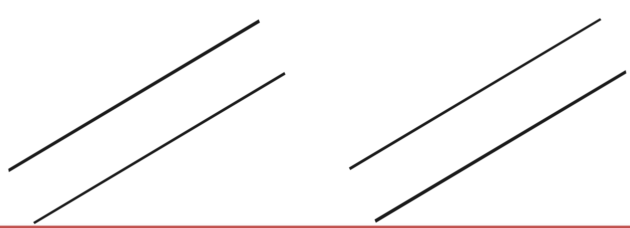
i) It has two transverse parallel lines marked across its face; or

ii) It bears an abbreviation " & Co" between the two parallel lines; or

iii) It bears the words "not negotiable" between the two parallel lines.

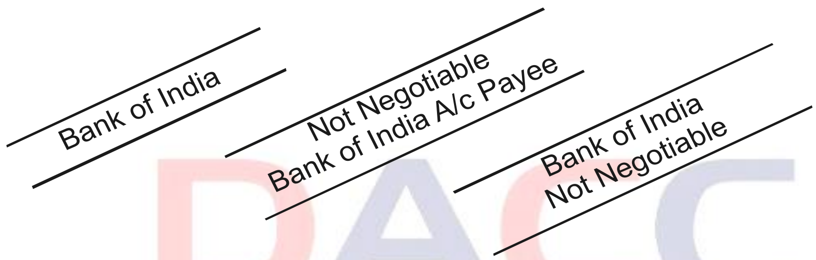
This crossing is a direction to the drawee banker to pay the sum only through a banker. The banker on whom it is drawn cannot pay it otherwise than to a banker. It is to be noted that such crossing does not affect negotiability of instrument. It does not restrict transferability of a cheque.

Specimens of General Crossing :



b) Special Crossing :

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



a) Not Negotiable Crossing :

Often cheques are crossed with two parallel transverse lines. The words "A/c payee" or "A/c payee only" are written between these two lines. It means that the proceeds of the cheque are to be credited to the account of the payee only. This kind of crossing is also called 'Restrictive crossing".

6.5 Difference Between Promissory Note and Bill of Exchange.

Points	Promissory Note	Bill of Exchange
1) Number of Parties	Two parties : **i)** Maker **ii)** Payee	Three Parties : **i)** Drawer **ii)** Drawee **iii)** Payee
Points	**Promissory Note**	**Bill of Exchange**
2) Payee	Maker of a promissory note can't be the payee.	Drawer and payee may be the same person.
3) Promise and Order	It is a promise to make the payment.	It is an order for making the payment.
4) Acceptance	Requires no acceptance as it is signed by the person who is liable to pay.	Must be accepted by the drawee before it can be presented for payment.

5) Nature of Liability	Liability of the maker is absolute and primary.	Liability of the drawer is secondary conditional. It arises only and when acceptor dishonours the bill.
6) Payable to Bearer	A promissory note can't be drawn 'payable to bearer' it is not drawn 'payable to bearer on demand.'	A bill of exchange can be so drawn provided.
7) Notice of Dishonour	Notice of dishonour is not necessary.	Notice of dishonour must be given by 'holder' to all prior parties who are liable to pay.
8) Nature of Payment	It contains an unconditional promise to pay.	It contains an unconditional order to pay.

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Points	Promissory Note	Bill of Exchange
9) Protest	No protest is required.	A foreign bill must be protested for dishonour when such protest is required by the law of the place where it is drawn.
10) Exemption	Provisions relating to presentment for acceptance, acceptance for supra protest do not apply.	These provisions apply.

Unit:3
Endorsement

Endorsement is nothing but a part of negotiation. Negotiation is the transfer of an instrument by one party to another so as to constitute the transferee a holder of that instrument. A bearer instrument can be transferred by mere delivery but an order instrument can be transferred by endorsement. An endorsement on a negotiable instrument has the effect of transferring all the

rights represented by the instrument to another individual. The ordinary manner in which an individual endorses a cheque is by placing his or her signature on the back of it but it is valid even if the signature is placed somewhere else, such as on a separate paper, known as an allonge which provides a space for a signature. In this chapter we are going to study the definition, meaning and various types of endorsements.

The word 'endorsement' in its literal sense means, a writing on the back of an instrument. But under the negotiable instruments Act it means, the writing of one's name on the back of the instrument or any paper attached to it with the intention of transferring the rights therein. Thus endorsement is signing a negotiable instrument for the purpose of negotiation. The person who effects an endorsements is called an 'endorser' and the person to whom negotiable instrument is transferred by endorsement are called the 'endorsee'. An endorsement on a negotiable instrument, such as a check or a promissory note, has the effect of transferring all the rights represented by the instrument to another individual. The ordinary manner in which an individual endorses a check is by placing his or her signature on the back of it, but it is valid even if the signature is placed somewhere else, such as on a separate paper, known as an allonge, which provides a space for a signature.

7.1.1 Meaning :

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

7.1.2 Definitions :

Section 15 of the Negotiable Instrument Act :

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

7.1.3 Parties of Endorsement :

Endorsement involves two parties :

i) Endorser :

The person making the endorsement.

ii) Endorsee :

The person to whom the instrument is endorsed.

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

Essentials of a valid Endorsement :

The following are the essentials of valid endorsement :

1) Must be on Instrument :

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

2) Endorsement by Maker or Holder :

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

3) Signature of Endorser :

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

4) No Specific Form :

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

5) Delivery :

It must be completed by delivery of the instrument. The delivery must be made by the endorser himself or by somebody on his behalf with the intention of passing property therein. Thus where a person endorses an instrument to another and keeps it in his papers where it is found after his death and then delivered to the endorsee, the latter gets no right on the instrument. If delivery is conditional endorsement is not complete until the condition is fulfilled.

6) Endorsement of Entire Bill :

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

There are seven kinds of endorsement. They are as follows :

1) Endorsement in Blank :

Where an endorsement on a bill of exchange specifies no endorse, it is an endorsement in blank. A bill so endorsed becomes payable to bearer. The same term applies to the endorsement of cheques. In such a case, so long as the form of words is prescribed for an endorsement, but intention to transfer must be present.

