

Banking

Standard XI

Study Material

Student Handbook

Banking

Banking

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Definition and Function of Banking and Indian Banking System

Unit -1

Learning Objective

Location	Duration-20 HOURS			
Classroom or Banks	SESSION-1 DEFINITION OF BANKING- BASIC FUNCTION OF BANKER			
	Learning Outcome	Knowledge Evaluation	Performance Evaluation	Teaching and Training Method
	After studying this topic the learners would be able to define banking and know the basic functions of a Banker	1. Definition of banking as per Sec 5(b) 2. Understand the various duties of the Banker > General Duties > Specific Duties	1. Define Banking 2. Enumerate the various duties of the Banker	Lecture on definition of the Bank Functions and duties on the functions of a Banker. Activity – Visit to a bank for a general overview.
	SESSION-2 BANKING SYSTEM IN INDIA			
	After studying this topic the learners would be able to understand the banking system prevalent in India	1. RBI- The Apex Institution 2. Understanding the rationale of different banks > Commercial Banks > Regional Rural Banks > Co-operative Banks > Foreign Bank	1. Enumerate the functions of RBI 2. Features of various types of Banks 3. Names (examples) of various banks according to their category	Classroom teaching
	a. COMMERCIAL BANKS			
After studying this topic the learners would be able to know about the distinct features of Commercial Banks & its function	Understanding the role & functioning of the: > Public Sector Bank > Private Sector Bank	Classify the major functions of a bank	Classroom teaching	

Location	Duration-20 HOURS			
	b. PRIVATE SECTOR BANKS			
	After studying this topic the learners would be able to know about the distinct features of Private sector Banks their functions	Understanding the rationale and working of Private Sector Banks	List the functions of Private Sectors Bank in the development of the economy	Classroom teaching
	c. PUBLIC SECTOR BANKS			
	After studying this topic the learners would be able to know about the distinct features of Foreign Banks & their functions	Understand the rationale and working of Public Sector Banks	List the functions of the Public Sector Bank	Classroom teaching
	d. FOREIGN BANKS			
	After studying this topic the learners would be able to know about the distinct features of Foreign Banks & their functions	Understand the rationale of Foreign Bank operations in India	List the functions of Foreign Banks	Classroom teaching
	e. REGIONAL RURAL BANKS			
	After studying this topic the learners would be able to know about the distinct features of Regional rural Banks& their functions	Understanding the rationale and working of Regional Rural Banks	List the functions of the Regional Rural Banks	Classroom teaching

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Location **Duration-20 HOURS**

f. CO-OPERATIVE BANK				
	After studying this topic the learners would be able to know about the distinct features of Co-operative Banks & their functions	Understanding the rationale and working of Co-operative Banks	List the functions of the Co-operative Banks	Classroom teaching
SESSION-3 : RESERVE BANK OF INDIA				
	Already given above	Understand the history, structure & various functions of RBI	Able to enumerate the history, structure & various functions of RBI	Classroom teaching

Banking

Definition and Function of Banking and Indian Banking System

Unit -1

Learning Objective

After reading this unit, you will be able to:

- Describe what is the Bank and functions of the Banker.
- Understand the Banking structure in India.
- Summarize the functions of the Reserve Bank of India.

STRUCTURE

- 1.1. Definition of Bankings & Basic functions of a Banker
- 1.2. Banking System in India
- 1.3. Reserve Bank of India
- 1.4. Summary
- 1.5. Practice Questions

Definition of Banking

Bank is an institution that deals in money. Banks accept deposits and make loans and derive a profit from the difference in the interest rates paid and charged, respectively moreover it provides other financial services

Section 5(b) of Banking Regulation Act, 1949 (BR Act):

According to BR Act. "Banking means accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise." "Banking Company" means any company which transacts the business of banking in India. Company means any company as defined in of the Companies Act, 2013 and includes a foreign company within the meaning of that Act.

A banking company is a company, which accepts deposits of money for the purpose of lending or investment from the public which is payable on demand (Savings Bank and Current Accounts) or otherwise (after a period like Fixed Deposits) and withdrawable by cheque (Savings Bank and Current Accounts) or otherwise (by other instruments like fixed deposits).

Besides the Basic Functions of a Banker:

A banker also gives clients financial advice on matters relating to loans, investments, securities and savings. Their financial advice not only helps clients to solve financial needs, but also increases their firm's profits.

Banking

Keep Records

Bankers record all the daily financial transactions they conduct. This duty involves reviewing documents, such as bank statements and loan application forms, every day. In doing so, bankers can alert the necessary authorities if they notice any fraudulent activities taking place in the bank. The banker is also responsible for properly filing all these documents in the right place. Proper documentation facilitates smooth management of the bank and makes retrieval easier. Bankers must also keep these records in a safe place to protect the confidentiality of the information.

Advice Clients

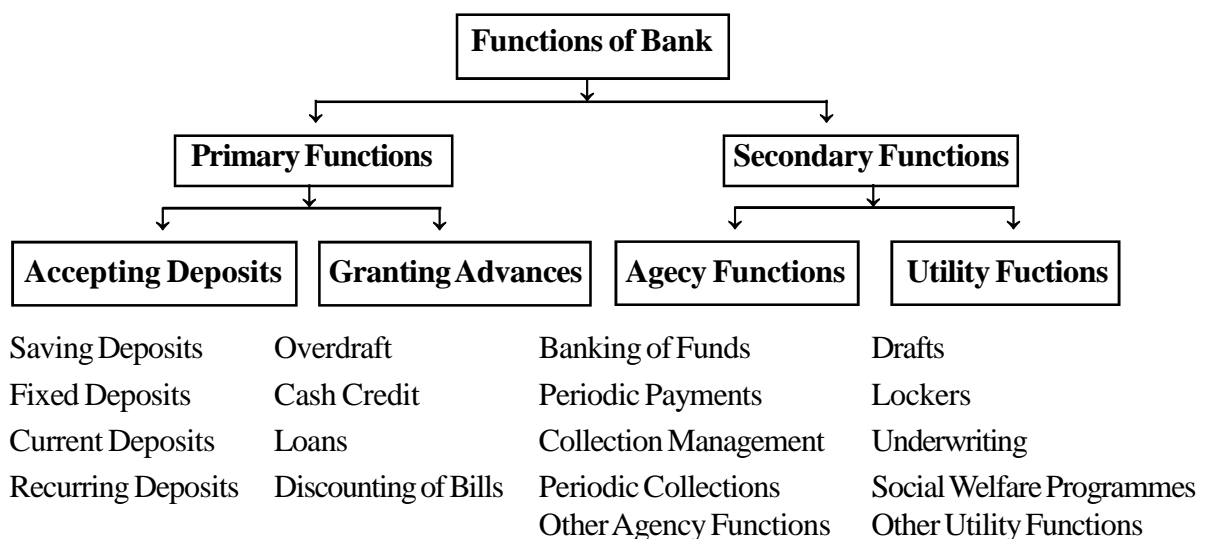
One of the primary duties of a banker is to help clients fulfil their financial needs. They do so by answering the financial questions asked by clients either during face-to-face meetings or phone conversations. A banker will also review a client's financial situation and offer the best banking services and programs to aid the clients in achieving their monetary goals. The expertise of a banker is measured by the success of the financial advice he gives to clients. Good advice helps in building a large client base, which improves the profitability of the financial institution.

Gather Financial Information

Another integral duty performed by a banker is gathering pertinent financial information from both new and existing clients. After speaking with clients about their financial needs, a banker uses the information gathered to prepare accounts and loans. A banker reviews the financial history of the client to determine their creditworthiness. The banker uses this information to determine whether the financial institution will be able to meet the client's financial needs; this duty of gathering information helps the financial institution to make informed decisions that improve its profit margin. For example, the bank uses this information to give loans to creditworthy people who have comparatively lower chances of defaulting.

Functions of a Bank

Banks' functions can be segregated into Primary and Secondary functions as follows:



Banking

A. Primary Functions : There are two primary functions of a commercial bank as given in Banking Regulations Act, 1949.

a Accepting deposits of money from the public in the form of

- Savings accounts
- Current accounts
- Fixed deposits
- Recurring deposits

These deposits are withdrawable by cheque. order or otherwise

b. Advancing Loans : The other important function of the banks is to make loans and advances to the needy people in the form of :

- Over drafts
- Cash credits
- Term loans
- Discounting of bills
- Credit Cards loan

Banks are also permitted to invest their funds in securities which may be Government securities or corporate securities.

B. The secondary Functions of a Banks

Transfer of funds : Helps customers to transfer money to another customer or the same bank or of any other bank in the same country or even in another foreign country.

Agency service provided by Commercial Banks :

- Purchasing and selling of shares, securities, bonds etc. on behalf of its customers
- Collection and regular payments of bills, checks and other commercial instruments, dividends, interest etc. as per the standing instructions given by their customers.
- Collection and payment of rents, insurance premium and other charges.
- Acts as trustees, representatives and executors of their clients.
- Acts as income tax consultants and they prepare and finalize the income tax returns of their clients.

C. General Utility services rendered by Commercial Banks :

- Safety vaults or lockers to provide security to their valuables like ornaments, documents etc.
- Encash/Issue of traveller's checks from/to tourists.

Banking

- Issuing letter of credits to businessmen.
- Issuing Debit/Credit Cards to their customers.
- Providing the facility of withdrawing cash anytime through ATM.
- Underwriting of Shares and Debentures issued by the companies.
- Providing consultancy services regarding shares, taxation etc. to the companies.
- Lending advice as a Merchant Banker to industries about their are projects, issue of shares and capital structure etc.

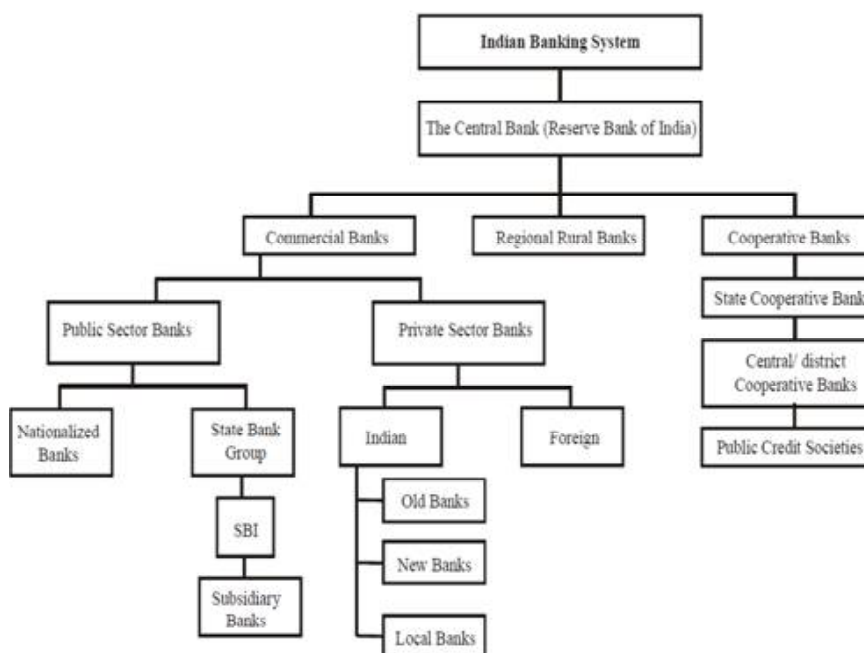
Disburse Funds

People visit banks to withdraw and deposit funds, or to apply for loans from the financial institution. Accepting deposits and disbursing funds requires a lot of attention and accuracy. Bankers may use money counting machines to carry out this task. This makes work easier, eliminates human error, improves accuracy and increases the speed of dispensing and counting bills.

Enforcing Security

Financial institutions can make massive loss through accepting counterfeit bills. Bankers pass the bills deposited by customers through the counterfeit money detectors to prevent any fake bills from hitting the cash till. With the rising cases of fraud, bankers are also on the lookout for counterfeit checks that customers may attempt to cash. The banker's duty is to ask clients withdrawing money to verify their identity to prevent fraudulent activity. A banker also locks the bank vault protecting valuables, money, documents and records from unauthorized access, theft and damage by fire or natural disasters.

1.2. Banking System in India



Banking

Reserve Bank of India (RBI), is the Central Bank of the country. RBI does not undertake the conventional banking business of accepting deposits from the public and lending to the public.

A. Commercial Banks:

Commercial bank is an institution that accepts deposit, makes loans and offer related services. These institutions run to make profit. They cater to the financial requirements of industries and various sectors like agriculture, rural development, etc. it is a profit making institution owned by government or private of both.

Commercial banks include public sector, private sector, foreign banks and regional rural banks:

a. Public Sector Banks:

Public Sector Banks (PSBs) are banks where in the majority stake (i.e. more than 50%) is held by Government of India e.g. State Bank of India, Punjab National Bank, Bank of Baroda etc. The shares of these banks are listed on stock exchanges. There are a total of 27 PSBs in India [21 Nationalised banks + 6 State Bank group (SBI + 5 associates)].

The Presidency Banks of Bengal, Bombay and Madras with their 70 branches were merged in 1921 to form the Imperial Bank of India. The new bank took on the triple role of a commercial bank, a banker's bank and a banker to the government.

On 1 July 1955, the Imperial Bank of India became the State Bank of India. In 1959, the Government passed the State Bank of India (Subsidiary Banks) Act. This made SBI subsidiaries of eight that had belonged to princely states prior to their nationalization and operational take-over between September 1959 and October 1960, which made eight state banks associates of SBI. The seven other state banks became the subsidiaries of the new bank when nationalised on 19 July 1969.

In 2008, the Government of India acquired the Reserve Bank of India's stake in SBI so as to remove any conflict of interest because the RBI is the country's banking regulatory authority.

The next major nationalisation of banks took place in 1969 when the Government of India, under Prime Minister Indira Gandhi, nationalised 14 major banks. The total deposits in each of the banks nationalised in 1969 were more than Rs. 50 crores. This move increased the presence of nationalised banks in India, with 84% of the total branches coming under Government control.

The next round of nationalisation took place in April 1980. The Government nationalised six more banks. The total deposits of each of these banks exceed Rs. 200 crores. This move led to a further increase in the number of branches of the nationalised banks increasing to 91% of the total branch network of the country.

The objectives behind nationalisation were:

- To break the ownership and control of banks by a few business families,
- To prevent the concentration of wealth and economic power,
- To mobilize savings from masses from all parts of the country,
- To cater to the needs of the priority sectors.....

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In 1963 SBI merged State Bank of Jaipur (est. 1943) and State Bank of Bikaner (est.1944). There has been a proposal to merge all the associate banks into SBI to create a “mega bank” and streamline the group’s operations. The first step towards unification occurred on 13 August 2008 when State Bank of Saurashtra merged with SBI, reducing the number of associate state banks from seven to six. Then absorption of State Bank of Indore completed on 26 August 2010

b. Private Sector Banks:

New Private Sector Banks: HDFC Bank, ICICI Bank, Axis Bank, etc. opened after 1991 due to opening up of the economy by the Government of India. Private sector banks are those whose equity is held by private shareholders. Private sector bank plays a major role in the development of Indian banking industry.

Old Private Sector Banks: are like J & K Bank, Development Credit Bank, Karnataka Bank, South India Bank etc., which were all opened prior to 1991.

c. Foreign Banks:

Foreign Banks (43): Citibank, Bank of America etc., which are incorporated abroad but having branches in India. All types of banking transactions are undertaken.

d. Regional Rural Banks:

These are state sponsored regional rural oriented banks. They provide credit for agricultural and rural development. The main objective of RRB is to develop rural economy. Their borrowers include small and marginal farmers, agricultural labourers, artisans etc. NABARD holds the apex position in the field of agricultural and rural finance.

RRBs are jointly owned by the Government of India (50%), one of the Public Sector Banks (35%) and the Government of the State in which the RRB is situated (15%) – meant to serve rural areas. All the banking services required by customers in the rural areas are available.

B. Co-operative Banks:

Cooperative banks are so-called because they are organised under the provisions of the Cooperative Credit Societies Act of the states. The major beneficiary of the Cooperative Banking is the agricultural sector in particular and the rural sector in general.

The cooperative banks in India play an important role even today in rural financing. The enactment of Co-operative Credit Societies Act, 1904, however, gave the real impetus to the movement. The Cooperative Credit Societies Act, 1904 was amended in 1912, with a view to broad basing it to enable organisation of non-credit societies. They are organised and managed on the principal of co-operation and mutual help. The main objective of co-operative bank is to provide rural credit.

Three tier structures exist in the cooperative banking:

- State cooperative bank at the apex level.
- Central cooperative banks at the district level.

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- Primary cooperative banks and the base or local level.