5) Delivery :

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Types of Endorsement

There are seven kinds of endorsement. They are as follows :

1) Endorsement in Blank :

Where an endorsement on a bill of exchange specifies no endorse, it is an endorsement in blank. A bill so endorsed becomes payable to bearer. The same term applies to the endorsement of cheques. In such a case, so long as the instrument continues in blank, the property in the instrument may pass by mere delivery, in the same manner as an instrument payable to bearer.

Any holder may convert a blank endorsement into full endorsement by writing above the endorser's signature a direction to pay the instrument to, or to the order of, himself or some other person.

Section 54 of Negotiable Instruments Act provides:

"Subject to the provisions hereinafter contained as to crossed cheques, a negotiable instrument indorsed in blank is payable to the bearer thereof even although originally payable to order."

2) Endorsement in Full :

If the endorser adds a direction to pay the amount specified in the instrument to, or to the order of, a certain person, then the endorsement is said to be in full. By inscribing his name on the back of an instrument, the endorser guarantees to his immediate endorsee or a subsequent holder in due course, that at the time it left his hands, he had a good title to it and that it was genuine in every particular. He also attests thereby, that all the endorsements made prior to this, are genuine.

The holder of a negotiable instrument indorsed in blank may without signing his own name, by writing above the indorser's signature a direction to pay to any other person as indorsee, convert the indorsement in blank into an indorsement in full, and the holder does not thereby incur the responsibility of an indorser. If a negotiable instrument, after having been indorsed in blank, is indorsed in full the amount of it cannot be claimed from the indorser in full, except by the person to whom it has been indorsed in full or by one who derives title through such person.

Specimen of Endorsements in full :

1) Pay to Ramesh Pawar or Order Madhav Gupte

2) Pay to Ashutosh Sharma Anand Phadake

3) Conditional Endorsement :

Ordinarily, an endorser binds himself to pay upon no other condition than the dishonour of the instrument on due notice of dishonour to him. However, if he likes he may make his own liability on the instrument subject to a condition, in which case the endorsement is termed a conditional endorsement. Again, he may make his liability dependent upon the happening of a contingent event or make the right of the endorsee to receive the payment in respect of the instrument dependent upon the happening of such an event.

The conditions thus added may be either conditions precedent or conditions subsequent. In the former, no right to recover the amount passes to the endorsee, until the fulfilment of the conditions. If it be a subsequent condition, the endorsee's right is defeated on its fulfilment. Thus, if the endorsement is 'Pay to X if he returns from Mumbai within a year', then the right to receive payment becomes absolute only if Mr. X arrives within a year from the date of the endorsement on the instrument. The condition attached to endorsements does not affect the negotiability of the endorsement endorsed.

4) Restrictive Endorsement :

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

5) Sans Recourse Endorsement :

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

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

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

If an instrument is endorsed in full the signature of the person to whom or to whose order the instrument is negotiated must be a genuine one, for the title to the instrument can only be made through his endorsement. If a bill or note be negotiated by means of a forged endorsement, a person claiming under that endorsement, though he be a purchaser for value and in good faith, cannot acquire the rights of a holder in due course. He acquires no title to the bill or promissory note

6) Facultative Endorsement :

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

Example :

Pay A or order. Notice of dishonour waived.

7) Partial Endorsement :

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

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

Illustration :

The maker of a promissory note for Rs. 5000/- pays Rs. 2,000 and the fact is noted on the instrument. The holder can negotiate the note for the balance amount of Rs. 3,000/-.

But take a case like this :

A is the holder of a bill of Rs. 1,000/-. A endorses it thus : "Pay B or Order Rs. 500". This is a partial endorsement and invalid for the purpose of negotiation.

7.4 Effects of Endorsement

A) Meaning :

Section 50 of the Negotiable Instrument Act deals with effects of endorsement. The endorsement of a negotiable instrument followed by delivery transfers to the endorsee, the property therein with the right of further negotiation. The endorsement may be, by express words, restrict or exclude such right, or may merely constitute the endorsee, an agent to endorse the instrument, or to receive its contents for the endorser or for some other specified person.

B) Illustration :

B signs the following endorsement on different negotiable instruments payable to bearer :

i) "Pay the contents to C only."

ii) "Pay C for my use."

iii) "Pay C or order for the account of B."

iv) "The within must be credited to C". These endorsements exclude the right of further negotiation by C.

v) "Pay C".

vi) "Pay C value in account with the Oriental Bank".

vii) "Pay the contents to C being part of the consideration in a certain deed of assignment executed by C to the endorsers and others."

These endorsements do not exclude the right of further negotiation by C.

C) Endorsement thus Assures :

i) Transfer of ownership in the instrument to the endorsee.

ii) Right of further negotiation to anyone.

iii) Gives the right of action to the endorsee against all parties whose names appear on the instrument.

iv) That the instrument is genuine and all prior endorsements are genuine.

It is a fundamental principle of law relating to negotiable instruments that no one whose name does not appear in the instrument can be held liable thereon as there is no privity of contract between the endorsee and the maker or acceptor. It must be noted that the above effects result when the endorsement is unconditional.

D) Effects of Endorsement :

i) Effect of Unconditional Endorsement :

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

ii) Effect of an Endorsement in Blank :

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

iii) Effect of a Restrictive Endorsement :

The following are the effects of a restrictive endorsement :

a) To restrict or prohibit any further endorsement and negotiation thereafter;

b) To constitute the endorsee as the agent of the endorser, to endorse the document; or

c) To constitute the endorsee as an agent to receive its contents for some other person specified therein However, in case of an instrument made payable to the joint payees or the endorsees, it must be endorsed by all of them jointly, failing which such endorsement may be held invalid in the eye of law, even if it is endorsed in favour of another person.

iv) Effect of a Forged Endorsement :

A negotiable instrument, endorsed in full, cannot be negotiated or endorsed any further except where such endorsement is made by the same person to whom it was originally made payable (or to his order) or where it was endorsed in full in his favour (or to his order). But then, if such instrument is negotiated by endorsement, by forging the signature of such specific payee or endorsee, the endorsee in such cases will not acquire any titile, even in the cases where such endorsee may be the purchaser for value and in good faith. This is so because a forged endorsement is a nullity in the eye of law.

As against the case involving endorsement in full, in the case of an endorsement in blank, it can be negotiated by mere delivery, as no endorsement is required in the case of a bearer instrument. That is, the holder of such an instrument derives his legal title thereon just by its delivery, and thus, can claim the amount of the instrument from any of the parties involved therein, irrespective of the fact whether any endorsement is there or not. Thus, as the endorsement itself is ignored and not taken any cognisance or notice thereof, in the case of a bearer instrument (and likewise, in the case of a blank endorsement), the endorsement being genuine or even a forged one, does not matter or alter the legal position in any way.

Unit:4
Technology in Banking

Technology has brought about a complete paradigm shift in the functioning of banks and delivery of banking services. Gone are the days when every banking transaction required a visit to the bank branch. Today, most of the transactions can be done from the comforts of one's home and customers need not visit the bank branch for anything. Technology is no longer an enabler, but a business driver. The growth of the internet, mobiles and communication technology has added a different dimension to banking. The information technology (IT) available today is being leveraged in customer acquisitions, driving automation and process efficiency, delivering ease and efficiency to customers. Many of the IT initiatives of banks started in the late 1990s, or early 2000, with an emphasis on the adoption of core banking solutions (CBS), automation of branches and centralisation of operations in the CBS. Over the last decade, most of the banks completed the transformation to technology-driven organisations. Moving from a manual, scale-constrained environment to a global presence with automated systems and processes, it is difficult to envisage the adverse scenario where the sector was in the era before the reforms, when a simple deposit or withdrawal of cash would require a day. ATMs, mobile banking and online bill payments facilities to vendors and utility service providers have almost obviated the need for customers to visit a branch. Branches are also transforming from operating as transaction processing points into relationship management hubs.

Need of Technology of Banking

1) Liberalisation :

With adoption of the new economic policy in 1991, Indian economy is being opened by removing restrictions on flow of goods and finance. In foreign banks, foreign direct and portfolio investments are allowed.

2) Increase in Bank Deposits :

Deposits of NRIs are being solicited. The procedure is being made easy skipping over RBI permission.

3) Extension of Branches :

Indian banks are also opening their branches in many countries. Thus, India's external financial transactions are bound to increase manyfold to USA, Europe South Asian Countries, Japan, Middle East countries, etc.

4) Increasing Transactions :

With the extension of branches the transactions have been increased to handle these transactions efficiently, Indian banks have to computerise and modernise their operations. They have to go in for e-mail facility, networking, satellite based cheque clearing system,etc. The nationalised banks can conveniently pool their resources and erect common facilities as is done by banks in Europe and America. They have established a common facility for fund transfer, called SWIFT (Society for the Worldwide Interbank Financial Telecommunication).

5) Increasing Competition :

Foreign banks are entering in the banking sector if 80% of Indian banking business is computerised and interconnected, it will provide very cheap banking service and withstand competition from foreign banks. The Electronic Fund Transfer System can be used both for Indian and foreign customers. It will transfer funds cheaply, quickly and reduce burden on postal department. In short, Indian banking is now on the threshold of "anytime, anywhere" banking era.

8.2 Importance of Technology of Banking

Introduction of computer and other electronic technologies in banks has the following advantages which state the importance of such new technology in banking :

1) Increase in Efficiency :

Efficient and quick service to customer can be provided with the help of modern technologies.

2) Handling of Information :

Creation of up-to-date monitoring and information system and strengthening internal control and housekeeping and reporting functions are provided. Sorting of information becomes easy.

3) Cost Reduction :

There is reduction in cost including floor space because of the use of modern techonology.

4) Accuracy :

The clearing of cheques, pass book entries, inter-branch and inter-bank reconciliation and such other functions can now be carried out quickly, correctly and legibly with modern technology.

5) Customer Service :

With internet facility, the customers need not go to the bank office. All banking transactions and updating of accounts can be done while at home or in transit. Networking means sharing of information, giving messages and being in face to face contact even when apart. It is the meeting without moving.

6) Easy Communication :

Internet connects thousands of computers which can work 24 hours a day throughout the year. There is no more the tyranny of working hours. The business of banks with customers, head office, other banks, branches is being fully computerised in western countries and India has also to move in that direction to service in international competition.

8.3 E-banking

The world is changing at a staggering rate and technology is considered to be the key driver for these changes around us. An analysis of technology and its uses show that it has permeated in almost every aspect of our life. Many activities are handled electronically due to the acceptance of information technology at home as well as at workplace. Slowly but steadily, the Indian customer is moving towards the internet banking. The ATM and the Net transactions are becoming popular. But the customers clear on one thing that he wants net-banking to be simple and the banking sector is matching its steps to the march of technology. E-banking or Online banking is a generic term for the delivery of banking services and products through the electronic channels such as the telephone, the internet, the cell phone etc. The concept and scope of e-banking is still evolving. It facilitates an effective payment and accounting system thereby enhancing the speed of delivery of banking services considerably.

8.3.1. Meaning :

Electronic banking is one of the truly widespread avatars of E- commerce the world over. E-banking refers to electronic banking. It is like E-business in banking industry. E-banking is also called as "Virtual Banking" or "Online Banking". E-banking is a result of the growing expectations of bank's customers. E-banking involves information technology based banking. Under this I.T. system, the banking services are delivered by way of a Computer-Controlled System. This system does involve direct interface with the customers. The customers do not have to visit the bank's premises. Online banking can simply be defined as the process of entering into transactions by a particular client and the bank using modern technology. With the various capabilities of the computer and other technological developments, online banking is one of the many businesses that benefited from it. Since banking plays a very important role in the economy of a nation, then there is truly a need to maximise and improve its features to be client friendly and easy to access.