New initiatives taken are:

- RBI has given permission to 2 organisations to become a Bank i.e. **IDFC Limited** and **Bandhan Financial Services Private Limited**, to set up banks under the Guidelines on Licensing of New Banks in the Private Sector issued on February 22, 2013.
- Prime Minister of India Shri Narendra Modi started **Jan Dhan Yojana** on the 28th August, 2014 and will last until 14th August, 2015; the first phase will be focused on opening a bank account and providing credit facilities for those who are outside the banking system in urban and rural India.

- **Payment Banks:**

On 19 August, 2015, the Reserve Bank of India gave “in-principle” licences to eleven entities to launch payments banks:

- Aditya Birla Nuvo
- Airtel M Commerce Services
- Cholamandalam Distribution Services
- Department of Posts
- FINO PayTech
- National Securities Depository
- Reliance Industries
- Dilip Shanghvi, Sun Pharmaceuticals
- Vijay Shekhar Sharma, Paytm
- Tech Mahindra
- Vodafone M-Pesa

The “in-principle” license is valid for 18 months within which the entities must fulfil the requirements. They are not allowed to engage in banking activities within the period. The RBI will consider grant full licenses under Section 22 of the Banking Regulation Act, 1949, after it is satisfied that the conditions have been fulfilled.

- **Small Finance Banks:**

Small finance banks are a type of niche banks in India. Banks with a small finance bank license can provide basic banking service of acceptance of deposits and lending. The aim behind these to provide financial inclusion sections of the economy not being served by other banks, such as small business units, small and marginal farmers, micro and small industries and unorganised sector entities.

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On September 16, 2015, The Reserve Bank of India (RBI) has decided to grant “in-principle” approval to the following 10 applicants to set up small finance banks under the “Guidelines for Licensing of Small Finance Banks in the private sector” (Guidelines) issued on November 27, 2014.

Names of selected applicants

- Au Financiers (India) Ltd., Jaipur
- Capital Local Area Bank Ltd., Jalandhar
- Disha Microfin Private Ltd., Ahmedabad
- Equitas Holdings Private Limited, Chennai
- ESAF Microfinance and Investments Private Ltd., Chennai
- Janalakshmi Financial Services Private Limited, Bengaluru
- RGVN (North East) Microfinance Limited, Guwahati
- Suryoday Micro Finance Private Ltd., Navi Mumbai
- Ujjivan Financial Services Private Ltd., Bengaluru
- Utkarsh Micro Finance Private Ltd., Varanasi

The “in-principle” approval granted will be valid for 18 months to enable the applicants to comply with the requirements under the Guidelines and fulfil other conditions as may be stipulated by the RBI. On being satisfied that the applicants have complied with the requisite conditions laid down by it as part of “in-principle” approval, the RBI would consider granting them a licence for commencement of banking business under Section 22(1) of the Banking Regulation Act, 1949.

Until a regular licence is issued, the applicants cannot undertake any banking business.

1.3 Reserve Bank of India

RBI is the Central Bank of our country. It was established on April 1, 1935 under the RBI Act, 1934. In India, the RBI supervises operations of all the banks.

RBI Structure:

The Central Board of Directors comprises of the Governor, 4 Deputy Governors and 15 Directors nominated by the Union Government. Its headquarter is in Mumbai. RBI has 27 regional offices. It has setup five training establishments e.g. College of Agricultural Banking and Reserve Bank of India Staff College – Pune, National Institute for Bank Management- Pune, Indira Gandhi Institute for Development and Research – Mumbai, Institute for Development and Research in Banking Technology (IDRBT) - Hyderabad.

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Its subsidiaries are Deposit Insurance and Credit Guarantee Corporation of India (DICGC) and Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL).

RBI Preamble: The Preamble of the Reserve Bank of India Act, 1934 describes the basic objectives of the Reserve Bank of India as:

“...To regulate the issue of Bank Notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage.”

Departments for different functions

- RBI's internal management is based on functional specialisation and coordination amongst about 20 departments.
- Departments oversee specific functions such as Currency Management, Banking Supervision, financial markets, risk monitoring etc.

Functions of RBI

Main Functions

Monetary Authority:

- Formulates, implements and monitors the monetary policy.
- Objective: maintaining price stability and ensuring adequate flow of credit to productive sectors.

There are various instruments for monetary control:

- Cash Reserve Ratio (CRR): indicates the quantum of cash that banks are required to keep with the Reserve Bank of India.
- Statutory Liquidity Ratio (SLR): prescribes the amount of money that banks must invest in securities issued by the Government.
- Liquidity Adjustment Facility (LAF): is to manage the day-to-day liquidity in the banking system. Under this facility RBI announces Repo Rate (Repurchase Rate) which is the rate at which RBI lends short term money to banks. Reverse Repo Rate is the rate at which banks park their short term excess liquidity with the RBI.

Regulator and supervisor of the financial system:

- Prescribes broad parameters of banking operations within which the country's banking and financial system functions.
- Objective: maintain public confidence in the system, protect depositors' interest and provide cost-effective banking services to the public.

Manager of Foreign Exchange:

- Administers the Foreign Exchange Management Act, 1999.
- Objective: to facilitate external trade and payment and promote orderly development and maintenance of foreign exchange market in India.

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Issuer of Currency:

- Issues and exchanges or destroys currency and coins not fit for circulation.
- Objective: to give the public adequate quantity of supplies of currency notes and coins and in good quality.

Developmental role:

- Performs a wide range of promotional functions to support national objectives.

Related Functions:

- Banker to the Government: performs merchant banking function for the central and the state governments; also acts as their banker.
- Banker to banks: maintains banking accounts of all scheduled banks.

Payment & Settlement Systems:

The regulation and supervision of payment systems is being increasingly recognised as a core responsibility of central banks. As per the Payment and Settlement Systems Act, 2007 only payment systems authorised by the Reserve Bank can be operated in the country.

The Reserve Bank, as the regulator of financial systems, has been initiating reforms in the payment and settlement systems to ensure efficient and faster flow of funds among various constituents of the financial sector.

Following are the initiatives undertaken by Reserve bank for this function:

- **Computerization:** Aims at reducing the time taken in clearing, balancing and settlement, apart from providing accuracy in the final settlement.
- **Mechanisation:** of the clearing operations by introducing the MICR (Magnetic Ink Character Recognition) code.
- **High Value Clearing (HVC):** introduced by the Reserve Bank was aimed at faster clearing of large value cheques from selected branches of banks for same day settlement.
- **Cheque Truncation System (CTS):** eliminates the physical movement of cheques and provides a more secure and efficient method for clearing cheques.
- **Electronic Clearing Service (ECS):** uses a series of electronic payment instructions for transfer of funds instead of paper instruments.
- **National Electronic Clearing Service (NECS):** facilitates credits to bank accounts of multiple customers against a single debit of remitter's account.
- **Electronic Funds Transfer:** enable an account holder of a bank to electronically transfer funds to another account holder with any other participating bank.
- **The Real Time Gross Settlement (RTGS):** system settles all inter-bank payments and customer

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transactions above rupees two lakhs.

- **Pre-paid payment instruments:** facilitate purchase of goods and services against the value stored on these instruments.
- **Mobile Banking:** are being used as a medium for providing banking services.
- Reserve Bank of India (RBI), Central Bank of the Country. RBI does not undertake the conventional banking business of accepting deposits from the public and lending to the public
- National Agricultural Bank for Rural Development (NABARD). (This is the Apex Bank for all Agricultural financing by all other banks in the country-guidance, to the banks, refinancing their agricultural advances etc.). NABARD borrows from public by floating bonds for the purpose of financing other banks for agricultural lending.
- EXIM Bank (Export-Import Bank of India): This is the apex bank in India in the field of finance for Exports and Imports, to encourage and assist exporters of Indian products. EXIM Bank borrows from public by floating bonds and also accepts Fixed Deposits for the purpose of refinancing other banks and also directly to exporters.

1.4. Summary

- A banking company is a company, which accepts deposits of money for the purpose of lending or investment from the public repayable on demand (Savings Bank and Current Accounts) or otherwise (after a period like Fixed Deposits) and withdrawal by cheque (Savings Bank and Current Accounts) or otherwise.
- A Bank links together customers that have surplus money (i.e. **savers**) and customers with shortage of money (i.e. **borrowers**) are known as Intermediation role and manage credit, liquidity and interest rate risk.
- Banker is the face of the Bank and has general and specific responsibilities to the customers.
- Banking structure in India is broadly categorized into Commercial Banks, Regional Rural Banks and Co-operatives Banks with Reserve Bank of India (RBI) at the apex.

RBI functions are:

- Regulator and supervisor of the financial system
- Manager of Foreign Exchange
- Issuer of currency
- Plays a Developmental role and many more.

Key words:

RRBs – Regional Rural Banks

Banking

PSBs – Public Sector Banks

NABARD - National Agricultural Bank for Rural Development

EXIM Bank - Export-Import Bank of India

IIFCL - India Infrastructure Finance Co. Ltd.

IDRBT - Institute for Development and Research in Banking Technology

DICGC - Deposit Insurance and Credit Guarantee Corporation of India

BRBNMPL - Bharatiya Reserve Bank Note Mudran Private Limited

CRR - Cash Reserve Ratio

SLR - Statutory Liquidity Ratio

LAF - Liquidity Adjustment Facility

Repo Rate - Repurchase Rate

DBOD - Department of Banking Operations and Development

NBFC - Non-Banking Financial Companies

CBLO - Collateralised Borrowing and Lending Obligations

FERA - Foreign Exchange Regulation Act

HVC - High Value Clearing (HVC)

CTS - Cheque Truncation System

ECS - Electronic Clearing Service (ECS)

NECS - National Electronic Clearing Service

1.5 Practice Questions

I. Choose the correct option:

1. Banking is defined in
 - a) RBI ACT
 - b) Banking Regulation Act
 - c) Govt. of India Act
 - d) Companies Act
2. A bank is a financial intermediary because
 - a) it acts as the broker between depositor and borrower

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- b) it acts as the link between the savers and the borrowers
 - c) it is in the finance industry
 - d) it is in the intermediary industry
3. Banker-Customer relationship starts when
- a) A customer opens an account
 - b) A customer becomes a relative of a banker
 - c) The banker and banker become friends
4. RBI's function is
- a) To give license to banks
 - b) To act as bankers' bank
 - c) To act as banker to Government
 - d) All of the above
5. Bank's services include
- a) Net banking
 - b) Mobile banking
 - c) Phone banking
 - d) All the above
6. An Investment Bank is a bank
- a) Which invests money in another bank
 - b) Which collects investments from public
 - c) An intermediary which performs a variety of financial services to corporate
7. _____ are NOT a part of the Scheduled banking structure in India.
- a) Money lenders
 - b) Public sector banks
 - c) Private sector banks
 - d) Regional rural banks
8. RBI isn't expected to perform the role of _____.
- a) Acting as a clearing house
 - b) Working as a banker to the government
 - c) Managing Forex
 - d) Accepting deposits from general public

Banking

9. Which of the following is a role typically not performed by the Central Bank?
- a) Setting the official short-term interest rate
 - b) Establish tax policies
 - c) Controlling Money Supply
 - d) Acting as banker to the government
10. Which of the following is NOT a function of Commercial Bank?
- a) Providing Project Finance Settling of payments on behalf of the customers
 - b) Deciding policy rates like CRR, SLR and Repo rate
 - c) Issuing credit / debit / ATM cards
11. In commercial banking, who takes the risk while giving the loan?
- a) Depositor
 - b) Borrower
 - c) Commercial Bank
 - d) Central Bank

Answers: 1 – b, 2 - b, 3 – a, 4 – d, 5 – d, 6 - c, 7 -a, 8 - d, 9 - b, 10 – b, 11 – c

II. Fill in the blanks:

1. Reserve Bank of India is the _____ of India
2. Banking Services provided to a common man is known as _____.
3. _____ keeps an eye on the overall payment system.
4. _____ is the Lender of last resort for the Banks

Answers: 1- Central Bank, 2 – Retailing banking, 3 - Reserve Bank of India (RBI), 4 – RBI

III. Answer in detail:

1. What is the definition of a Bank?
2. What is the role of the Banks in the society?
3. What are the functions of RBI?
4. Define who is the Banker?
5. Explain the functions of a Banker?

Banking

6. What are the different types of Bank found in India?
7. Explain the various instruments of monetary control available with RBI?

IV. Activities:

1. Discuss with the students the need of a Bank?
2. Prepare a chart on the functions of RBI?

Banking

Banker and Customer

Unit - 2

Learning Objective

Location	Duration-20 HOURS			
Classroom or Banks	SESSION -1 RELATIONSHIP BETWEEN BANKER AND CUSTOMER			
	Learning Outcome	Knowledge Evaluation	Performance Evaluation	Teaching and Training Method
	After studying this topic the learners would be able to identify the relationship between Banker & Customer	Various relationships the Bank has with the customer depending upon the services availed viz., <ul style="list-style-type: none"> ➤ Creditor - Debtor ➤ Creditor - Debtor ➤ Principal - Agent ➤ Pledger - Pledgee ➤ Licensor- Licensee ➤ Hypothecator - Hypothecatee ➤ Bailee - Bailor ➤ Beneficiary- Trustee ➤ Lessee- Lessor ➤ Others 	Elucidate the various relationships the Bank has with the customer depending upon the services availed viz., <ul style="list-style-type: none"> ➤ Creditor - Debtor ➤ Creditor - Debtor ➤ Principal - Agent ➤ Pledger - Pledgee ➤ Licensor- Licensee ➤ Hypothecator - Hypothecatee ➤ Bailee - Bailor ➤ Beneficiary- Trustee ➤ Lessee- Lessor ➤ Other 	Classroom teaching, PPT's
	SESSION -2 SPECIAL TYPES OF CUSTOMERS			
	After studying this topic the learners would be able to identify the special type of Customers and their requirement	Understand why certain types of customers are classified as special customers	List the extra due diligence carried out by the Bank while opening special accounts	Classroom teaching, PPT's
SESSION-3 RETAIL AND WHOLESALE BANKING				
After studying this topic the learners would be able to identify the distinct features & differentiation between Retail and Wholesale Banking	State the features of the Retail & Wholesale Banking	List the differences between Retail & Wholesale Banking	Classroom teaching, PPT's	

Banking

SESSION-4 DEPOSIT ACCOUNTS – SAVINGS ACCOUNTS, CURRENT ACCOUNTS, FIXED DEPOSIT ACCOUNTS			
After studying this topic the learners would be able to know the different types of deposit accounts and their salient features.	<ol style="list-style-type: none"> 1. Understand Time & Demand deposits. 2. Types of demand deposit. 3. Enumerate the meaning of Saving Account and Current Account. 4. State the features of Saving Account and Current Account. 	<ol style="list-style-type: none"> 1. Able to describe the differences between Time and Demand Deposits. 2. Point out the key differences between Saving & Current account. 	Classroom teaching, PPT's
SESSION-5 OPENING AND OPERATION OF ACCOUNTS			
After studying this topic the learners would be able to know the essential requirement for opening & operations of different types of deposit accounts.	List & identify the documents required while opening various categories of accounts. Describe the process involved in the account opening.	Able to explain the need of various types of documents for different categories of accounts. List the steps in opening of the account.	Classroom teaching
SESSION-6 NOMINATION			
After studying this topic the learners would be able to know the procedure for nomination.	List the requirements & need for nomination facility.	Explain the advantages of nomination and how to nominate a nominee.	Classroom teaching
SESSION-7 KYC REQUIREMENTS			
After studying this topic the learners would be able to acquaint themselves with the norms applicable for KYC requirements.	<ol style="list-style-type: none"> 1. Understand the need of KYC. 2. List of valid documents acceptable for KYC. 3. Describe the process followed by the Banks for KYC. 4. Understand the Money Laundering stages and how it can be avoided. 	<ol style="list-style-type: none"> 1. Explain the needs of KYC. 2. Elucidate the various KYC documents required as per type of entity. 3. Appreciate the steps taken for preventing Money Laundering in India and across the world. 	Classroom teaching

Banking

SESSION-8 PASS BOOKS			
After studying this topic the learners would be able to acquaint themselves with the significance & usefulness of a pass book.	<ol style="list-style-type: none"> 1. Examine the meaning of Pass Book. 2. Explain what Cash Book is. 	Explain in detail the meaning of pass book and its usefulness in Bank Reconciliation.	Classroom teaching
SESSION-9 MINORS			
After studying this topic the learners would be able to know about the conditions applicable for a minor.	Identifying & understanding of the minor account holders. How the minor / junior accounts can be opened.	Describe the provision of opening the Account of minor & juniors.	Classroom teaching
SESSION-10 PARTNERSHIP & COMPANIES			
After studying this topic the learners would be able to acquaint themselves with the Acts applicable for a Partnership & Companies along with rules applicable for partnership & companies.	Understand the operations of a partnership firm – its needs, advantages / disadvantages.	Explain the reasons for forming a Partnership/ Public firm.	Classroom teaching

Banking

Banker and Customer

Unit - 2

Learning Objective

After reading this unit, you will be able to:

- Understand the different relationship between Banker and Customer.
- Describe who are special types of customers and care to be taken by Banks while opening accounts for them.
- Understand what is Retail and Wholesale Banking.
- Summarise what are Deposit accounts and their features.
- Describe the process of opening and operations of accounts.
- Understand the meaning of nomination and its uses?
- Describe the need of KYC and how is it is implemented by the Banks.
- Explain the need of Pass Book and its uses.
- Outline Partnership and Companies form of organization and their features.