8.3.2. Evolution of E-banking :

The story of technology in banking started with the use of punched card machines like Accounting Machines or Ledger Posting Machines. The use of technology, at that time, was limited to keeping books of the bank. It further developed with the birth of online real time system and vast improvement in telecommunications during late1970's and 1980's.it resulted in a revolution in the field of banking with "convenience banking" as a buzzword. Through Convenience banking, the bank is carried to the door step of the customer. The 1990's saw the birth of distributed computing technologies and Relational Data Base Management System. The banking industry was simply waiting for the technologies. Now with distribution technologies, one could configure dedicated machines called front-end machines for customer service and risk control while communication in the batch mode without hampering the response time on the front-end machine.

Traditional banking	Virtual or E-banking
Gunpowder	Nuclear charged
Personalised services, timeconsuming, limited access	Real time transactions, integrated platform, all time access

Intense competition has forced banks to rethink the way they operated their business. They had to reinvent and improve their products and services to make them more beneficial and cost effective. Technology in the form of E-banking has made it possible to find alternate banking practices at lower costs. More and more people are using electronic banking products and services because large section of the banks future customer base will be made up of computer literate customer, the banks must be able to offer these customer products and services that allow them to do their banking by electronic means. If they fail to do this will, simply, not survive. New products and services are emerging that are set to change the way we look at money and the monetary system.

8.3.3. Features of E-banking :

1) Transactional :

a) Electronic Bill Presentment and Payment (EBPP)

b) Funds transfer between customers own checking and savings accounts, or to another customers account.

c) Investment purchase or sale.

d) Loan application and transactions such as repayments. (e.g. performing a financial transaction such as an account to account transfer, paying a bill or applications like applying for

a loan, new account, etc.)

2) Non-transactional :

Financial Institution Administration- features allowing financial institutions tomanage the online experience of their end users.ASP/ Hosting Administration - features allowing the hosting company to administerthe solution across financial institution. (e.g. online statements, Check links, Chat, Co-browsing etc.)

8.3.4. Benefits :

In recent time E-banking has spread rapidly all over the globe. All Banks are making greater use of E-banking facilities to provide better service and to excel in competition. The spread of E-banking has also greatly benefited the ordinary customer in general and corporate world in particular. The following points summarise benefits of E-Banking.

A) Benefits to Consumers :

General consumers have been significantly affected in a positive manner by E-banking. Many of the ordinary tasks have now been fully automated resulting in greater ease and comfort.

1) Customer's account is extremely accessable with an online account.

2) Customer can withdraw at any time through ATMs that are now widely available throughout the country.

3) Besides withdrawing cash customers can also have mini banks statements balance inquiry at these ATMs.

4) Through Internet Banking customer can operate his account while sitting in his office or home. There is no need to go to the bank in person for such matter.

5) E banking has also greatly helped in payment of utility bill. Now there is no need to stand in long queues outside banks for this purpose.

6) All services that are usually available from the local bank can be found on a single website.

7) The Growth of credit card usage also owes greatly to E- banking. Now a customer can shop worldwide without any need of carrying paper money with him.

8) Banks are available for 24 hours a day, seven days a week and they are only a mouse click away.

B) Benefits to Banking Industry :

Banking industry has also received numerous benefits due to growth of E-Banking infrastructure. They are highlighted below:

1) The growth of E-banking has greatly helped the banks in controlling their overheads and operating cost

2) Many repetitive and tedious tasks have now been fully automated resulting in greater efficiency, better time usage and enhanced control.

3) The rise of E-banking has made banks more competitive. It has also led to expansion of the banking industry, opening of new avenues for banking operations.

4) Electronic banking has greatly helped the banking industry to reduce paper work, thus helping them to move the paper less environment.

5) Electronic banking has also helped bank in proper documentation of their records and transactions.

6) The reach and delivery capabilities of computer networks, such as the Internet, are far better than any branch network.

C) Benefits to General Economy :

Electronic Banking as already stated has greatly serviced both the general public and the banking industry. This has resulted in creation of a better enabling environment that supports growth, productivity and prosperity. Besides many tangible benefit in form of reduction is cost, reduced delivery time, increased efficiency, reduced wastage, E-banking electronically controlled and thoroughly monitored environment discourage many illegal and illegitimate practices associated with banking industry like money laundering, frauds and embezzlements. Further E-banking has helped banks in better monitoring of their customer base. It is a useful tool in the hand of the bank to device suitable commercial packages that are in conformity with customer needs. As E-banking provides opportunity to banking sector to enlarge their customer base, a consequence to increase the volume of credit creation which results in better economic condition. Besides all this E-banking has also helped in documentation of the economic activity of the masses.

8.3.5. Disadvantages :

The following are the disadvantages of E-banking :

1) Bank Relationship :

A traditional bank provides the opportunity to develop a personal relationship with that bank. Getting to know the people at your local branch can be an advantage when a customer needs a loan or a special service that is not normally offered to the public. A bank manager usually has some discretion in changing the terms of customer's account if the customer's personal circumstances change. They can help customers solve problems such as reversing an undeserved fee. The banker also will get to know the customer and his unique needs. If the customer has a business account, this personal relationship may help if the customer needs capital to expand. It's easier to get the bank's support if there is someone who understands customer's business and vouch for his operating plan.

2) Transaction Issues :

Sometimes a face-to-face meeting is required to complete complex transactions and address complicated problems. A traditional bank can host meetings and call in experts to solve a specific issue. Moreover, international transactions may be more difficult (or impossible) with some direct banks. If a customer deposits cash on a regular basis, a traditional bank with a drive-through window may be more practical and efficient.

3) Service Issues :

Some direct banks may not offer all the comprehensive financial services such as insurance and brokerage accounts that traditional banks offer. Traditional banks sometimes offer special services to loyal customers such as preferred rates and investment advice at no extra charge. In addition, routine services such as notarization and bank signature guarantee are not available online. These services are required for many financial and legal transactions.

4) Security :

Direct banks are subject to the same laws and regulations as traditional banks and accounts are protected by the FDIC. Sophisticated encryption software is designed to protect your account information but no system is perfect. Accounts may be subject to phishing, hacker attacks, malware and other unauthorised activity. Most banks now make scanned copies of cleared checks available online which helps to avoid and identify check fraud. It enables verification that all checks are signed by the customer and that dollar or euro amounts have not been changed. The timely discovery of discrepancies can be reported and investigated immediately.

8.3.6. Services Covered Under E-banking :

I) ATM :

1) Meaning :

ATM is the automation of the Teller. An ATM is an electronic cash providing and accepting machine. These machines are installed to provide access to cash to the bank customers any time of the day. One need not worry about the working hours of the bank. It is a self service counter open 24 hours a day for 365 days of the year. A customer who wishes to avail of the ATM facility has to maintain certain minimum balance. There is maximum limit on withdrawal. The customer is issued with the ATM card. It has a Personal Identification Number (PIN) which is known only to the customer. The customer first inserts the card in the slot. The machine examines the genuineness of the card and the door is opened automatically. After that, the customer presses the keys of his PIN and the required cash flows out. The ATM also accepts cheques and cash deposits. They may be installed at shopping centres, airports, railway stations or located within bank premises. The ATM requires currency notes which are not folded and can move easily in a machine. The ATM supplies notes of certain denominations only.

2) Facilities :

In the automated teller machine facility following points to be considered :

a) ATM Machine :

ATM is terminal of the bank's computer which can be operated by the customer himself for withdrawal, deposits of cash, balance enquiries, transfer of funds, statements of accounts round the clock.

b) Video Screen :

The terminal is coupled with a video screen. It has also a cash dispenser which gives currency notes as per instruction of the computer

c) ATM Card :

The customer is supplied with an ATM card. It has MICR coding by which computer identifies the customer. Besides this, the customer is given his secret personal identification number (PIN). He can operate the computer by inserting the card in the slot of ATM window and then giving his identification number.

d) PIN :

PIN is given by the computer while operating the account and even Bank staff does not know this number.

e) Terms and Conditions about Withdrawal :

The ATM card provides the term and conditions of operation like maximum withdrawal per transaction per day, the maximum balance to be maintained, etc. compared with credit card, an ATM card is a debit card.

3) Advantages :

The advantages of ATM services are as follows :

a) 24 Hours Availability :

Service is available 24 hours a day and seven days a week.

b) Convenient Place :

It can be placed in convenient off branch locations like shops, factories, offices.

c) Privacy of Operation :

It ensures privacy of operation through self-service.

d) No Need of RBI's Permission :

Banks need not obtain RBI's permission for installing ATMs in their branches/ extension counters.

e) No Time Limit for Transaction :

One can do the transaction while going to office or while returning home or while going to shopping or on holidays. The choice of time is unlimited.

f) Quick and Efficient Service :

ATM offers quick and efficient service. It is professional service. Since the machine is programmed and many driven the customer knows how to operate the ATM in simple specified steps and no time is wasted.

g) Fixed Response to Customer :

Response of ATM to customer is fixed. The ways the transactions are to be carried out in logical steps are programmed. Further, the operation is to be carried out within specific time limit. If the customer does not respond within that time, the transaction is aborted. This time limit is pre-set by the bank

4) Limitations :

The limitations of ATM are as follows :

a) Limitation on Withdrawals :

Cash withdrawals for large amount are not permitted. It is restricted by the amount fixed for the card.

b) Restriction on Cash Dispensations :

Cash dispensations are generally restricted to certain denominations of currency. As such, withdrawals are to be made only in certain multiples.

c) Limited Functioning :

The ATM performs only the limited functions. For other banking activities like credit limits, locker facilities, etc. the customer has to approach the bank in person or by other means.

II) Credit Card :

A credit card is a payment card issued to users as a system of payment. It allows the cardholder to pay for goods and services based on the holder's promise to pay for them. The issuer of the card creates a revolving account and grants a line of credit to the consumer (or the user) from which the user can borrow money for payment to amerchant or as a cash advance to the user. A credit card is different from a charge card: a charge card requires the balance to be paid in full each month. In contrast, credit cards allow the consumers a continuing balance of debt, subject to interest being charged. A credit card also differs from a cash card, which can be used like currency by the owner of the card. A credit card differs from a charge card also in that a credit card typically involves a third-party entity that pays the seller and is reimbursed by the buyer, whereas a charge card simply defers payment by the buyer until a later date.

1) Meaning :

Credit cards were first introduced by travel agencies and the idea was later picked up by banks. They are made of plastic material and therefore called 'plastic money'. A card issued by a financial company 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. Interest usually begins one month after a purchase is made and borrowing limits are pre-set according to the individual's credit rating.

2) Features of Credit Card :

a) Parties :

The credit card system has three parties - the bank issuing the credit card; the account holder using the card and the establishments accepting the cards for payment of goods and services sold.

b) Specific Person :

A customer with assured and substantial income and who maintains good account is issued with a credit card.

c) Size of the Card :

The cards are of standard size and thickness.

d) Details :

The details such as name of the cardholder, account number, validity date are embossed on the card so that they can be checked with imprinter machine.

e) Specimen Signature :

The card also bears specimen signature of the card holder.

3) Advantages of Credit Card :

a) Purchasing :

These cards can be used for purchase of goods, getting services from hotels, railway stations, airlines upto a specified limit.

b) Easy Transaction :

The cardholder signs the invoice which is then sent to the bank which in turn makes payment to the seller or provider of services. Later, the bank recovers the money from the account holder. This saves the customers from the trouble and danger of carrying cash with them while travelling.

c) Other Uses :

Some banks even allow withdrawal of cash from their branches. The credit cards can be used for payment of telephone bills or for buying a jewellery.

d) Increase in Business :

The business of the establishment increases and the banks get higher rate of interest or some fee is charged. The establishments accepting credit cards enter into agreement with the banks. The supplier verifies the card with the help of imprinter machine.

In this way credit card is useful to all. It has become a status symbol in India though in foreign countries it has become quite common.