STRUCTURE

- 2.1 Relationship between Banker and Customer
- 2.2 Special Types of Customers
- 2.3 Retail and Wholesale Banking
- 2.4 Deposit Accounts
- 2.5 Opening and Operations of Accounts
- 2.6 Nomination
- 2.7 KYC Requirements
- 2.8 Pass Books
- 2.9 Partnerships & Companies
- 2.10 Summary
- 2.11 Practice Questions

Banking

2.1 Relationship between Banker and Customer

The relationship between a banker and a customer depends on the activities; products or services provided by bank to its customers or availed by the customer. Thus the relationship between a banker and customer is the transactional relationship. Bank's business depends much on the strong bondage with the customer. "Trust" plays an important role in building healthy relationship between a banker and customer.

Relationships between the Bank and Customer: The relationship between the banker and customer is very important. It is generally studied under the following two heads:

- General Relationship
- Special Relationship

General Relationship: Debtor and Creditor:

- The basic relationship between banker and customer is primarily that of a debtor and creditor. When customer deposits money in a bank, Bank becomes the debtor and customer is the creditor. The customer expects from the bank that his money will be kept safe by the bank and it will be returned to him on demand within business hours along with interest. The position is reversed as soon as the banker advances loan to the customer, Banker becomes creditor and Customer a debtor.

Special Relationships:

Principal and Agent: Special relationship between the customer and the banker is that of principal and agent. Customer (principal) deposits cheques, drafts, dividends warrants for collection with the bank. He also gives written instructions to the bank to purchase securities, pay insurance premium, instalments of loans etc on his behalf. When the bank performs such agency services, he becomes an agent of his customer.

Pledger and Pledgee: When the customer pledges (promises) certain assets or securities with the bank in order to get a loan, customer becomes the Pledger, and Bank becomes the Pledgee. Under this agreement, the assets or security will remain with the bank until the customer repays the loan.

Lessor and Lessee: When the banker hires a safe deposit locker to the customer, banker becomes the Lessor and customer the Lessee.

Bailer and Bailment relationship: Bailment is a contract for delivering goods by one party to another to be held in trust for a specific period and returned to him when the purpose is over. Bailor is the party that delivers the goods to another. Bailee is the party to whom the goods are delivered.

So, when a customer gives a sealed box to the bank for safe keeping, the customer becomes the Bailor, and the bank the Bailee. A bank may accept the valuables of his customer such as jewellery, documents, securities etc for safe custody. The bank (Bailee) charges a small amount as service charges for safe custody of the valuables from his customer (bailer).

Banking

Hypothecator and Hypothecatee: When the customer hypothecates certain movable property or assets with the banker in order to get a loan, the customer becomes the Hypothecator, and Banker the Hypothecatee.

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

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

Miscellaneous Relationships:

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

As a Guarantor: Banks give guarantee on behalf of their customers. Guarantee is a contingent contract. As per Section 31, of Indian Contract Act guarantee is a contingent contract to discharge the liability of the principal debtor if the later fails to do so.

Termination of relationship between a banker and a customer: The relationship between a bank and a customer ceases on

- The death, insolvency, lunacy of the customer
- The customer closing the account i.e. Voluntary termination
- Liquidation of the company
- The closing of the account by the bank after giving due notice
- The completion of the contract or the specific transaction

2.2 Special Types of Customers

By opening an account the banker enters into a contractual relationship with the customer. Every person who is competent to contract can open an account with a bank. The capacity of certain classes of person, to make valid agreement is subject to certain legal restrictions.

Special types of customers for a Bank are:

Minor: A person under the age of 18 years is a minor. If a court appoints a guardian and the minor is below 18 years the minority is extended up to 21 years.

As per section 11 of the Contract Act a minor is not competent to contract but section 26 of the Negotiable Instrument Act allows a minor to draw, endorse, deliver and negotiate a negotiable instrument. So, a banker can open an account in a minor's name. The banker will be safe if the account runs with

Banking

credit balance. The minor can be a partner but he cannot be held liable for the liabilities of the partnership firm.

A minor's savings bank account may be opened in any of the following ways:

- i. In the name of minor himself: This account will be operated by the minor alone. In his personal presence (in the bank) he can withdraw the money from his account.
- ii. In the joint names of the minor and his/her guardian: This account will be operated jointly by minor and his/her guardian.
- iii. In the name of guardian: This account will be operated by the guardian on behalf of the minor.

In case of (i) and (ii) stated above the minor must have at least attained the age of 10 years and able to sign his name uniformly.

Lunatic: Under Indian Contract Act, a contract with a lunatic is void. The reason being that the lunatic being of unsound mind is not competent to comprehend the meaning of a contract. If the banker without knowing that the person is lunatic opens an account and enters into contract acting in good faith he is protected. But when once he gets a notice of lunacy of a person, he should not enter into any contract.

Drunkard: Under section 12 of Indian Contract Act 1872, a man who is drunk cannot understand the contract, or form rational judgment. He cannot enter into contract while such delirium or drunkenness lasts. When a customer who is drunk presents a cheque across a counter the payment must be witnessed.

Married Woman: A married woman can enter into a contract and bind her personal (separate) assets. Bank should observe extra precautions regarding sanction of overdraft / loan to a married woman because it will have no remedy against her if she does not have any personal assets. Her husband will not be liable for any debt of his wife except in the following cases:

- Where the loan is taken with his consent or where she acts as the agent of her husband.
- Where the loan has been taken for the purchase of necessities which the husband has failed to provide.

Illiterate persons: An illiterate person means a person who can't sign his name. While opening of an account of such a person is unavoidable, the banker should obtain:

- Left thumb impression on the account opening form and specimen signature card in the presence of an authorized bank official.
- Details of identification marks should be noted on the account opening form and specimen signature card.
- At least two copies of photograph duly attested by any account holder/authorized bank official.

Except his physical presence (in the bank), any withdrawals from the account of an illiterate person will not be allowed.

Banking

Partnership Firm: Section 4 of the Indian Partnership Act 1932, defines partnership as a relationship subsisting between persons who have agreed to share the profits of a business carried on by all or any of them acting for all. While opening an account the partnership letter should be signed by all the partners. The purpose of the business, address, names of the partners and other details should be clearly obtained. The partnership letter and the deed should contain instructions pertaining to opening a bank account and its operation.

In case of any internal dispute among partners, if any of them gives notice of stoppage of operations, then the account would only be operative by all partners jointly. Death of the partner dissolves the partnership. In order to determine the liability of deceased partner the banker should close the account. Hence, bank should ensure a copy of the partnership deed is taken while opening the bank account and stop operations of the account when one of the partners gives notice of stoppage of operations or any partner dies.

Company Account: Company is a legal entity. The formation of a company is governed by Companies Act 2013. While opening an account in a company's name the banker has to ask for:

- Certified copies of Memorandum and Articles of Association and Certificate of Incorporation.
- Names of the directors
- Certificate of commencement of business.
- Copy of resolution appointing the bank as Company's Bank. And the names of the persons who are authorized to operate the account along with their signatures.
- Death of authorized signatories does not require the stopping of payments since the company remains in existence.

Bank should ensure that company's account is opened after proper KYC documents are obtained and should allow operations of the accounts as per the authorised signatory list provided along with the drawing powers of each person.

Trust Account's: According to Indian Trust Act 1882, trust is an obligation annexed to the ownership of a property, arising out of confidence reposed in and accepted by the person for the benefit of another person. The person who reposes and declares confidence is called the author of the trust. The person in whom confidence is reposed is called the trustee. The person for whose benefit the confidence is reposed is a beneficiary. The instrument by which the trust is created is the trust deed. Bank has to study the trust deed as regards to the opening and operations of the account. Bank should ensure that money is received and used as per the Trust Deed.

Hindu Undivided Family (HUF): Where a Hindu dies leaving a business, the business is passed onto the hands of his legal heirs. It becomes HUF property. The members of the family are called Coparceners and eldest member becomes the manager or the Karta of the HUF. The Karta has the implied authority to avail loan and execute necessary documents. It binds all the members. The other members of the family are also required to sign the documents as a precautionary measure even though legally they are bound by the actions of the Karta. If there is no male member, the daughter can also become a Karta.

Banking

Joint Account Holders: Joint account means account of two or more persons who are not partners. A banker should keep in view the following provisions while opening and operating joint accounts:

- The account should be opened only on receiving an application signed by all the persons interested in opening the account.
- A mandate signed by all the parties containing clear instructions as to how the account is to be operated should be obtained.
- Specimen signed card should be signed by all the account holders.
- In absence of “either or survivor” instruction the balance will be payable to all the joint account holders including legal representative/heirs of the deceased but in case of “either or survivor” instruction the balance will be payable to the survivor (s).
- It is wise to stop the operation of a joint account after the death of anyone of the joint account holders and a new account be opened in the name of surviving account holder(s).

Executors and Administrators: Executors and Administrators are allowed to open bank accounts. Following formalities are to be observed while opening the account in the name of executor / administrator:

- An executor should submit a probate, and an administrator should submit the “letter of administration” to the bank as a proof of his authority to operate the account of a deceased person.
- The banker should thoroughly examine the probate/letter of administration to acquaint himself with the powers and functions of executors/ administrators.
- An account may be opened in the name of executor/administrator in the following style: ABC executors (or Administrators) of the estate of X, the deceased.
- In case of joint executor/administrator a mandate signed by all of them should be obtained regarding the operation of the account.
- The insolvency or lunacy of the executor/administrator will terminate his authority to operate the account (unless it has been overdrawn).

Societies and other non- trading institutions: The society, may sum a club, school, hospital or any institution. It must be registered as a corporate body. Following procedures is to be followed by a banker:

- Copies of Memorandum, Articles of Association of the society must be obtained to acquaint with its broad objectives, rules & by-laws.
- The banker should call for a duly certified copy of the resolution passed by the managing committee of the society authorizing the bank to open the society’s account. The resolution should also state the name (s) of persons authorized to operate the account.
- If the person authorized to operate the account of the society has his personal account in the bank the banker should exercise precaution that the society’s money does not find its way into the personal account of the office bearer.

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Customer's attorneys: A person may, by a written and stamped document, appoint a person as his attorney to deal on his behalf with third parties. This power may be general (to act in more than one transaction) or special (to act in a single transaction). The power of attorney authorizes a person to sign cheques (i.e. operate the account) on behalf of the customer. The banker, while dealing with customer's attorney should carefully examine the document regarding power of attorney. It should be properly stamped and must be in force. The customer may revoke the authority of the attorney and the authority of the attorney shall stand terminated or in the event of death, insolvency and insanity of the principal.

In the all above special types of customers account, the Bank needs to ensure that the account is opened and operated as per the customer's mandate.

2.3 Retail and Wholesale Banking

Retail Bank may be defined as a variety of Financial Products / Services directly offered by a Bank to the general public. Retail Banking is also known by another popular name 'Consumer Banking'. It is 'Mass Banking' since this segment caters to a large number of customers. Volume wise the number of transactions are very large but per transaction amounts are small. The cost of funds raised from the retail products is low and at the same time, the interest rates charged on loans in the retail segment are higher. Hence the margin of profit is more from this segment.

Benefit of Diversification of Risk: Due to the amounts being small per account, bank gets the benefits of 'diversification' – variety of products to too many customers – if loss arises on account of a few accounts, the bank does not lose much since the amounts involved are also small.

Standardised Products: Due to the simple nature of the products in this segment, they are 'standardized' and easily adapted for computerization – easy for operations for the customers as well as the bank staff

Retail Banking Services: Retail Banking provides products to the customer which represent liabilities of the bank. Bank liability products are useful to consumers since they provide a safe place to keep their funds. Opportunity to earn interest on idle cash is also available.

List of the products on liability and asset sides provided by the Bank are:

Deposit accounts:

- Savings Banks Accounts,
- Current Accounts,
- Fixed Deposit Accounts,
- Recurring Deposit Accounts etc.
- Foreign Currency Accounts (FCNR)
- NRE accounts for Indian citizens settled abroad
- Non Resident External (NRE) accounts for Indian citizens settled abroad

Banking

- Zero Balance account for salaried class people
- Basic Saving Bank Deposit account (erstwhile No frill accounts for the common man)
- Senior Citizen Deposit accounts

Features and types of Asset based products provided by Retail Bank: Asset products represent assets of the bank. Allow consumers to purchase homes, cars and merchandise which they otherwise could not immediately afford. Asset products earn interest for the bank which is paid by the borrower. Various types of loans offered to retail customers:

- Auto loans for purchase of new / used four and two wheelers.
- Home Loans for Purchase of land and construction of residential house / purchase of ready built house / for repairs and renovation of an existing house.
- Education Loans: For further education.
- Consumer Loans for purchasing household goods like Air conditioner, Fridge etc.
- Personal loans for miscellaneous purposes like holiday, medical treatments etc.
- Credit Cards.

Fees based products: List of Fee Based Products provided are:

- Selling Insurance Policy
- Sale of Mutual Fund units
- Investment Advisory Services
- Wealth Management Services

Values Added services: List of Value added services provided:

- Safe Deposit lockers
- Depository services
- Banc assurance Products

Miscellaneous services: Other Miscellaneous services provided are:

- Issue of Drafts
- Offering electronic remittances facilities to customers (NEFT and RTGS)
- Collecting Cheques (local and outstation) of customers from other banks
- Renting out Lockers
- Safe Custody Services

Banking

- Collection of Taxes from customers on behalf of the Central Govt.
- Purchasing / selling of shares/bonds in the Stock Market on behalf of its customers.
- Offering Net banking / Mobile banking / Phone banking facilities to customers.
- Offering 'Standing Instructions' facilities to customers for periodical payment of Insurance premier etc. on behalf of its customers.
- Purchasing / selling of foreign currencies from/to customer when they return from/go abroad;

Wholesale Banking Services: Wholesale Banking services are offered to government agencies, pension funds, and other institutional customers and to corporations with strong balance sheets and sound income statements. These services include cash management, Equipment leasing, large-sum loans, loan syndication, merchant banking, and trust services. It is different from retail banking, in that the former focuses more on corporate entities (large corporate, mid-sized companies and small businesses) and high value transactions, while the latter is focused on providing financial services to individual consumers.

- Cash Management services: Banks offer a special product called "Cash Management Service" (CMS) to handle the work of collecting monies with the least delay. This leads to efficient management of finances of corporates. The quicker the monies are realised, the better it is for the functioning of the company.
- Immediate Payments Products:
 - NEFT (National Electronic Funds Transfer) and
 - RTGS (Real Time Gross Settlement)
- Short term (Working Capital Finance repayable within a year): Loans once given for managing the smooth running day to day operations of a corporate
- Long Term (Term Loans repayable after a year, may be in 5-7 years): These loans for buying assets which will be used for a long time (greater than one year)
- Project Finance / Leveraged Lending / Syndicated lending:
 - Project Finance refers to finance given to corporates to start new Projects. Finances repaid from cash flows from the Project in future.
 - Leveraged Lending means giving finance to buy assets, treating those assets as security for the loans;
 - Syndicated Lending means many banks joining together to give huge amounts of loans to corporates. (No single bank can/should give too much loan to a single entity.)
 - Banks can give loans in the local currency viz. Indian Rupee or in foreign currencies (required for imports)

Banking

- Issuing Letters of Credits / undertaking guarantees
- Extending Foreign Currency Transactions

Differences between Retail Banking and Wholesale Banking:

Retail Banking	Wholesale Banking
Banks Accept Deposits and Lend them to the needy borrowers	Banks accept deposits and also lend money to borrowers.
No of Customers : Very Large	No. of Customers : Small
Volume of Transactions : large	Volume of Transactions : Small
Amounts in Individual Transactions : Small	Amounts in Individual Transactions : large
Services offered to the General Public Directly	Services offered to Corporates and Government Bodies and Universities
Service to the General Public through a number of branches scattered throughout the country	Service are rendered through a number of offices/ branches (even across many countries)

2.4 Deposit Accounts

Traditionally banks in India have four types of deposit accounts, namely

- Current Accounts
- Saving Banking Accounts
- Recurring Deposits and
- Fixed Deposits.

However, in recent years, due to ever increasing competition, some banks have introduced new products, which combine the features of above two or more deposit accounts. These are known by different names in different banks e.g. :

- 2-in-1 deposits,
- Smart Deposits,
- Power Saving Deposits,
- Automatic Sweep Deposits etc

Demand Deposits accounts are Current accounts and Savings accounts whereas Recurring Deposits accounts and Fixed Deposit accounts are Time Deposit accounts.

Banking

Demand Deposits accounts: The main products of the retail banking in India are as follows:

- Saving Accounts
- Fixed Deposit Account
- Recurring Deposit Account

These deposits accounts are the most popular deposits accounts for individuals. These accounts not only provide cheque facility but also have lot of flexibility for depositor who may withdraw funds from the accounts. Most of the banks have rules for the maximum number of withdrawals in a period and the maximum amount of withdrawals, but hardly any bank enforces these. However, banks have every right to enforce such restrictions if it is felt that the account is being misused as a current account. Till 24/10/2011, interest on Saving Bank Accounts was regulated by RBI and it was fixed at 4.00% on daily balance basis. However, w.e.f. 25th October, 2011, RBI has deregulated saving accounts interest rates. Now banks are free to decide the same.

Under directions of RBI, now banks are also required to open no frill accounts (this term is used for accounts which do not have any minimum balance requirement). Although Public Sector Banks still pay only 4% rate of interest, some private banks like Kodak Bank and Yes Bank pay between 6% and 7% on such deposits. From the FY 2012-13, interest earned up to Rs 10,000 in a financial year on Saving Bank accounts is exempted from income tax.

Banks as a rule do not give overdraft facility in a saving account, but allow occasional over drawings to meet contingencies.

Nomination facility is available to the depositors. They can make a declaration to that effect, in the appropriate form.

Savings Account can be opened by the following:

- By a person in his / her name;
- By two or more persons in their joint names.
- Certain non-profit welfare organizations are also permitted to open Savings bank accounts with banks.

Interest Calculation: Effective from April 1, 2010, following RBI's mandate to rework interest rate calculation methods, banks calculate interest on a daily balance method which is as follows:

Principal amount in the account * Number of days * Daily Interest Rate

Daily Interest Rate = Interest rate per annum /365 days

At 4% Daily Interest Rate is: $4\%/365 = 0.010958\%$

Interest earned on savings account balance is credited to savings account on a quarterly / half yearly basis depending upon the bank's decision.

Other Saving Bank services:

- Internet Banking

Banking

- Anywhere Banking - This facility entitles the account holder to withdraw or deposit cash up to a limit of Rs.50,000 across all Bank branches.
- Provide various types of standing instructions like transferring to fixed deposit accounts at regular intervals.

Fixed Deposit Account:

भारतीय स्टेट बैंक
State Bank of India

रसीद सं. : TD CS 0853925
Receipt No. 30

दिनांक/Date: 20/9/2011

रुपये
Rupees 3,00,000/-

शामा (भारत)
Branch (India) विशेष / सावधि जमा रसीद
Special / Term Deposit Receipt
अहस्तांतरणीय Not Transferable

Received from: Adwaita Mission Training College
आज की तिथि से ERC, NCTE, Bhubaneswar

मे Payable to: Jointly
देव जमा के रूप में (शब्दों में) Rupees Three lac only

As a deposit repayable 36 Months after date with interest at the rate of 9.25% percent per annum.

प्रभावी दिनांक
wef Date 20/09/2011 देव तिथि
Due on 20/09/2014

कृते भारतीय स्टेट बैंक
For State Bank of India

परिपक्वता पर देव राशि
Amount payable on maturity
रुपये 394699/-

TERM DEPOSIT RATES

(Figure in %) Bank	Less than ₹1 cr		More than ₹1 crore	
	1-2 year tenure	3-5 year tenure	1-2 year tenure	3-5 year tenure
State Bank of India	9	9	8.25	8.50
ICICI Bank	8-9	8.75	8.75-9.10	8.75
HDFC Bank	9-8.75	8.75	9-8.75	8.75
Punjab National Bank	9	9	9	8.75
Bank of Baroda	9.05	9.05	8.75	8.50
Axis Bank	9	9.05	9	9.05
Canara Bank	9.05	9.05	8.75	8.75
Bank of India	9.05-9.20	9.05	8.75-9.05	7.25

Source: Bank websites

Bank Fixed Deposits are also known as Term Deposits. In a Fixed Deposit Account, a certain sum of money is deposited in the bank for a specified time period with a fixed rate of interest. The rate of interest for Bank Fixed Deposits depends on the maturity period. It is higher in case of longer maturity period. There is great flexibility in maturity period and it ranges from 15 days to 5 years. The interest can be compounded quarterly, half-yearly or annually and varies from bank to bank.

Banking

Minimum deposit amount is Rs 1000/- and there is no upper limit. Loan / overdraft facility is available against bank fixed deposits. Premature withdrawal is permissible but it involves loss of interest.

There are two types of deposits:

Demand deposits: The money we keep in our saving accounts is like a medium of exchange and this is called Demand deposits. This is because ownership of this deposit may be transferred from one person to another via cheques or electronic transfers. There is no fixed term to maturity for Demand Deposits.

Time / Term Deposits: If we deposit our money as a Fixed Deposit in the bank it becomes a Time Deposit on which NO cheque is drawn. They are paid on maturity.

There are three types of Term Deposits available:

Fixed deposits: A fixed rate of interest is paid at fixed, regular intervals like 3 or 6 months.

Re-investment deposits: Interest is compounded quarterly and paid on maturity, along with the principal amount of the deposit. In the Flexi Deposits, amount in savings deposit accounts beyond a fixed limit is automatically converted into term-deposits.

Recurring deposits: Fixed amount is deposited at regular intervals for a fixed term and the repayment of principal and accumulated interest is made at the end of the term.

A customer can prematurely withdraw his Term Deposit. However, Bank will charge a penal interest of 1% on the amount so withdrawn.

Some banks introduced variable interest fixed deposits. The rate of interest on such deposits keeps on varying with the prevalent market rates i.e. it will go up if market interest rates go and it will come down if the market rates fall. However, such types of fixed deposits have not been popular till date.

The rate of interest for Fixed Deposits differs from bank to bank (unlike earlier when the same were regulated by RBI) and all banks used to have the same interest rate structure.

Before investing in a FD it is important to consider the rate of interest and the inflation rate. A high inflation rate can eat into your real returns. So, it is vital to have a look at the inflation rate before arriving at the real rate of interest.

Advantages of Fixed Deposit: Fixed deposits with the banks are nearly 100% safe as all the banks operating in the country, irrespective of whether they are nationalised, private, or foreign, are governed by the RBI's rules and regulations, and give due weightage to the interest of the investors. All bank deposits are insured under the Deposit Insurance Scheme upto a column of Rs 1 lakh per a/c. Nonetheless, bank deposits are among the safest modes of investment. One can get loans up to 75- 90% of the deposit amount from banks against fixed deposit receipts. Though the interest charged will be slightly more than the interest earned on the deposit.

The amount invested in fixed deposits with a maturity period of 5 years in a Scheduled bank is eligible for tax deduction under section 80C. However, the interest earned on the deposit is taxable. Tax will be deducted at the source, if the interest income on a fixed deposit per annum exceeds Rs.10,000. Form 15H / 15 G needs to be submitted if the deposit holder does not want tax to be deducted at source (TDS)

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Recurring Deposit: Under Recurring deposits are Fixed amounts are deposited at regular intervals for a fixed term and the repayment of principal and accumulated interest is made at the end of the term. These deposits are usually targeted at persons who are salaried or receive other regular income. A Recurring Deposit can usually be opened for any period from 6 months to 120 months. Any default in payment within the month attracts a small penalty.

Advantages of Recurring Deposits: Recurring Bank Account provides:

- Compulsion to save
- High rates of interest as compared to Term Deposits
- Liquidity to access those savings any time
- Helps to create a fund for your child's education or marriage of your daughter or buy a car without loans or save for the future

Since a recurring deposit offers a fixed rate of return, it does not provide protection against inflation. These are best if you wish to create a fund for your child's education or marriage of your daughter or buy a car without loans or save for the future.

Under these types of deposits, the person has to usually deposit a fixed amount of money every month (usually a minimum of Rs 100/- p.m.) using Standing instruction facility of the Bank to avoid any delays in payment. Any default in payment within the month attracts a small penalty. Fixed deposit interests have always been liable to deduction of tax at source. If the total FD interest in an individual / joint / HUF / minor account exceeds Rs. 10,000, then the interest amount is liable to TDS. In budget 2015, it has been announced that RDs are liable to TDS if interest in a financial year exceeds Rs. 10,000

Customers can apply for NIL deduction of TDS on FDs and RDs by filling forms 15G and 15H, which are self-declaration forms. These forms are issued by each bank for deposits held by customers in those banks. Form 15G applicable for all customers. Form 15H applicable for senior citizens (customers above 60 years of age)

Current Accounts: Current Account is primarily meant for businessmen, firms, companies, and public enterprises etc. that undertake numerous banking transactions. Daily Current Accounts are cheque operated accounts which are meant neither for the purpose of earning interest nor for the purpose of savings but only for convenience of business. Hence they are non-interest bearing accounts. In a Current Account, a customer can deposit any amount of money any number of times. He can also withdraw any amount as many times as he wants, as long as he has funds to his credit. Generally, a higher minimum balance as compared to Savings Account is required to be maintained in Current account.

As per RBI directive banks are not allowed to pay any interest on the balances maintained in Current accounts. However, in case of death of the account holder his legal heirs are paid interest at the rates applicable to Savings bank deposit from the date of death till the date of settlement. Because of the large number of transactions in the account and volatile nature of balances maintained, banks usually levy certain service charges for operating a Current account.

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Features of the current account are:

- The main objective of Current Account holders in opening these accounts is to enable them (mostly businessmen) to conduct their business transactions smoothly.
- There are no restrictions on the number of times deposit in cash / cheque can be made or the amount of such deposits;
- Usually banks do not pay any interest on current accounts.
- The current accounts do not have any fixed maturity as these are on running accounts

Overdrafts Facility: A bank may extend credit up to a maximum amount (called overdraft limit) against a current account. Customer can write checks or make withdrawals from his account.

The most common form of business borrowing, is an overdraft. It is a type of revolving loan where in funds are available as to when required. Interest is charged only on the daily overdraft (debit) balance. Such loans are demand loans. The facility can be cancelled (and entire outstanding amount 'called') at any time by the lender at its discretion, without any warning notice or explanation. If the overdraft is secured by an asset or property, the lender has the right to foreclose on the collateral in case the account holder does not pay or the borrower's credit rating falls or the lender has reason to believe the borrower may go into default, or

- Borrower has not 'revolved' the overdraft in a satisfactory manner and has turned it into a hardcore debt.

An overdraft is approved only for a fixed period (usually one year) after which it must be renegotiated.

Differences between Saving account and Current account:

	Current account	Savings Account
Numbers of transactions	<ul style="list-style-type: none"> ➤ Opened for meeting day to day requirements. ➤ No limitation on the number of transactions that can be done in a particular month. ➤ No charge on the amount being transacted. 	<ul style="list-style-type: none"> ➤ Opened for deposits/savings from regular income. Limitation on number of transactions in a month. ➤ Limitation on the amount that can be deposited or withdrawn from a savings bank account.
Interest paid by Bank:	<ul style="list-style-type: none"> ➤ Bank does not give any interest on these accounts 	<ul style="list-style-type: none"> ➤ Savings Bank offers interest
Facilities offered:	Overdraft facility is available	No overdraft facility
Minimum Balance Requirement	Higher minimum balance required	Minimum balance is mandatory

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2.5 Opening and Operations of Accounts

The Bank needs no introduction from an existing Bank account holder if you are submitting proof of identity and address documents, as prescribed. However if you do not possess any of the address proof documents then an introduction from an Bank account holder, having satisfactory relationship of more than six months, is required.

As per the KYC norms laid down by RBI, each Bank should follow the guidelines and ensure that real account holder is identified before opening of account.

Standard list of documents required for different category of customers is provided below:

Documents that may be obtained from customers	Documents
Accounts of individuals - Proof of Identity	<ul style="list-style-type: none">➤ Passport➤ PAN card➤ Voter's Identity Card➤ Driving License➤ Job Card issued by NREGA duly signed by an officer of the State Government.➤ The letter issued by the Unique Identification Authority of India (UIDAI) containing details of name, address and Aadhar number.➤ Identity card (subject to the bank's satisfaction).➤ Letter from a recognized public authority or public servant verifying the identity and residence of the customer to the satisfaction of bank.
- Proof of Address	<p>Any one of the documents from the above submitted as proof of identity which contains an address or any of the following:</p> <ul style="list-style-type: none">➤ Telephone bill➤ Bank account statement➤ Letter from any recognized public authority➤ Electricity bill

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	<ul style="list-style-type: none"> ➤ Ration card ➤ Letter from employer (subject to satisfaction of the bank). ➤ A rent agreement indicating the address of the customer duly registered with State Government or similar registration authority.
<p>Accounts of companies</p> <ul style="list-style-type: none"> - Name of the company - Principal place of business - Mailing address of the company - Telephone/Fax Number 	<ul style="list-style-type: none"> ➤ Certificate of incorporation and Memorandum & Articles of Association. ➤ Resolution of the Board of Directors to open an account and identification of those who have authority to operate the account. ➤ Power of Attorney granted to its managers, officers or employees to transact business on its behalf . ➤ Copy of PAN allotment letter. ➤ Copy of the telephone bill.
<p>Accounts of partnership firms</p> <ul style="list-style-type: none"> - Legal name - Address - Names of all partners and their addresses - Telephone numbers of the firm and partners 	<ul style="list-style-type: none"> ➤ Registration certificate, if registered. ➤ Partnership deed. ➤ Power of Attorney granted to a partner or an employee of the firm to transact business on its behalf . ➤ Any officially valid document identifying the partners and the persons holding the Power of Attorney and their addresses. ➤ Telephone bill in the name of firm / partners.
<p>Accounts of trusts & foundations</p> <ul style="list-style-type: none"> - Names of trustees, settlors, beneficiaries and signatories - Names and addresses of the founder, the managers / directors and the beneficiaries 	<ul style="list-style-type: none"> ➤ Certificate of registration, if registered. ➤ Power of Attorney granted to transact business on its behalf.

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<p>- Telephone / fax numbers</p>	<ul style="list-style-type: none"> ➤ Any officially valid document to identify the trustees, settlors, beneficiaries and those holding Power of Attorney, founders / managers / directors and their addresses. ➤ Resolution of the managing body of the foundation / association. ➤ Telephone bill.
<p>Accounts of Proprietorship Concerns</p> <p>- Proof of the name,</p> <p>- Address and</p> <p>- Activity of the concern</p>	<ul style="list-style-type: none"> ➤ Registration certificate (in the case of a registered concern). ➤ Certificate / license issued by the Municipal authorities under Shop & Establishment Act. ➤ Sales and Income tax returns. ➤ CST / VAT certificate. ➤ Certificate / registration document issued by Sales Tax /Service Tax / Professional Tax authorities. ➤ License issued by the Registering authority like Certificate of Practice issued by Institute of Chartered Accountants of India, Institute of Cost Accountants of India, Institute of Company Secretaries of India, Indian Medical Council, Food and Drug Control Authorities, registration / licensing document issued in the name of the proprietary concern by the Central Government or State Government Authority / Department, etc. Banks may also accept IEC (Importer Exporter Code) issued to the proprietary concern by the office of DGFT as an identity document for opening of the bank account etc. ➤ The complete Income Tax return (not just the acknowledgement) in the name of the sole proprietor where the firm's income is reflected duly authenticated / acknowledged by the Income Tax Authorities. ➤ Utility bills such as electricity, water, and landline telephone bills in the name of the proprietary concern. <p>Any two of the above documents would suffice. These documents should be in the name of the proprietary concern.</p>

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- If the address on the document submitted for identity proof by the prospective customer is same as that declared by him / her in the account opening form, then the document may be accepted as a valid proof of both identity and address.
- A rent agreement indicating the address of the customer duly registered with State Government or similar registration authority may also be accepted as a proof of address.

Opening of accounts and Form filling: In the Account Opening Form the residential address, office address and alternative addresses (if the customer is employed / businessman) with phone numbers (residence/office/mobile/fax and alternative telephone numbers, if any) and e-mail id must be furnished.

The customer may also make nomination of the account at the relevant portion in the account opening application forms.

The particulars furnished by the prospective customer, after due verification and satisfaction must be entered in the relevant fields of the customer Id form and Account opening form in the system and duly authorized.

The customer identification number (CID Number) and the account number which are automatically generated by the system for the Current Accounts, S.B. Accounts and R.D. Accounts, must be written in the Passbook, Specimen Signature Card, Account Opening Forms and also the Account Opening Register which is specially maintained for the purpose to record the details of the accounts opened.

In view of the importance of credit discipline for reduction in Non-Performing Assets (NPAs) level of banks, banks should insist on a declaration from the account-holder about the credit facilities, if any, enjoyed with any other bank. The account-opening bank should ascertain all the details and should also inform the concerned lending bank(s).