4) Disdvantages of Credit Card :

a) The high interest rates :

Compared to regular bank loans, credit cards have extremely high interes rages. Sometimes this interest rate can be as high as 20% for any purchases that are not paid in full at the end of the month.

b) The illusion of "Free Money" :

Credit cards create the illusion of free money and this leads to the temptation to overspend. This makes credit card owners want to purchase things they don't need. Apparetly signing a piece of paper isn't the same as paying in cash. People that are bad at budgeting are the ideal customers for credit card companies, and they know it.

c) The Danger of an Unpaid Balance :

Because you are only billed once a month it is easy to forget how much you spent that same month. This way many credit card users spend more than they can cover at the end of the month. In just a couple of months of unpaid balances the interest rate can be enough to become the start of a long term debt problem.

d) Credit Card Thef and Fraud :

The last but probably most important disadvantage and risk of using credit cards is the posibilty of fraud or theft. There is no need for a modern thief to take your credit card physically, all he needs is some numbers and your money can dissapear from your bank account.

It is important you check each monthly statement to find any clues of fraud

III) Debit Card :

Debit cards are also known as cheque cards. Debit cards look like credit cards or ATM cards but operate like cash or a personal cheque. Debit cards are accepted at many locations including grocery stores, retail stores, gasoline stations and restaurants. One can use his/her card anywhere. It is an alternative to carry a cheque book or cash. There is a difference between credit cards and debit cards. A credit card is a way to "Pay later" while a debit card is a way to "pay now". When one uses a debit card his/her money is quickly deducted from his/ her savings account. When one uses a debit card one is subtracting one's money from his/her own bank account. Debit cards allow one to spend only what is in her/his bank account. It is a quick transaction between the merchant and one's personal bank account. Obtaining a debit card is often easier than obtaining a credit card.

1) Meaning :

A debit card (also known as a bank card or check card) is a plastic payment card that provides the cardholder electronic access to his or her bank account(s) at a financial institution. Some cards have astored value with which a payment is made, while most relay a message to the cardholder's bank to withdraw funds from a payee's designated bank account. The card, where accepted, can be used instead of cash when making purchases. In some cases, the primary account number is assigned exclusively for use on the Internet and there is no physical card.

2) Advantages Of Debit Card :

a) Prepaid Card :

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

b) Nominal Fee :

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

c) Alternative to Cash :

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

d) Immediate Transfer of Funds :

Debit card ensures immediate transfer of funds in the merchant's or dealer's bank account. Such a transfer of funds takes place almost instantly at the moment of purchases of goods and receipts of services. With its use, there is no need to visit bank's office premise and do a manual transfer of cash in the merchant's or dealer's bank account. Thus, it saves precious time and gives ease, safety, and comfort to its holder in his or her's finance- related activities.

e) Instant Withdrawal of Cash :

The debit card facilitates instant withdrawal of cash from any nearest ATM. This helps its holder to avoid a personal visit to bank's office premise and wait in a long time- consuming queue. In short, it also acts as an ATM card to meet its holder's cash-related needs, anytime and anywhere.

f) Easy to Manage :

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

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

g) Earns Bonus Points :

Now-a-days, the competition among debit card providers (banks) is challenging. Today, most banks offer bonus points to encourage their cardholders (customers) to make purchases using their debit cards. Banks are able to offer such points to their cardholders as it's merchants and not them who actually run the reward program. After every successful sale, a merchant gives the bank a small cut- off or percentage as a commission. This commission is further shared or divided by the bank with its holder (as a reward) who did the original purchase. Thus, in return, it finally also helps the cardholder earn bonus points on selected financial transactions executed by him or her via a debit card.In this cycle, all, viz., bank, merchant, and cardholder are directly benefited. Bank offers an incentive like this to improve the sale of the products in the ordinary course of business and contribute in the economic growth.

h) Gifts on redeeming points :

As we have seen above, debit card helps to accumulate bonus points through a reward program. These points can be redeemed by the cardholder (within card's expiration date) at any merchant website and/or outlet that bank has already authorised. While redeeming accurred points, cardholder gets an idea of its worthiness in terms of amount, and so he/she proceeds to claim gifts nearly equal to that amount.

i) Free insurance coverage :

Debit-cardholders also gets free insurance coverage. The bankers provide such insurance facilities to attract new customers and to maintain their current customer strength. They provide various types of insurances for free to their cardholders:

- Insurance on loss of debit card,
- Purchase insurance,
- Personal insurance,
- Accidental insurance,
- Travel insurance, and so on.

However, these types of insurances are given freely to cardholders depending on which type of debit card they have possessed.The cost of insurance premium is borne by the bankers who provide debit cards to their customers.

j) Miscellaneous advantages :

Miscellaneous advantages of debit card are as follows:

 Debit card acts as an alternative to a traditional cheque payment.

 It helps to budget one's expenses and do a responsible spending of own money within account limits.

 Its holder uses his own money and not any borrowed (loaned) money. Unlike a credit card, here, no interest is charged. Hence, its transactions are interest free.

 It is accepted internationally, by e-commerce websites, and almost everywhere by merchants who display the logo of payment processing companies like VISA, Master Card, American Express, etc. This ensures making successful payments anywhere in the world with ease.

 It offers optimum levels of security. This greatly minimizes the chances of fraud, misuse and theft of money.

 Overall, it enhances the banking experience of a cardholder.

3) Disadvantages of Debit Card :

A few disadvantages are also associated with debit cards. These are as follows :

a) Unprotected against identity theft :

Debit cards are protected only by an encrypted number, known as PIN. This PIN cannot give protection against identity theft. Anyone carrying the card can access the account fi the PIN is known.

b) Incapable of business Transactions :

In most cases, the issuing banks limit the maximum amount that can be withdrawn or transfered by the customer. This hinders business transactions where the volume and the value of the amount involved are considerably high.

c) Terminal Dependent :

Only merchants having an electronic terminal can perform transactions through debit cards. Moreover, a customer can access account only from the place where the issuing bank’s outlet terminal exists.

IV) Tele Banking :

Without visiting the bank one can receive the services of banks. The device used for this purpose is called 'tele-banking'. This is a fast and convenient way of obtaining services from the banks by using a telephone. One can receive the services such as information about account, conduct of selected transactions, report of loss of ATM card, debit card, credit card or cheque book, etc. To avail this facility any bank customer can apply to the bank. However, the bank manager has discretion to reject this facility. The facility can be available for all customers having savings or current accounts in their

individual capacity in the bank offering this facility. The information transactions are obtained from a PC loaded with the latest information of the accounts from bank's records through periodic "Data pumping" exercise an interval determined by the bank based on their perception of customer's requirements.

The customers are given passwords in addition to their account numbers which are their log-in ID. The customers should be very careful to maintain secrecy of passwords and PIN numbers. The customer has to call from a telephone with tone dialing facility. The customer can ask to mail the cheque book. Such cheque book is couriered only at the address registered with the bank.

1) Meaning :

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. Telephone banking times can be longer than branch opening times, and some financial institutions offer the service on a 24 hour basis. From the bank's point of view, telephone 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.

2) Services Under Tele-banking :

The customers get the following services under tele-banking.

a) Online balance enquiry.
b) Request for service.
c) Last five transactions.
d) Transactions of a recent date.
e) Details of transactions.
f) Request for cheque book.
g) Request for a statement of account.
h) Thus, the customer can access information of his account and do some transactions without visiting the bank even when he or she is out of station. This service is available around the clock.
i) 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. Mobile banking differs from mobile payments, which involve 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. The earliest mobile banking services were offered over SMS, a service known as SMS banking. With the introduction of smart phones with WAP support enabling the use of the mobile web in 1999, the first European banks started to offer mobile banking on this platform to their customers.

Meaning :

Consumers are becoming more tech-literate. They use mobile phones. They are toying with online trading. So banks are trying to harness banking mobile telephony into a set of applications and services. It is called m-banking. The banks are expecting that the money will roll in. Mobile communication devices are revolutionising banking transactions over wireless networks and the internet. To attract and retain customer banks need to extend their full range of services across a wide range of mobile, wireless devices without having an impact on their current infrastructure and delivery channels it currently supports. Wireless networks, mobile gateways all play an important role in bringing mobile banking strategy to the market.

2) Advantages of Mobile Banking :

Mobile banking provides the following advantages :

a) Always on 24 x 7 Accesses :

Banks are able to provide services to the customers for 24 hours per day and 7 days per week. It enables the consumers to be transaction-ready much as cable access has facilitated online PC access and reduced consumer dialup delays.

b) Advanced Penetration of Mobile Networks :

The 2G networks already cover more than 90% of the population in the western world and this number is growing steadily.

c) Personalisation :

Through Subscriber Identify Module (SIM) cards, mobile customers have a specific profile that enables customised

functionality to directly reflect the way they want to transact business over mobile devices. Through the convenient addition of a multi-application, relationship card, mobile customers will also have a built-in platform for a host of other application services, including security keys, virtual credit cards and other customised payment instruments.

d) WAP :

Rapid evolution of global protocols such as Wireless Application Protocol (WAP) enables the communication channel between computers and mobile devices. The WAP component essentially provides the facility of reforming data for display in wireless handsets.

e) Faster Data Processing Speed :

Increase in bandwidth and data transmission speeds makes mobile data services efficient and cost-effective in a real time environment.

f) Security :

In addition to the above mentioned smart card, a private key stored on the SIM card can protect e-banking transactions. Effectively, the mobile phone can become a wireless wallet to protect proprietary purchase and financial information.

g) Mobile Payment :

Mobile payment means executing a payment transaction using a wireless device such as mobile phone or personal digital assistant. The mobile device becomes the electronic payments device. Its mobility is its big advantage. It enables payments to be transacted regardless of place and time.

Telephone and internet banking afford customers bill payment and purchasing conveniences at any time.

3) Disadvantages of Mobile Banking :

a) Restricted Plans :

Though there were many plans to enhance mobile banking offerings and services, in reality the initiatives were very restricted. Most applications are informative such as bank balances or credit card or bank amounts rather than interactive services like buying or trading.

b) Technical Problems :

There are problems of technical issues, security concerns and cost constraints. WAP proved to be too slow and cumbersome to satisfy the customer. People think about security. But, their concerns are not adequately fulfilled by purveyors of m-banking.

c) High Charges :

The most significant problem of m-banking is that costs exceed perceived benefits. The charges for data transmitted are still too high to develop mobile banking in several countries.

d) Negative Experience in European Countries :

Experience about m-banking in European countries has not been positive. e.g. the British leader in on-line banking decided to abort its mobile offering. It saw little enthusiasm for mobile banking among its customers.

VI) Net Banking :

1The internet banking has changed the banking industry. It has major effects on banking relationships. According to the Internet researcher Morgan Stanley, the web is more important for retail financial services than for many other industries. Internet banking involves use of Internet for delivery of banking products and services.

1) Meaning :

Net banking (or Internet banking or E-banking) allows customers of a financial institution to conduct financial transactions on a secure website operated by the institution, which can be a retail or virtual bank, credit union or building society. To access a financial institution's online banking facility, a customer having personal Internet access must register with the institution for the service, and set up some password (under various names) for customer verification. The password for online banking is normally not the same as for telephone banking. Financial institutions now routinely allocate customer numbers (also under various names), whether or not customers intend to access their online banking facility. Customer numbers are normally not the same as account numbers, because a number of accounts can be linked to the one customer number. The customer will link to the customer number any of those accounts which the customer controls, which may be cheque, savings, loan, credit card and other accounts. Customer numbers will also not be the same as any debit or credit card issued by the financial institution to the customer.