Photographs: Branches should obtain recent passport size photographs of the customers at the time of opening of new accounts and compared with the prospective customer / account holder to satisfy about the resemblance and then only accepted.

In respect of Current and Savings Bank Accounts, one copy of the photograph each is to be affixed to the application form, the Passbook and the Specimen Signature Card.

In respect of accounts opened by illiterate persons and blind persons, three copies of recent passport size photographs have to be obtained. Further, passport size photograph of the depositor must be affixed on the specimen signature / thumb impression card, the pass book and the account opening form duly authenticated by the authorized officer. The signature of the Attesting Officer should be partly on the photos and partly on the account opening form / specimen signature / thumb impression card.

2.6 Nomination

The Banking Companies (Nomination) Rules, 1985 framed under Banking Regulation Act, 1949 facilitates bank depositors to 'nominate' somebody to take care of the deposit when the depositor dies.

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Nomination is an Authority / Authorization given to the banker in writing to pay the credit balances in the account of the individual / sole proprietor of the sole proprietorship account, to the person specified in the Nomination form, in the case of the death of the account holder.

If the depositor does not leave a valid will when he dies, then in most of the cases, the legal heirs raise disputes in sharing the assets left by the depositor. If the depositor nominates a person, the bank is discharged from its responsibilities to the legal heirs by paying the deposit amount to the nominee. Then it becomes the responsibility of the nominee to pass on the deposit amount to the legal heirs amicably.

Nomination can be made by the depositor/s, (singly or jointly as the case may be), in respect of his / their deposits maintained in a bank in India. Nomination can be made in favour of only one individual.

If the depositor/s wishes / wish that the deposit amount should go to a minor as the nominee (on the date of nomination) the depositor/s should also appoint another person who is not a minor, to take care of the deposit on behalf of the nominee, till the nominee attains majority.

The nomination made holds good till it is modified or cancelled by the account holder. The application forms to be used for nominating somebody or making modifications or cancellations to the nominations have all been prescribed in the Act itself .

2.7 KYC Requirements

KYC is an acronym for “Know your Customers,” a term used for customer identification process. It involves making reasonable efforts to determine true identity and beneficial ownership of accounts, source of funds, the nature of customer’s business, reasonableness of operations in the account in relation to the customer’s business, etc which in turn helps the banks to manage their risks prudently. The objective of the KYC guidelines is to prevent banks being used, intentionally or unintentionally by criminal elements for money laundering.

KYC has two components - Identity and Address. Customer identification means identifying the customer and verifying his/her identity by using reliable, independent source documents, data or information. While identity remains the same, the address may change and hence the banks are required to periodically update their records.

Reserve Bank of India has issued guidelines to banks under Section 35A of the Banking Regulation Act, 1949 and Rule 7 of Prevention of Money-Laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries) Rules, 2005. Any contravention thereof or non-compliance shall attract penalties under Banking Regulation Act.

Money Laundering: Money laundering is the process whereby the proceeds of crimes (like drug trafficking, child pornography etc.) are transformed into legitimate money or other assets.

Money obtained from certain crimes, such as extortion, insider trading, prostitution, drug trafficking, illegal gambling or tax evasion is “dirty”. It needs to be cleaned to appear to have derived from non-

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criminal activities so that banks and other financial institutions will deal with it without suspicion.

Stages in Money Laundering: Money laundering is commonly defined as occurring in three steps:

- The first step involves introducing cash into the financial system by some means (“placement”);
- The second involves carrying out complex financial transactions to camouflage the illegal source (“layering”); and
- The final step entails acquiring wealth generated from the transactions of the illicit funds (“integration”).

Some of these steps may be omitted, depending on the circumstances; for example, non-cash proceeds that are already in the financial system would have no need for placement.

Objectives of Prevention of Money Laundering are:

- To prevent criminal elements from using the banking system for Money laundering activities.
- To enable the bank to know / understand the customers and their financial dealings better. This in turn would help the bank to manage the risk prudently.
- To put in place, appropriate controls for detection and reporting of suspicious activities in accordance with applicable laws/laid down procedures.
- To comply with applicable laws and regulatory guidelines.
- To take necessary steps to ensure that the concerned staffs are adequately trained in Know Your Customer (KYC) / Anti Money Laundering (AML) procedures.

Money Laundering Enforcement: Formed in 1989 by the G7 countries, the FATF is an intergovernmental body whose purpose is to develop and promote an international response to combat money laundering. FATF’s three primary functions with regard to money laundering are:

- Monitoring members’ progress in implementing anti-money laundering measures.
- Reviewing and reporting on laundering trends, techniques, and countermeasures.
- Promoting the adoption and implementation of FATF anti-money laundering standards globally.

ML steps in India: In 2002, the Parliament of India passed an act called the Prevention of Money Laundering Act, 2002. The main objectives of this act are to prevent money-laundering as well as to provide for confiscation of property either derived from or involved in, money-laundering.

Section 12 (1) describes the obligations that banks, other financial institutions, and intermediaries have to

- Maintain records that detail the nature and value of transactions, whether such transactions comprise a single transaction or a series of connected transactions, and where these transactions take place within a month.

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- Furnish information on transactions referred to in clause (a) to the Director within the time prescribed, including records of the identity of all its clients.

Banks need to maintain transactions records for ten years after the transactions finished. Any suspicious transactions reporting (STR) have to be reported to Financial Intelligence Unit by the Bank through RBI. Banks also must make cash transaction reports (CTRs) and suspicious transaction reports over Rs 10 Lakhs within 7 days of doubt. Each Bank has to appoint PMLA officer responsible for overseeing the implementation of RBI policies & procedures in the Bank. They must submit the report to the enforcement directorate and income tax department.

RBI has issued guidelines to banks to prevent money laundering through:

- KYC policies and procedures specifying the objective of KYC framework, i.e. appropriate customer identification. The KYC policies should incorporate the following four key elements:
 - Customer Acceptance Policy
 - Customer identification procedures
 - Monitoring of transactions
 - Risk Management
- Monitoring transactions of a suspicious nature;
- Risk management and monitoring procedures, i.e. staff awareness, identification and reporting of suspicious transactions, record keeping of transactions;

Customer Due Diligence: Customer Due Diligence (CDD) has been defined as any measure undertaken by a financial institution to collect and verify information and positively establish the identity of a customer. A bank should apply Customer Due Diligence measures when it:

- establishes a business relationship;
- carries out an occasional transaction;
- suspects money laundering or terrorist financing; or
- doubts the veracity of documents, data or information previously obtained for the purpose of identification or verification

When a bank is unable to apply CDD, it :

- must not establish a business relationship or carry out an occasional transaction with the customer;
- should not carry out a transaction with or for the customer through a bank account;
- should terminate all existing business relationship with the customer;
- Should consider whether it ought to report to FIU-IND/ Regulators, in accordance with extent guidelines.

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Operations of the Bank Account:

After an account is opened by a bank, customer is provided with three documents viz.

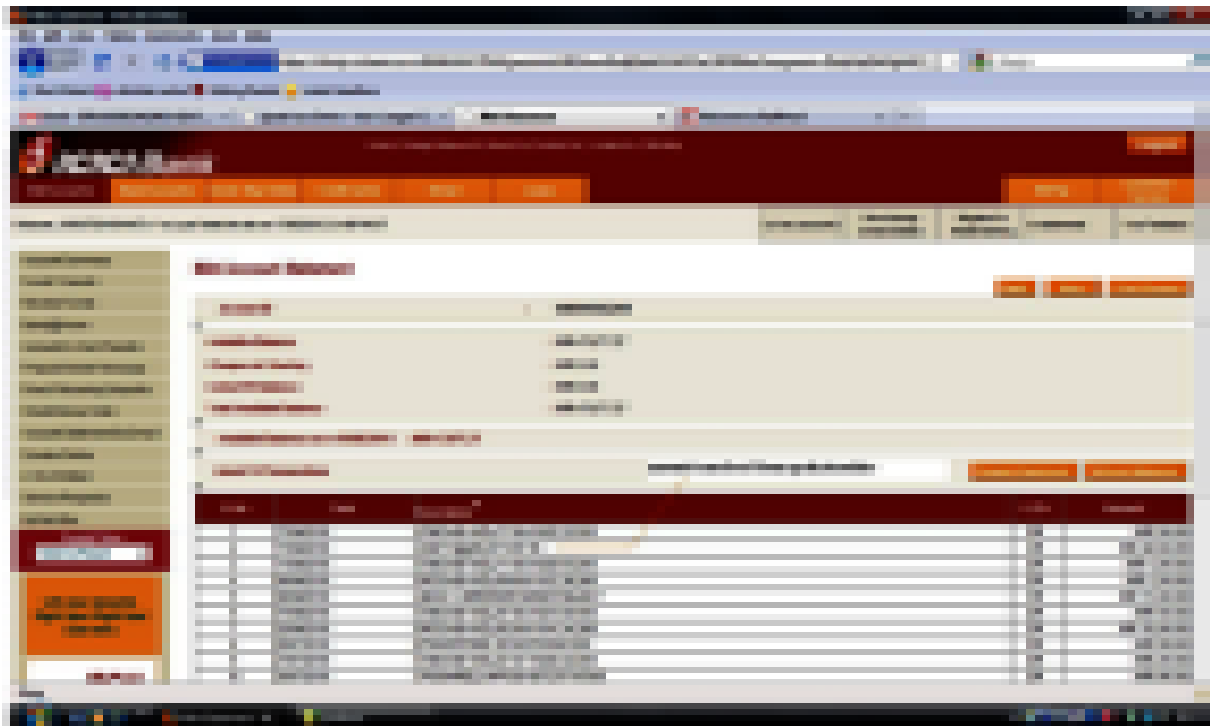
- A Pass Book
- A Cheque Book
- A Pay in Slip Book

to operate the account.

2.8 Pass Book

Bank statement or account statement is a summary of financial transactions which have occurred over a given period of time on a bank account held by a person or business with a financial institution. In recent years there has been a shift towards paperless, electronic statements.

Electronic statements: With the introduction of online banking, bank statements (also known as electronic statements or e-statements) can be viewed online. Due to identity theft concerns, an electronic statement may not be seen as a dangerous alternative against physical theft as it does not contain tangible personal information, and does not require extra safety measures of disposal such as shredding. However, an electronic statement can be easier to obtain than a physical through computer fraud, data interception and/or theft of storage media.



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Pass Book

A pass book is a book used to record bank transactions undertaken on a deposit account. Entries showing amounts of deposits and withdrawals, and the balance in the account are shown in the Pass Book. A specimen of a Pass Book is given below.

DATE	DESCRIPTION	WITHDRAWALS	DEPOSITS	BALANCE
03-10-16	ATMJ	**21.25		**474.11
03-10-16	ATMF	**1.50		**472.61
03-10-20	DEBP	**2.99		**469.62
03-10-21	WEBP	**300.00		**169.62
03-10-22	ATMJ	**100.00		**69.62
03-10-23	DEBP	**29.08		**40.54
03-10-24	DEBR		**2.99	**43.53
03-10-27	TELP	**6.77		**36.76
03-10-28	PYRL		**694.81	**731.57
03-10-30	WEBT		**50.00	**781.57

Please refer to the back cover for the list of common transaction codes.

Please verify your account activity regularly. If there is an error, notify the bank within 45 days.

Issuance of Pass books to Savings Bank Account holders (Individuals): A passbook is a ready reckoner of transactions and is handy and compact and as such, is far more convenient to the small customer than a statement of account. Use of statements has some inherent difficulties viz.

- these need to be filed regularly.
- the opening balance needs to be tallied with closing balance of last statement.
- loss of statements in postal transit is not uncommon and obtaining duplicates thereof involves expense and inconvenience.
- ATM slips during the interregnum between two statements does not provide a satisfactory solution as full record of transactions is not available, and
- There are a large number of small customers who do not have access to computers / internet, etc.

Passbook Updation: Customers may be made conscious of the need on their part to get the passbooks updated regularly. It is sometimes observed that customers submit their passbooks for updation after a very long time. In addition to the instructions printed in the passbook, whenever a passbook is tendered for posting after a long interval of time or after very large number of transactions, a printed slip requesting the depositor to tender it periodically should be given.

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Entries in passbooks / statement of accounts: Banks should give constant attention to ensure entry of correct and legible particulars in the pass books and statement of accounts.

Pay in Slips:

Specimen of a Pay-in-Slip:

The image shows a specimen of a Pay-in-Slip from Syndicate Bank. It is divided into two parts: the Depositor Copy on the left and the Bank Copy on the right. The Depositor Copy includes fields for Branch Name (JAYANAGAR), Date (03/04/06), Account Number (14502), Depositor Name (RAMESH K.N.), and Amount (₹. 2000.00). The Bank Copy includes fields for Branch Name (JAYANAGAR), Date (03/04/06), Account Number (14502), Depositor Name (RAMESH K.N.), and Amount (₹. 2000.00). The Bank Copy also features a table for denominations (1000, 500, 100, 50, 20, 10, 5, 2, 1) and a section for the nature of account (CASH). The form is signed by the depositor and the bank official.

Denomination	Number	Amount
1000	2	1000.00
500	0	0.00
100	0	0.00
50		
20		
10		
5		
2		
1		
Total		2000.00

Details of the Pay-in-slip are as follows:

1. Branch Name
2. Date of Deposit of cash or cheque
3. Nature of account: saving or current
4. Account holder name
5. Amount in words
6. Account number
7. Amount in figures
8. Signature of the depositor

A Pay-in-slip is a form supplied by a bank to a depositor to fill out. Above particulars are required to be given in the slip. The teller keeps the deposit slip along with the deposit (cash and checks), and provides the depositor with a receipt. Pay-in slips encourage the sorting of cash and coins, are filled in and signed by the person who deposited the money, and some tear off from a record that is also filled in by the depositor. They are signed by the depositor.

2.9 Partnerships & Companies

A business can be organised in the form of a sole proprietorship, a partnership firm or a joint stock company. The Indian Partnership Act, 1932 is an act enacted by the Parliament of India to regulate

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partnership firms in India. The act is not applicable to Limited Liability Partnerships, since they are governed by the Limited Liability Partnership Act, 2008.

Partnership Definition: Partnership refers to a relationship between two or more persons to share the profits or losses arising out of business carried by all or one of them acting on behalf of all. The persons who have entered into such an agreement are called partners and give their business a name, which is necessarily their firm-name.

The sole proprietorship has its limitations such as limited capital, limited managerial ability and limited risk-bearing capacity. Hence, when a business expands or when it is to be set up on a scale, which needs more capital and involves more risk, two or more persons join hands to run it. They agree to share the capital, the management, the risk and profits of the business. Such relationship based between persons on a written or an oral agreement amongst them is termed as 'partnership'.

Essential features of partnership: Based on the above definition, the essential features of a partnership are as follows:

Two or more persons: To form a partnership, there must be at least two persons. There is, however, a limit on the maximum number of persons who constitute a partnership firm. It should not exceed 10 (Revised to 100 as per Companies Act 2013) if the firm is carrying on a banking business and 20 if it is engaged in any other business.

Agreement between the partners: A partnership is created by an agreement. It is neither created by operation of law as in the case of Hindu Undivided Family nor by status. The agreement forms the basis of relationship amongst the partners. The agreement can be written or oral.

Business: The agreement should be for carrying on some legal business. A joint ownership of some property by itself does not constitute partnership. However, the joint ownership of the property may be used for forming the partnership in order to pursue the business objectives for which the partnership is formed.

Sharing of profits: The agreement should be to share the profits of the business. If some persons join hands to carry on some charitable activity, it will not be termed as partnership. Of course, the ratio in which the partners will share the profits is determined by the agreement or in the absence of the agreement; it is shared equally amongst the partners.

Business carried on by all or any of them acting for all: The firm's business may be carried on by all the partners or any one of them acting for all. This means that partnership is based on the concept of mutual agency relationship. A partner is both an agent (he can, by his acts, bind the other partners) and a principal (he is bound by the acts of other partners). The implication of this is that partner binds others and others bind him in the same way. Further implication of this is that each partner is entitled to participate in the conduct of business affairs and act for and on behalf of the firm.

Partnership Deed: A partnership is formed by an agreement. This agreement may be written or oral. Though the law does not expressly require that there should be an agreement in writing but the absence of a written agreement may be a source of trouble in managing the affairs of the partnership firm.

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Therefore, a partnership deed should be written, assented to and signed by all the partners. The partnership deed usually contains the following particulars:

- Name of the firm
- Names and addresses of all partners
- Nature and place of the business
- Date of commencement of partnership
- Duration of partnership, if any
- Amount of capital contributed or to be contributed by each partner
- Rules regarding operation of bank accounts
- Ratio in which profits are to be shared
- Interest, if any, on partners' capital and drawings
- Interest on loan by the partners(s) to the firm
- Salaries, commissions, etc. if payable to any partner(s)
- The safe custody of the books of accounts and other documents of the firm
- Mode of auditor's appointment, if any
- Rules to be followed in case of admission, retirement, death, of a partner
- Settlement of accounts on dissolution of the firm and
- Mode of settlement of disputes among the partners.