2) Advantages of Net Banking :

Banks and financial institutions enjoy many benefits from net banking. They can be given as follows :

a) Information about Products :

Banks and financial institutions use the world wide web to publish their corporate image on the global level. They can furnish detailed information about the products, services they offer. They can give information about the terms and conditions of their services. If today one wants to know about services provided by American Express or Citibank or Standard Chartered Bank, one need to visit these institution or seek information over the phone. The person can simply surf their respective web pages on the internet.

b) Elimination of Manual Processing of Data :

There is total elimination of manual processing of data in terms of internal routine like inter-branch reconciliation, monthly salary processing, posting and finalisation of financial accounts and annual statements consolidating the transaction distributed at several centres, etc. resulted in productivity improvements in leaps and bounds. The tasks which were earlier handled by 10,000 workers can now be performed by a mere 500 to a maximum of 1,000 workers. The bank employee was outside the realing of business policy and planning. He was attending simple clerical processing. But now-a-days he has become a knowledge worker. He is no longer bored with monotonous repetitive figure - calculation and duplication of records.

c) Sale of Products :

It helps in selling products to individual customers and to corporate customers by banks, insurance companies, stock brokers, mutual funds, etc.

VII) Swift (Society For Inter Bank Financial Telecommunication):

The Society for Worldwide Interbank Financial Telecommuni- cation (SWIFT) provides a network that enables financial institutions worldwide to send and receive information about financial transactions in a secure, standardized and reliable environment. SWIFT also markets software and services to financial institutions, much of it for use on the SWIFTNet Network, and ISO 9362 bank identifier codes (BICs) are popularly known as "SWIFT codes".

1) Formation :

SWIFT stands for "Society for Worldwide Inter Bank Financial Telecommunications". Established in May 1973, it became operational since 9th May 1977. The registered office of this society is located at Brussels, Belgium. It is owned by about 250 Banks in Europe and North America. Many Banks in India have become the members of SWIFT.

2) Functions :

The basic function of SWIFT is to provide a network exclusively dedicated to sending and receiving messages relating to banking and financial institutions. Presently 3000 banks in 84 countries are members of the SWIFT and therefore they enjoy the facility of using SWIFT network for sending their financial messages like i) Telegraphic Transfers, ii) Opening of Letters of Credit, iii) Amendment to Letters of Credit etc. SWIFT has a Regional Processor (RP) in each host country, through which all messages meant for the country are routed. Each user in that country is required to install a Computer Based Terminal (CBT) in his own premises. The CBT is a device for interfacing with the SWIFT RP through the telephone lines. India joined SWIFT in 1989. The Regional Processor for India is located in Bombay and is connected to SWIFT's Satellite. Bombay is the International Gateway from / to India for SWIFT operations.

3) Advantages of SWIFT Message :

a) Security :

Every character in a SWIFT message is authenticated end to end, which means that the test key is calculated for the entire message content.

b) Cheaper Cost :

The format of each type of message is highly structured and the format is available in the system, the transmission cost becomes less, even lesser than ordinary telex

c) Speed :

A message is transferred within seconds.

d) Side Access :

Access is available to a vast number of banks throughout the world.

4) Precautions :

a) The sender should use the correct format prescribed for different purposes. The relevant columns in the format should be correctly filled in.

b) Once the message is complete and sent, the SWIFT-FIN Center acknoledges the same with an ACK message. In case there is any technical/formatting error, the FIN center sends a NAK message (Not Acknowledged) with details of the error field. The sender has to make corrections in the relevant field(s) and send the message again to the SWIFT-FIN center.

c) The sender, when he receives ACK copy from the SWIFT- FIN center, gets legal protection for disputes, if any, in future.

d) To maintain its secrecy, the society sends to each of its members, rectified/changed program intimations at regular intervals.

8.4 Core Banking Solution

Core Banking solutions are banking applications on a platform enabling a phased, strategic approach that lets people improve operations, reduce costs, and prepare for growth. Implementing a modular, component-based enterprise solution ensures strong integration with your existing technologies. An overall service- oriented-architecture (SOA) helps banks to reduce the risk that can result from multiple data entries and out-of-date information, increase management approval, and avoid the potential disruption to business caused by replacing entire systems.

Core Banking Solutions is new jargon frequently used in banking circles. The advancement in technology, especially internet and information technology has led to new ways of doing business in banking. These technologies have cut down time, working simultaneously on different issues and increasing efficiency. The platform where communication technology and information technology are merged to suit core needs of banking is known as Core Banking Solutions. Here computer software is developed to perform core operations of banking like recording of transactions, passbook maintenance, interest calculations on loans and deposits, customer records, balance of payments and withdrawal are done. This software is installed at different branches of bank and then interconnected by means of communication lines like telephones, satellite, internet etc. It allows the user (customers) to operate accounts from any branch if it has installed core banking solutions. This new platform has changed the way banks are working.

8.4.1. Meaning :

Core banking is a general term used to describe the services provided by a group of networked bank branches. Bank customers may access their funds and other simple transactions from any of the member branch offices. Core Banking is normally defined as the business conducted by a banking institution with its retail and small business customers. Many banks treat the retail customers as their core banking customers, and have a separate line of business to manage small businesses. Larger businesses are managed via the Corporate Banking division of the institution. Core banking basically is depositing and lending of money. Normal core banking functions will include deposit accounts, loans, mortgages and payments. Banks make these services available across multiple channels like ATMs, Internet banking, and branches.

8.4.2. Benefits :

1) Centralised working.

2) Branch concept goes for the data compilation at Head Office.

3) Customer becomes customer of bank and not of a branch.

4) Any where service / any branch banking available to customer.

5) Centralised MIS.

6) Centralised control.

7) Change in operational areas such as change in rate of interest etc. can be done at one place that avoids human errors in different way at different locations.

8) Avoidance of repetitive work at each branch location.

9) Centralised audit possible.

10) Manpower at branch level gets reduced.

11) Branch becomes only service location and due to shedding away of many of the work areas they can concentrate on customer service.

12) Marketing, recovery, product innovation can be looked by Head Office in more effective way.

13) Assessment of any deposit or loan scheme can be judged at any moment for all branches and suitable modifications or closure of scheme can be thought.

14) Introduction of new deposit or loan scheme can be launched with all correct details at all branches at same time.

15) Centralised clearing at each city.

16) Mailing solution can reduce paper work and give faster communication and decision.

17) Assessment / view of work at any work station on-line and live.

18) Measurement of quality and quantity of work of any employee from central location.