Joint Stock Company: A public limited company is a voluntary association of members which is incorporated and, therefore has a separate legal existence and the liability of whose members is limited to the extent of their contribution to Share Capital of the company. In companies, the capital is contributed by a large number of persons called shareholders who are the real owners of the company. It is not possible for all of them to participate in the management of the company. Therefore, they elect a Board of Directors as their representative body to manage the affairs of the company. Board of Directors appoints Managing Director and the management team who is responsible for the day to day management and is governed by the Memorandum & Articles of Association. In fact, all the affairs of the company are governed by the provisions of the Companies Act 2013.

Features of A Company: It is an artificial person having or separate legal entity distinct from its members (shareholders) and has a common seal used for its signature. Thus, it has the following special features which distinguish it from the other forms of organization.

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Body Corporate: A company is formed according to the provisions of Law enforced from time to time. At present, in India, the companies are formed and registered under Companies Act 2013.

Separate Legal Entity: A company has a separate legal entity which indistinct and separate from its members. It can hold and deal with any type of property. It can enter into contracts and even open bank accounts in its own name.

Limited Liability: The liability of the members of the company is limited to the unpaid amount of the shares held by them. In the case of the companies limited by guarantee, the liability of its members is limited to the extent of the guarantee given by them in the event of the company being wound up.

Perpetual Succession: The Company, being an artificial person created by law, continues to exist irrespective of the changes in its membership. A company can be terminated only through law. The death, insanity or insolvency of any member of the company in no way affects the existence of the company. Members may come and go but the company continues.

Common Seal: The Company, being an artificial person, cannot sign its name by itself. Therefore, every company is required to have its own seal which acts as official signatures of the company. Any document which does not carry the common seal of the company is not binding on the company.

Transferability of Shares: The shares of a public limited company are freely transferable. The permission of the company or the consent of any member of the company is not necessary for the transfer of shares. But Articles of the company can prescribe the manner in which the transfer of shares will be made.

May Sue or be Sued: A company, being a legal person can enter into contracts and can enforce the contractual rights against others. It can sue and be sued in its name if there is a breach of contract by the company.

Different kinds of a Company: Companies can be classified either on the basis of the liability of its members or on the basis of the number of members. On the basis of liability of its members the companies can be classified into the following three categories:

- (i) **Companies Limited by Shares:** In this case, the liability of its members is limited to the extent of the nominal value of shares held by them. If a member has paid the full amount of the shares, there is no further liability on his part whatsoever may be the debts of the company. He need not pay single paisa from his private property.
- (ii) **Companies Limited by Guarantee:** In this case, the liability of its members is limited to the amount they undertake to contribute in the event of the company being wound up. Thus, the liability of the members will arise only in the event of its winding up.
- (iii) **Unlimited Companies:** When there is no limit on the liability of its members, the company is called an unlimited company. When the company's property is not sufficient to pay off its debts, the private property of its members can be used for the purpose. In other words, the creditors can claim their dues from its members' personal assets also.

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2.10 Summary

- A person becomes the customer of the Bank after opening an account with the Bank.

Due to the various services provided by the Bank, there are different relationships developed by the customer with the Bank which are:

- Creditor- Debtor Relationship
- Debtor - Creditor Relationship
- Principal- Agent Relationship
- Pledger and Pledgee
- Licensor and Licensee
- Hypothecator and Hypothecatee
- Bailee and Bailor

Banks open accounts for all types of customers. However, in case of the special types of accounts, Bank needs to exercise proper due diligence to avoid any risk to the bank:

- Minors
- Lunatics
- Drunkards
- Married women
- Illiterate Person
- Partnership Firm
- Trust account
- Executors
- Administrators

Retail banking services is for the common man which covers Deposit / Loan based, Fee based, value added and miscellaneous services.

Wholesale Banking is that part of the Bank which provides services to the Businesses / Corporate and provides loans for short / medium / long term.

Persons who want to open the account with the Bank need to comply with the Know Your customer (KYC) guidelines of the Bank and need to submit the following documents:

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- Photo
- Proof of Identity
- Proof of Address

Nominee is the person who will get the balance in the account in case of death of the single account holder or all account holders and it is his responsibility to pass on the deposit amount to the legal heirs

Know your customer guideline has been issued by the RBI to prevent banking system being used for Money Laundering activities and consists of 4 steps:

- Customer Acceptance Policy
- Customer Identification Procedures
- Monitoring transactions
- Risk management

Money Laundering is converting the Black money (money received from illegal sources) into white money (legalised money) and have 3 stages: Placement, Layering and Integration

Bank statement / Passbook provide an audit trail of your transactions and act as a ready reckoner of transactions. It is used for reconciliation purpose

Minor / Junior cannot open account in own name but can open the account under the guardianship of their persons. The accounts are opened for them to develop the habit of saving from the tender age.

Partnership firm is an agreement governed by Partnership deed between two or more persons for carrying out a business activity for sharing of profit and is governed by Partnership deed

Company account has advantages of separation of owners from the managers of the business and large number of people can invest in the Capital of the company.

Key words:

NI Act – Negotiable Instrument Act

LOB – Line of Business

TPPs - Third Party Products

CMS - Cash Management Service

NEFT - National Electronic Funds Transfer

RTGS - Real Time Gross Settlement

PPF - Public Provident Fund

Banking

IEC - Importer Exporter Code

CINo - Customer Identification number

NRE - Non Resident (External)

NRO - Non Resident Ordinary

FCNR - Foreign Currency Non Resident

RFC - Resident Foreign Currency

KYC – Know Your Customer

CTR – Cash Transaction Report

FATF –Financial Action Task Force

2.11 Self Test Questions

I. Choose the correct option:

1. What is the relationship of the Bank hires out with the safe deposit locker?
 - a) Debtor
 - b) Creditor
 - c) Agent
 - d) Lesser
2. What is the minimum number of partners required to commence a partnership business?
 - a) 20
 - b) 10
 - c) 2
 - d) 4
3. Partnership type of business is formed by the mutual agreement of partners. What kind of agreement is it?
 - a) Oral agreement
 - b) Written agreement
 - c) Oral or written agreement
 - d) None of them
4. In the general form of partnership, liabilities of partners are:
 - a) Limited

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- b) Unlimited
 - c) Limited to the business capital
5. The written agreement of partnership is most commonly referred to as:
- a) Agreement
 - b) Partnership deed
 - c) Partnership contract
 - d) Partnership Act
6. "KYC" consists of
- a) Customer Identification
 - b) Customer Due Diligence
 - c) Customer Acceptance
 - d) All the three
7. Bullion Dealers come under the category of
- a) Low Risk
 - b) Medium Risk
 - c) High Risk
 - d) Any of them as per the judgment of the Bank
8. In a partnership company, a person who simply invests the money is known as _____ partner.
- a) Working Partner
 - b) Sleeping Partner
 - c) Normal Partner
9. When a joint account is operated by any one of the holder independently, mode of operation of the account is
- a) Jointly
 - b) Either or Survivor
 - c) Former or Survivor
 - d) Latter or Survivor
10. Reconciliation process is initiated _____.
- a) When there is an Exception
 - b) When there is Mismatch in Accounts (cash & Securities Assets)

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- c) As a matter of routine to ensure both books (Cash & Pass Book) match

Answers: 1 – d, 2 - c, 3 – c, 4 – b, 5 – b, 6 - d, 7 -c, 8 - b, 9 - b, 10 – c.

II. Fill in the blanks:

1. Interest on savings bank accounts is calculated on _____ closing balance
2. Penalty for breaking a fixed deposit is normally ____ %
3. Full form of NRI is _____
4. STR stands for _____
5. Minor’s account can be opened in the guardianship of _____
6. Minor attain majority on completion of ____ years
7. A deposit where a fixed amount is deposited on monthly installment is known as _____

Answers: 1- daily, 2 – 1, 3 - Non Resident Indian, 4 – Suspicious Transaction Report, 5 – natural parents, 6 – 18, 7 – Recurring deposit

III. Answer in detail:

1. What are special types of customers of the Bank and how does Bank address their needs?
2. What are the different types of loans required by the corporate?
3. Explain the advantages / disadvantages of the Savings accounts, Current account, Recurring Deposit account and Fixed Deposit accounts from the customer point of view?
4. What is nomination and its advantages to the customers?
5. Explain the steps recommended by RBI in the KYC guideline?
6. What is the need for Pass Book?
7. What is minor account and what are the requirements for opening a minor account?
8. Explain the differences between Partnership and Corporate accounts?
9. What is the content of Partnership deed?

IV. Activities:

1. Request students to get Bank account opening form for savings, current account and fixed deposit and discuss the various details / documents required for opening the accounts?
2. Do role play on the various relationships the Bank play for various customers?

Employment of Bank Funds

Unit-3

Learning Objective

Location	Duration-20 HOURS			
Classroom or Banks	SESSION -1 LIQUID ASSETS- CASH IN HAND, CASH WITH RBI & CASH WITH OTHER BANKS			
	Learning Outcome	Knowledge Evaluation	Performance Evaluation	
	After studying this topic the learners would be able to understand the concept of liquid assets & their features.	<ol style="list-style-type: none"> 1. Meaning of liquid assets. 2. Importance of liquid assets. 	Elucidate need of Liquid assets for the Bank.	Classroom teaching, PPT's
	SESSION -2 INVESTMENT IN SECURITIES			
	After studying this topic the learners would be able to understand the factors relevant for Investment in different types of securities.	<ol style="list-style-type: none"> 1. Basic principle of investment. 2. Instruments available for investing. 	Explain why Banks need to invest and care taken while investing.	Classroom teaching
	SESSION-3 ADVANCES- SECURED AND UNSECURED			
	After studying this topic the learners would be able to differentiate between Secured and Unsecured loans.	<ol style="list-style-type: none"> 1. Meaning of Lending of funds. 2. Classification of Advances. 3. Distinction between Secured & Unsecured loan. 	<ol style="list-style-type: none"> 1. Explain the advantages / disadvantage of secured / unsecured loans. 2. Distinguish between secured and unsecured loans. 	Classroom teaching
	SESSION-4 LOANS			
After studying this topic the learners would be able to understand the concept of loans.	<ol style="list-style-type: none"> 1. Understand the role & advantages of CIBIL in loan process. 2. List the Unsecured Secured loans offered by the Bank. 3. Features of the various types of loans. 	<ol style="list-style-type: none"> 1. Explain the advantages of CIBIL in reducing NPA. 2. Elucidate the needs & features of various types of loans. 	Classroom teaching	

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SESSION-5 TERM LOANS			
After studying this topic the learners would be able to understand the concept of Term Loans.	Classify the Time Deposits on the basis of period into: <ul style="list-style-type: none"> ➤ Short Term ➤ Medium Term ➤ Long Term Various aspect of the above loans.	1. Describe the need of Time loans by individuals / corporate. 2. Study the characteristics of the different loans.	Classroom teaching
SESSION-6 CASH CREDIT			
After studying this topic the learners would be able to understand the concept of cash credit.	1. Understanding of cash credit. 2. Suitability of cash credit in present scenario.	1. Explain the key features of Cash Credit. 2. Describe the advantages and disadvantages.	Classroom teaching
SESSION-7 OVERDRAFT			
After studying this topic the learners would be able to understand the concept of overdraft and essential conditions to be fulfilled for availing overdraft facility.	1. Concept of Overdraft. 2. Features of Overdraft.	1. Describe in detail the role of Overdraft as advancing loan. 2. Enumerate the features of Overdraft.	Classroom teaching
SESSION-8 DISCOUNTING OF BILLS OF EXCHANGE			
After studying this topic the learners would be able to learn the pre-requisites for Discounting of Bills of Exchange.	1. Fundamentals of Bill Discounted and Purchased. 2. Importance of Bill Discounted and Purchased.	1. Detail understanding of concept of Bill Discounted and Purchased. 2. Explain its advantages to bank. 3. How is Bill Discounted and Purchased different from other credit facilities?	Classroom teaching

Banking

SESSION-9 MODES OF CREATING CHARGE OF SECURITIES			
<p>After studying this topic the learners would be able to learn the different Modes of creating charge of Securities.</p>	<ol style="list-style-type: none"> 1. Why charge creation is required. 2. Modes of creating charges. 3. Comparison of various modes of charges. 	<ol style="list-style-type: none"> 1. Elucidate the benefits of charge creation to Bank. 2. How different charge creation differs from each other. 	<p>Classroom teaching, PPTs</p>
SESSION-10 TYPES OF SECURITIES ACCEPTED			
<p>After studying this topic the learners would be able to learn the different types of Security and merits & demerits associated with them.</p>	<ol style="list-style-type: none"> 1. Understand the different types of security taken as collateral by the Bank while advancing loans. 	<p>List the different security accepted by the Banks while advancing loans.</p>	<p>Classroom teaching, PPTs</p>

Banking

Employment of Bank Funds

Unit-3

Learning Objective

After reading this unit, you will be able to:

- Understand what are liquid assets and their uses for liquidity management.
- Summarise the factors to be considered while investing in securities.
- Describe what are secured / unsecured loans and differentiate between them.
- Outline the various loans available and its uses.
- Explain Term Loans and their advantages.
- Understand what is Cash credit.
- Describe the overdraft facility and compare it with Cash credit.
- Summarise discounting of Bill of Exchange and its merits to the business.
- Explain the various ways to create a charge on securities.
- Understand what are the various securities which Banks accept while advancing loans.

STRUCTURE

- 3.1 Liquid Assets-Cash in Hand, Cash with RBI & Cash with other Banks
- 3.2 Investment in Securities
- 3.3 Advances - Secured and Unsecured
- 3.4 Loans
- 3.5 Term Deposit
- 3.6 Cash Credit
- 3.7 Overdrafts
- 3.8 Purchase and Discounting of Bills
- 3.9 Modes of creating charge on securities
- 3.10 Types of Securities
- 3.11 Summary
- 3.12 Practice Questions

Banking

3.1 Liquid Assets-Cash in Hand, Cash with RBI & Cash with other Banks

Liquid Assets: A bank's balance sheet has two sides namely Assets and Liabilities. The investments / loans given by the bank constitutes the assets of the bank. As a prudent risk management technique, banks do not put all their eggs in one basket and hence invest in different types of securities to minimise risk.

To meet the liquidity requirements, banks invest in securities which are liquid. Liquid assets are the securities that can be easily converted into money and with minimal impact to the price received.

Features of liquid assets: An asset is called liquid asset when there is an established market with enough participants to meet the selling pressure without materially impacting the price of the asset and there is relative ease in the transfer of ownership. A market may be considered both deep and liquid if there are ready and willing buyers and sellers in large numbers.

Liquid assets: Liquid assets of a bank consist of:

- Cash in Hand
- Money at call and short notice
- Balances with RBI
- Balances in current accounts with other banks
- Inter-bank deposits due within 30 days

Money at call and short notice

The money market is a market for short-term financial assets that are close substitutes of money. The most important feature of a money market instrument is that it is liquid and the instruments can be turned into money quickly at low cost. It provides an avenue for equilibrating the short-term surplus funds of lenders and the requirements of borrowers. The call/notice money market forms an important segment of the Indian Money Market.

- “Call Money” means deals in overnight funds.
- “Notice Money” means deals in funds for 2 to 14 days.
- “Term Money” means deals in funds for 15 days to 1 year.

Call money is short-term loans repayable on demand, with a maturity period of one to fifteen days, used for inter-bank transactions. The money that is lent for one day in this market is known as “call money” and, if it exceeds one day, it is referred to as “notice money.”

Commercial banks have to maintain a minimum cash balance known as the cash reserve ratio. Call money is a method by which banks lend to each other to enable them to maintain the cash reserve ratio.

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If they are short of funds. Otherwise also banks seek short term funds to meet the needs of the depositors on certain days. The interest rate paid on call money is known as the call money rate. It is a highly volatile rate and varies from day to day and sometimes even from hour to hour. This rate goes up when the demand for call money is high as compared to the supply of surplus funds by their banks and vice versa.

Cash Reserve Ratio

Scheduled Commercial Banks are required to maintain with RBI, an average cash balance, the amount of which shall not be less than a specific percentage of their total Net Demand and Time Liabilities (NDTL) in India.

Demand Liabilities include all liabilities which are payable on demand and they include current deposits, demand liabilities portion of savings bank deposits, margins held against letters of credit / guarantees, balances in overdue fixed deposits, cash certificates and cumulative / recurring deposits, outstanding Telegraphic Transfers (TTs), Mail Transfer (MTs), Demand Drafts (DDs), unclaimed deposits, credit balances in the Cash Credit account and deposits held as security for advances which are payable on demand.

Time Liabilities are those which are payable otherwise than on demand and they include fixed deposits, cash certificates, cumulative and recurring deposits, time liabilities portion of savings bank deposits, staff security deposits, margin held against letters of credit if not payable on demand, deposits held as securities for advances which are not payable on demand, India Millennium Deposits and Gold Deposits.

Cash Reserve Ratio (CRR) is 4% (15 Jan 2015). CRR affects the availability of Cash with the banks. If CRR is raised. Banks shall have to park larger amount with RBI and this cash available for lending is reduced.

Liquidity Management: Banks collect money from saving deposits / fixed deposits, recurring deposits from their customers which constitutes the liability for the Bank. Banks lend this money to their customers which represent their assets. Any idle cash represent opportunity loss to the bank whereas in case of shortage of cash, bank needs to borrow at higher rate which result in higher cost to the bank. If this Banks borrow short and lend long it makes the Bank vulnerable to liquidity risk and can even face the risk of “**BANK RUN**” as depositors can withdraw their funds / seek cash in their financial claims and thus impacting current and future cash-flow and collateral needs of the bank This management of money is known as Asset Liability Management / Liquidity Management. Asset Liability management is proactively managed on a day to day basis by the banks.

Asset Liability Management (ALM): Asset-Liability Management Committee (ALCO) is a strategic decision making body, formulating and overseeing the function of asset liability management (ALM) of a bank. It is concerned with strategic balance sheet management involving all market risks. It also deals with liquidity management, funds management, trading and capital planning. ALCO manages various kinds of risks like credit risk, interest risk, and liquidity risk.

An effective Asset Liability Management Technique aims to manage the volume, mix, maturity, rate sensitivity, quality and liquidity of assets and liabilities as a whole so as to attain a predetermined acceptable

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risk/reward ratio. Asset-liability management models enable institutions to measure and monitor risk, and provide suitable strategies for their management.

3.2 Investment in Securities

As mentioned above, idle cash does not earn any income to the bank. But the banks have the liability to pay interest on the deposit amount. Hence, banks ensure the idle cash is deployed fruitfully and is invested in liquid assets to earn a reasonable income.

Banks also invest funds in securities for short term, medium term and long term purposes. As a prudent risk management practice banks also do not put all their eggs in one basket. They diversify their risk by investing in different securities.

Factors affecting the decision for investment are:

- Safety
- Liquidity
- Return

Safety: Whatever money has been invested in securities, at least the principal amount should remain safe.

Liquidity: The securities should be liquid in nature so that there is sufficient opportunity for the bank to sell the securities when there is need for money by the bank.

Return: They banks should earn reasonable return on the investment made. In case of debt investment, the return is in the form of interest and in case of equity, the return is in form of dividend.

Bank invests in following types of securities:

- Treasury Bills
- Central and State Government Securities
- Commercial Paper
- Corporate Debentures and shares
- Tax free Infrastructure Bonds
- Mutual Funds

Statutory liquidity ratio (SLR):

SLR is a requirement that the commercial banks in India are required to maintain in the form of gold and government and approved securities before providing credit to the customers. Statutory Liquidity Ratio is determined by Reserve Bank of India in order to control the expansion of bank credit and to ensure safety funds of the depositions.

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The SLR is expressed as a percentage of total demand and time liabilities of the banks. Time Liabilities refer to the liabilities which the commercial banks are liable to pay to the customers after a certain period mutually agreed upon, and demand liabilities are such deposits of the customers which are payable on demand. An example of time liability is a six month fixed deposit which is not payable on demand but only after six months. An example of demand liability is a deposit maintained in saving account or current account that is payable on demand through a cheque or withdrawal form .

The main objectives for maintaining the SLR ratio are the following:

- To control the expansion of bank credit. By changing the level of SLR, the Reserve Bank of India can increase or decrease bank's ability to expand or contract credit granted by them.
- To ensure the solvency of commercial banks.
- To compel the commercial banks to invest in government securities which provide funds to the government.

3.3 Advances - Secured and Unsecured

Loans and Advances constitute the largest and most profitable filable assets of banks.

- Money that banks advance to individuals or groups of individuals or a company with the understanding that it will be paid off at some (usually specified in advance) future date is the most important source of income for banks.
- Most loans are repayable, in monthly instalments. also
- Interest is received on the money lent by banks, at varying rates.

Unsecured Loan: Unsecured loan is a loan that is granted on the basis the borrower's credit worthiness, rather than on the basis of any collateral security. An unsecured loan is one that is obtained without taking any property from the borrower collateral for the loan. Borrowers must have high credit ratings to be getting an unsecured loan. This type of loan is also called personal loans.

Secured Loan: Loans backed or secured by collateral security to reduce the risk associated with lending are called secured loans. A mortgage of house is considered collateral for a loan. Assets backing debt or a debt instrument are also considered as security, which means they can be claimed by the lender if default occurs. Obviously unsecured debt carries higher risk, and as such lenders of unsecured money charges higher rate of interest.

The typical loan products offered by the banks to individual are as follows:

- Unsecured loans:
 - ❖ Credit Cards
 - ❖ Personal Loans for purchase of jewels, meeting domestic consumption needs etc.
 - ❖ Educational Loans for pursuing higher education both in India and abroad.

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- ❖ Consumer Durables loans- purchase of white goods and durables.
- Secured loans:
 - ❖ Auto loans- purchase of new / used four and two wheelers.
 - ❖ Home Loans - Purchase of land and construction of residential house / purchase of ready built house / for repairs and renovation of an existing house.

Difference between Secured & Unsecured loan:

Secured Loan	Unsecured Loan
Loan against collateral / Security	Loan based on individual credit rating
Interest rate are lower than unsecured loan	Interest rate are higher than secured loan
Loans are available for a long tenure	Loan are available for a fixed period
Borrowing limits are higher than unsecured loan	Borrowing limits are lower than unsecured loan
Loan approval process is longer due to paper work involved	Loan approval process is shorter due to paper work involved

3.4 Loans

There are 5 basic principles for lending known as the 5 C's. They are:

- **Character:** The borrower's willingness to repay, his honesty and integrity;
- **Capacity:** Ability to successfully run the business and repay the borrowing out of the earnings;
- **Capital:** How much money he has put in the business as capital and how much he has saved from his earnings so far, i.e. his net worth;
- **Collateral:** The security offered to the bank as cover for the advance. If the borrower does not pay the dues, the bank can always recover it by selling the security. The security should have stable value and should be easily marketable;
- **Conditions:** The changes that are constantly occurring in the economy which may affect the borrower's business.

The other points are:

- Whether the loan to the borrower will be profitable to the bank?
- Whether the loan is as per the bank's policies and is useful to the borrower?
- Whether the venture of the borrower is economically, technologically, and financially feasible?

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- Whether the borrower has adequate managerial competence to run the business?

Banks usually take 'securities' by creating different types of 'charges' on the securities. The 'charge' created over the securities confers some legal rights on the bank to recover the dues from the borrower.

Credit Rating: In the late 1990s, need was felt to arrest growth of fresh non-performing assets (NPAs) in the banking system through an efficient system of credit information on borrowers. Banks need a complete picture of the payment history of an applicant; they must be able to gain access to the applicant's complete credit record that may be spread over different institutions. To resolve the issue, Credit Information Bureau (CIB) was set up to provide an adequate, comprehensive and reliable information system on the borrowers through an efficient database system.

Credit Information Bureau (India) Limited (CIBIL) was founded in August 2000. CIBIL collects commercial and consumer credit-related data and collates such data to create and distribute credit reports to its member institutions which are credit institutions and banks in India. CIBIL's over 900 strong member base includes all leading public & private sector banks, financial institutions, non-banking financial companies and housing finance companies.

CIBIL's products, especially the Credit Information Report (CIR) and CIBIL Trans-Union Score are very important in the loan approval process. Once the lender has decided which set of loan applicants to evaluate, it analyzes the CIR / Score in order to determine the applicant's eligibility. Eligibility basically means the applicant's ability to take additional debt and to repay additional debt on the basis of their current commitments. For this purpose the lender will request the applicants to submit his income proof and other relevant documents in order to finally sanction the loan.

Along with Trans-Union, CIBIL issues a 3-digit credit score and Credit Information Report (CIR) which is used extensively by banks and lending institutions in India. CIBIL score ranges from 300 to 900 and indicates credit worthiness of the individual. A person individual with good credit background would have a higher score. Often lenders prefer those individual with CIBIL score more than 700. CIR is also considered by lenders for granting loan when a borrower approaches them.

The CIR and Credit Score not only help loan providers identify consumers who are likely to be able to pay back their loans, but also help them to do this more quickly and economically. This translates into faster loan approvals for consumers. An individual with a higher credit score can bargain with the credit institution for better lending terms, since he is perceived as a responsible borrower. Since consumers can now access their Credit Scores and CIRs directly from CIBIL, they can see for themselves how they are perceived by lenders before taking a loan. Hence, CIBIL empowers both lenders and individuals to see their financial and credit history more clearly and thus, take better and more informed decisions.

Credit Card: A card issued by a financial company giving the holder an option to borrow funds, usually at point of sale. On credit cards interest is charged they 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.

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Credit cards have higher interest rates (around 34-36 % per year) than most consumer loans or lines of credit. Almost every store allows payment for goods and services through credit cards. Because of their widespread acceptance, credit cards are one of the most popular forms of payment for consumer goods and services in the World.

A credit card is a payment card which enable 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 a merchant or as a cash advance to the user.

Benefits to the credit card holders: The main benefit to the customer is convenience. Compared to debit cards and cheques, a credit card allows small short-term loans to be quickly made to a customer who need not calculate the balance in his account before every transaction, provided the total charges do not exceed the maximum credit line for the card.

Many credit cards offer rewards and benefits packages, such as enhanced product warranties at no cost, free loss/damage coverage on new purchases, various insurance protections, for example, rental car insurance, common carrier accident protection, and travel medical insurance. Credit cards can also offer reward points which may be redeemed for cash, products, or airline tickets.

Detriments of credit card to the card holder: Following are detriments to the card holder:

High interest cost: Low introductory credit card rates are limited to a fixed term, usually between 6 and 12 months, after which a higher rate is charged. As all credit cards charge fees and interest, some customers become so indebted to their credit card provider that they are driven to bankruptcy. Some credit cards often levy a rate of 30 to 36 percent after a payment is missed. In other cases a fixed charge is levied without change to the interest rate. Complex fee structures in the credit card industry limit customers' ability to comparison shop, help ensure that the industry is not price-competitive and help maximize industry profits.

Inflated pricing for all consumers: Merchants that accept credit cards must pay interchange fees and discount fees on all credit-card transactions. The result is that merchants may charge all customers (including those who do not use credit cards) higher prices to cover the fees on credit card transactions.

Weakens self regulation: Several studies have shown that consumers are likely to spend more money when they pay by credit card. Researchers suggest that when people pay using credit cards, they do not experience the abstract pain of payment. Furthermore, researchers have found that by using credit cards one can increase unnecessary consumption.

Grace period: A credit card's grace period is the time the customer is allowed to pay the balance before interest is charged on the outstanding balance. Grace periods may vary, but usually range from 20 to 55 days depending on the type of credit card and the issuing bank.

Usually, if a customer is late in paying the balance, finance charges will be calculated and the grace period does not apply. Finance charges incurred depend on the grace period and balance; with most credit cards there is no grace period if there is any outstanding balance from the previous billing cycle or statement (i.e. interest is applied on both the previous balance and new transactions).

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Personal Loan: Personal loan is an amount given to an individual for personal purpose that must be paid off at a specified time. In order to obtain a personal loan, one has to provide the bank with the necessary information.

For personal bank loans required information may vary from bank to bank, but one common factor is that the applicant must have a steady source of income, a relatively good credit report and an acceptable CIBIL score. There is an inverse relationship between the CIBIL score and interest rate. A higher the CIBIL garners a lower interest rate while a low CIBIL score is penalized with a high interest rate.

Personal bank loan repayment period may span from 12 months to 30 years depending on the size and type of loan. Whatever the repayment terms, the applicant must take special care to read the fine print of the loan agreement. Once the loan is agreed to, the borrower must make monthly payments each month to pay off the loan. The monthly payments consist of principal (the original amount borrowed) and interest (the amount it cost to borrow the money). The sooner one repays the loan, the less interest is incurred.

Credit reporting: Once an individual has secured a personal bank loan, the activity on that loan is reported to the credit rating bureaus. The way in which a borrower repays the loan will affect his CIBIL score.

Early repayment of personal loans: Since banks earn money from the interest on outstanding loans, some banks charge an early repayment penalty in the event the borrower pays of the loan ahead of time. Applicants should review the loan agreement to ensure they won't suffer early repayment penalties. If such a clause exists, negotiate with the loan officer to get it removed.

Loan limits: Your personal loan limit would be determined by your income and repayment capacity. Normally you can avail loan up to Rs.2.50 lacs. However, if in metros of New Delhi, Mumbai, Bangalore, Chennai, Hyderabad and Kolkata, salaried individuals or self-employed professionals can avail Personal Loan up to Rs.5.00 lacs. Spouse's income can be included provided he/she guarantees the loan or the loan is taken jointly.

KYC Documents for Personal loan: You will need to furnish only the following documents if you are an existing customer of the Bank:

- Passport size photograph
- Proof of official address for self employed individuals and professionals. This can include shop and establishment certificate/Lease deed/Telephone Bill
- Latest Salary slip and Form 16, in the case of salaried persons
- IT returns for the last two financial years, in the case of self employed individuals and professionals

If you are not an existing bank customer you would also need to establish your identity and give proof of residence. Loan repayment is expected to be paid every month is the EMI. You are allowed to pay more than the EMI if you wish to, and no prepayment penalty is charged.

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EMI: EMI stands for Equated Monthly Instalments. This instalment comprises both principal and interest components. EMI calculator enable you to find out monthly payments based on the loan amount, the rate of interest and the repayment period.

Processing charges are normally 1 per cent of the loan amount and may vary from bank to bank. Processing fees have to be paid up front. There are no hidden costs or other administrative charges. Option is given for selecting a fixed or floating rate of interest.

In the case of the daily/monthly reducing balance, interest is calculated only on the outstanding loan amount, which reduces every time EMI payment or make any prepayments are done. This in essence lowers the effective rate of interest significantly.

Educational Loan: Student loans in India (popularly known as Education loans) have become a popular method of funding higher education in India with the cost of education going higher. All large public sector and private sector banks offer educational loans.

Income Tax Benefits: Under section 80(e) of the Income Tax Act, a person is grantee exemption from income the amount paid as the interest on the education loan - either for self or for his/her spouse or children - for eight years from the year (s) he starts to repay the loan or for the duration the loan whichever is more.

Maximum amount of the loan which can be sanctioned: Normally, maximum Loan Amount that can be sanctioned is:

Maximum Rs. 10.00 lacs for Studies in India

Maximum Rs. 30.00 lacs for Studies Abroad

Normally, repayment will commence one year after completion of course or 6 months after securing a job, whichever is earlier.

Maximum Loan Limit	Repayment Period
Upto Rs. 4 Lacs	Upto 10 years
Above Rs. 4 Lacs and up to Rs. 7.5 Lacs	Upto 10 years
Above Rs. 7.5 Lacs	Upto 12 years

But it can vary from Bank to Bank.

Loan Repayment Schedule: The outstanding interest for the moratorium period will be added to the loan amount at the time of commencement of the repayment. The EMI will be determined on this amount at the time the repayment is to commence. EMI stands for Equated Monthly Instalments. This instalment comprises both principal and interest components. Your EMI would be calculated depending on the tenor you choose, to repay your loan. The EMI would be higher if you choose to repay within a shorter period as against a longer-term loan. A shorter repayment period, however, reduces your interest cost over the term of the loan.

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Consumer Durable Loans: A Consumer Durable loan is a loan for purchase of consumer durables like Washing Machine, Refrigerator & Television etc.

You have flexible tenor options to choose from, ranging from 6 to 30 month. Documents required for the loan are:

- Valid income document
- Photo id proof
- Residence proof and
- Post Dated Cheques (PDC's) / ECS for repayment of the loan.

Depending on the Credit program you opt for, you will be required to give some additional document(s). Since these loans are categorised under "Personal Loans", interest charged is generally higher than those applicable for secured loans.

The Manufacturers/Dealers also offer Consumer Durables Finance under which there is absolutely no interest charged. These offers are available on a range of products. All that a customer has to pay is some upfront instalments (as applicable) for the amount financed and a nominal amount of processing charges. The manufacturers bear an annualised rate of interest which is based on risk gradation, cost of funds, margin & risk premium. There are no hidden charges whatsoever. Foreclosure of loan is possible after 6 months from the loan disbursement date.

Auto Loan: A personal loan to purchase an automobile is known as Auto Loan. Car loan is a secured type of loan as the car is taken as collateral. Car finance is required because the price of cars has gone out of the reach of individual purchasers without borrowing the money. Banks finance all makes of new cars, and second hand cars not more than five years old. Thus, you are free to choose any vehicle you want to own. Spouse's income can be included provided he/she joins as co-borrower.

Repayment schedule: The minimum amount that you are expected to pay every month is the EMI. You can repay the loan in up to 84 EMIs – the period of the loan will depend on the cost of the vehicle.

EMI calculations: Your EMI would be calculated depending on the tenor you choose to repay your loan and the applicable rate of interest. Higher the tenor/rate, higher will be the EMI.

Security for the Car Loan: A charge on the vehicle financed is noted with local RTO. Your spouse's guarantee, if his/her income has been considered for fixing the loan amount, would also be required. Some other security may also be required in certain cases.

Home / Mortgage Loan: This is a loan given by a bank, Housing Funds Company or other financial institution for the purchase of a house. In a home mortgage, the owner of the property (the borrower) transfers the title to the lender on the condition that the title will be transferred back to the owner once the re-payment has been made and other terms of the mortgage have been met.

A home mortgage will have either a fixed or floating interest rate, which is paid monthly along with a contribution to the principal loan amount. As more principal gets repaid over a period of time, interest

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accrued amount comes down. Home mortgages allow a much broader group of citizens the chance to own real estate, as only a small portion of the value of the property has to be provided upfront by the borrower as the margin money. Since the lender actually holds the title for as long as the mortgage is in effect, he has the right to foreclose the home (sell it on the open market) if the borrower can't make the payments.

A home mortgage is one of the most common forms of debt. Mortgage loans carry lower interest rates than almost any other kind of loans.

A mortgage loan is secured by real property through the use of a mortgage deed which evidences the existence of the loan and the encumbrance of that realty.

Types of Home Loan:

Home Purchase Loan: This is the basic type of a home loan which has the purpose of purchasing a new house.

Home Improvement Loan: This type of home loan is for the renovation or repair of the home which is already bought

Home Extension Loan: This type of loan serves the purpose when the borrower wants to extend or expand an existing home, like adding an extra room etc.

Home Conversion Loan: It is that loan wherein the borrower has already taken a home loan to finance his current home, but now wants to move to another home. The Conversion Home Loan helps the borrower to transfer the existing loan to the new home which requires extra funds, so the new loan pays the previous loan & fulfils the money required for new home.

Bridge Loan: This type of loan helps finance the new home of the borrower when he wants to sell the existing home, this is normally a short term loan to the borrower & helps during the interim period when he wants to sell the old home & want to buy a new one, It is given till the time a buyer is found for the old home.

Mortgage loans are generally structured as long-term loans, the periodic payments for which are similar to an annuity and calculated according to the time value of money formulae. The basic arrangement would require a fixed monthly payment over a period of ten to thirty years, depending on local conditions. Lenders provide funds against property to earn interest income, and generally borrow these funds themselves (for example, by taking deposits or issuing bonds). The price at which the lenders borrow money therefore affects the cost of borrowing.

Tax benefits of taking a Housing Loan: Under the Income Tax Act, 1961, resident Indians are eligible for certain tax benefits on principal and interest components of a loan.

Under Section 24(1), interest payment of Rs.1,50,000/- per annum qualifies for deduction from income in case of self-occupied houses while the entire amount of interest can be deducted from Rental Income if the house is let only by the house owner.

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An added benefit under Section 80(c) on repayment of principal amount to the extent of Rs.1,00,000/- per annum is also available on the same loan subject to compliance with conditions stipulated in the IT Act.

3.5 Term Loans

Term Loans: Short, Medium and Long Term

Individuals:

Classification of the Loans based on repayment is as follows:

- Within 3 years: 'Short Term' loans
- If the period is more than 3 years but within 5 years: 'Medium Term loans
- If the period is more than 5 years: 'Long Term' loans.

Short Term Loans: (up to 3 years)

- Gold Loan, Loan on Insurance Policy, Personal Loan, Loan an Term Deposits,
- Loan on Public Provident Funds, Loans against Shares & Mutual Fund Units

Medium Term Loan:

- Repaid with in a period of more than 3 years but within 5 years:
- Loan against Term Deposit (Depends on Tenor of the deposit)
- Loan against Shares & Mutual Funds
- Vehicle Loans

Long Term Loan: Repaid in a period of more than 5 years

Housing Loan

Corporates:

The Business entities are of various sizes and their needs are also different. So the loan products designed for them are also different. Corporates require **Short Term Loans** for Working Capital needs Pre-shipment and Post-shipment loans for Exports, Cash Credit (Overdraft) accounts, bill discounting limits.

Medium Term Loans: Term loans finance the purchase of furniture, fixtures, vehicles, and plant and office equipment.

Long Term Loans for their Long Term needs like investments in Plant and Machinery, Land and Buildings, Projects, Foreign Currency Loans etc. This also includes Small and Medium Enterprises (SMEs) in the Corporate Sector. Repayment schedule depends on the projected future cash flows of the corporate borrowers.

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Interest rate may be fixed or floating and the interest rate as negotiated with the customer.

3.6 Cash Credit

Generally the facility given to the Industrial / Business customers is known as 'Cash Credit' (CC) account in which the stock (raw material / work in process / finished goods) lying in the godown is pledged or hypothecated as the security to the bank.

In a CC account, the bank fixes a 'cash credit limit' for the borrower which is usually 75% to 80% of the values of stocks and book debts (minus creditors for purchase), as declared by the borrower in a prescribed format periodically. The bank conducts periodical surprise checks in the godowns of the borrower to ensure that the borrower declares the quantity and value of the stocks accurately and maintains the acceptable level of financial discipline.

3.7 Overdrafts

An overdraft facility is an open-ended facility. Normally the limit is initially sanctioned for a period of one year and rolled over after a review by the bank of the facility utilised by the borrower. Bank charges interest on the actual amount utilised by the borrower.

Generally, the term 'Overdraft' is used for the unsecured open ended facility given to a borrower-for example to professionals like doctors, lawyers, advocates etc. or to any other individuals without security (depending on the creditworthiness of the borrower) or against security like Fixed Deposits, Government securities, Stocks and Bonds, Life Insurance Policies etc.

Types of Overdraft facility available:

Intraday Overdraft Limit:

Maximum limit that can be overdrawn during the day is fixed. During the day, the account may be overdrawn up to this limit but before the end of the day, the outstanding balance should come back to levels within the normal limit. It is normally bigger than (End of the Day) overdraft limit.

End of Day Overdraft Limit :

This is to help the borrower to tide over the mismatches of receipts and payments . So the outstanding balance should be brought within the normal limits with the next few days.

Advantages of Overdrafts:

- Flexible – An overdraft is there when you need it, and costs nothing (apart from possibly a small fee). It allows you to make essential payments and helps to maintain cash flow. You only need to borrow what you need at the time.
- Quick – Overdrafts are easy and quick to arrange.

Disadvantages of Overdrafts:

- Cost – Overdrafts carry interest and fees; often at much higher rates than loans. This makes them expensive.

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- Recall – Unless specified in the terms and conditions, the bank can recall the entire overdraft at any time. This may happen if you fail to make other payments, or if you have broken terms and conditions.
- Security – Overdrafts may be secured by business assets, which put them at risk if you cannot meet repayments.

3.8 Purchase and Discounting of Bills

This is another method of extending working capital finance to business entities.

- Bank purchase or discount the commercial bills (drawn by the sellers on the buyers) and this provide finances. It is a widely used method of short term financing. It is a fund based activity.

Process of creation of Bill of Exchange (BE) and financing:

- Since a BE is a stand-alone instrument which is admissible in a Court of Law, the business community prefers to draw Bills of Exchanges on the buyers. If the buyers fail to honour their commitments, then it would be easy for the sellers to go to court and claim their dues/damages solely on the strength of the dishonoured Bill of Exchange.
- The seller of the goods sends the transport documents and the invoices along with BE for the invoice amount to the buyer bank with the instruction to deliver the documents to the buyers on accepting the will of exchange or on making its payment:
 - ❖ Bills are drawn on Documents Against Payment (DP Basis) if the agreement with the buyer is for immediate payment basis of the bill. (In this case, the buyer bank collects the money due from the buyer and delivers the documents.
 - ❖ Bills are drawn on Documents Against Acceptance (DA basis) if the agreement with the buyers is to grant credit of 30 days, 45 days or 60 days. (In this case, the buyer accepts the BE, takes delivery of the documents and pays the dues to the bank on or before the due date.
- The endorsement by the bank acts as a valid discharge for the buyers for having made the payment.
- The sellers obtain lines of credit from their bankers to obtain finance against the bills thus drawn on their buyers by endorsing them in favour of the banks- so now the banks become the holders and have claim on the buyers for the payment.
- At this stage, the seller seeks finance from his bank on the security of the BEs, so that he need not block their funds till the dues from their buyers are realised.
- The banks ‘purchase’ the bills which are payable on Demand (i.e. without any credit period) and ‘discount’ the bills which are payable after a stipulated credit period. In both the cases, the banks deduct the interest at the contracted rates in advance for the period up to the due dates of payment.

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3.9 Modes of Creating Charge on Securities

While extending credit, banker must secure his position. A wide range of securities e.g. Land, Building, Goods, Share Certificates, Life Policies, Fixed Deposit Receipts, Title Deeds etc. are accepted by banks as security for a loan.

Types of charges on securities:

The important methods of charging securities are as follows:

1. Lien
2. Pledge
3. Hypothecation
4. Mortgage
5. Assignment

1. Lien: A lien is the right of a person in the possession of goods to retain them until debts due to him have been satisfied. A lien may be general or particular.

General lien: arises out of the general dealings between two parties and covers any property that one party may be holding for the other.

Particular (specific) lien: is a right to retain the goods in respect of which the debt arises. Thus, a particular lien can be exercised by a person who has spent his time, labour and money on the goods retained e.g., a scooter repairer may retain the scooter till the repair charges are paid.

Banker's lien is a general lien. Bankers, in the absence of a contract to the contrary, can exercise general lien and retain as security for the general balance of account, any goods bailed to them. So, no agreement is necessary to create the right of lien. Bills and documents sent for collection are in the course of banker's ordinary business and he has a lien upon them. The lien also extends to all securities held by the banker as cover for any specific loan, but left with him after the loan has been repaid. Banker's lien is more extensive than an ordinary lien. No lien can be exercised in respect of documents or valuables left inadvertently with the banker.

2. Pledge: Pledge may be defined as the bailment of goods as security for payment of a debt or performance of a promise. Bailment means delivery of goods by one person to another for some purpose, under a contract that the goods shall, when the purpose is accomplished, be returned or otherwise disposed of according to the directions of the person delivering them. The person, who delivers the goods, as security is called the 'pledger' and the person to whom the goods are so delivered, is called the 'pledgee'. The ownership of the goods remains with the pledger.

A pledge is created only when the goods are delivered by the borrower to the lender or to someone on his behalf with the intention of their being treated as security against the advance. Delivery of goods may, however, be actual or constructive. It is constructive delivery where the key of a go down in which the goods are kept or documents of title to the goods are delivered to the Bank.

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Similarly, where the goods continue to remain in the borrower's possession but are agreed to be held as a 'bailee' on behalf of the pledgee and subject to the pledgee's order, it amounts to constructive delivery and tantamount to valid pledge.

Advantages of Pledge: To a banker, pledge is perhaps the most satisfactory mode of creating a charge on securities. It offers the following advantages:-

- The goods are in the possession of the bank and, therefore, in case the borrower makes a default in payment, they can be disposed of after a reasonable notice is given to the borrower.
- In the case of insolvency of the borrower, bank can sell the goods and lodge its claim for the balance of the debt, if any.

Rights of a Pledgee: If the pledger fails to pay his debt or complete the performance, of an obligation at the stipulated time, the pledgee can exercise any of the following rights:

- Bring a suit against the pledger upon default in the redemption of the debt or performance of promise and retain possession of goods pledged as collateral security; or
- Sell the things pledged by giving the pledger reasonable notice of sale.
- In case, the proceeds from goods pledged are not sufficient to meet the amount of the loan, the pledgee can file a claim for the balance. If, on the other hand, there is surplus, that has to be returned to the pledger.

In addition to the rights mentioned above, a pledgee has following rights:

- It is the duty of the pledger to disclose any defects or faults in the goods pledged which are within his knowledge.
- The pledgee has a right to claim any damages suffered because of the defective title of the pledger.
- In case of injury to the goods or their deprivation by a third party, he would have all such remedies that the owner of the goods would have against them.
- A pledgee has a right to recover any extraordinary expenditure incurred for the preservation of the goods pledged.

Duties of a Pledgee

- The pledgee is required to take as much care of the goods pledged to him as a person of ordinary prudence would, under similar circumstances, take of his own goods of a similar nature.
- The pledgee is bound to return the goods on payment of the debt.
- Any accruals to the goods pledged belong to the pledger and should be delivered to him.

For example, if the security consists of equity shares and the company issues bonus shares to the equity shareholders, the bonus shares received by the bank are the property of the pledger and not the pledgee.

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Rights of a Pledger:

- Before sale can be executed, a reasonable notice (notice of intended sale of the security by the creditor) must be given to the pledger so that;
 - ❖ The pledger may meet his obligation as a last chance.
 - ❖ He can supervise the sale to see that it fetches the right price

The pledgee will be liable to the pledger for the damages.

- The pledgee has a right to claim back the security pledged on repayment of the debt with interest and other charges.
- In case of sale, the pledger is entitled to receive from the pledgee any surplus that may remain with him after the debt is completely paid off.
- The pledger has a right to claim any accruals to the goods pledged.
- If any loss is caused to the goods because of mishandling or negligence on the part of the pledgee, the pledger has a right to claim the same.

Duties of a Pledger

- A pledger must disclose to the pledgee any material faults or extraordinary risks in the goods to which the pledgee may be exposed.
- A pledger is responsible to meet any extraordinary expenditure incurred by the pledgee for the preservation of the goods.
- Ø Where the pledgee has exercised his right of sale of goods, any shortfall has to be made good by the pledger.
- The pledger is liable for any loss caused to the pledgee because of defects in his (pledger's) title the goods.

3. Hypothecation: Hypothecation means that some right is created in favour of the banker on the goods or related documents without transferring their possession to the lender.

In hypothecation, the goods remain in the possession of the borrower but, he binds himself under the hypothecation agreement to give possession of the goods to the creditor when called upon to do so. The goods are charged under hypothecation particularly where pledge is either inconvenient or impracticable. For example, where the security offered is either raw-materials or work-in-progress. Under this arrangement, the borrower is allowed to use the stock, sell it and replenish it by new one. A 'floating charge' is created over the movable assets of the borrower.

4. Mortgage: Mortgage may be defined as "the transfer of an interest in specific immovable property for the purposes of securing the payment of money advanced or to be advanced by way of loan,

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an existing or future debt, or the performance of an engagement which may give rise to a pecuniary liability. The transferor is called the mortgagor and the transferee the mortgagee. The instrument by which the transfer is effected is called a mortgage-deed.

Equitable Mortgage: An equitable mortgage is created by an agreement, express or implied, that an equitable interest in the property shall pass to the mortgagee as security for a debt due or to become due. An equitable mortgage is effected by deposit of document of title.

The legal title to the property is not passed on to the mortgagee, but the mortgagor undertakes, through a memorandum of deposit; to execute a legal mortgage in case he fails to re-pay the debt in time. Equitable mortgages accompanied by the deposit of title deeds do not require registration. Registration offers still better security for the bank but it adds cost to the borrower by way of stamp duty/Registration charges.

Advantages of Equitable Mortgage: An equitable mortgage has the following advantages over legal mortgage:

- It is easily and inexpensively acquired, as no stamp duty and registration charges are payable.
- The mortgagor's credit does not suffer, as in the absence of registration; nobody knows the transaction except the mortgagee.
- The mortgagee gets the same right in case of an equitable mortgage as are conferred in case of a legal mortgage.

Risks in Equitable Mortgagee:

- The principal risk run by a banker as equitable mortgagee is that the borrower may subsequently execute a legal mortgage (transfer of title to the lender) in favour of another party. If a person lends upon a legal mortgage without either a sight of the deeds or a reasonable explanation of their disappearance, he will get a charge prior to the equitable mortgagee.
- Even amongst equitable mortgagees, if the first equitable mortgagee has, through negligence, failed to obtain possession of the title deeds, he will be postponed to a second equitable mortgagee who has the deeds, and who advanced money without notice of the "prior equitable charge".

Transfer of Property Act reads, "where through the fraud, misrepresentation or gross neglect of a prior mortgagee another person has been induced to advance money on the security of the already mortgaged property, the prior mortgagee shall be postponed to the subsequent mortgagee."

Rights of a Mortgagee

- **Right to sue for mortgage-money:** under simple mortgage or wherever expressly so agreed the mortgagee has a right to file a suit in a court of law for the mortgage-money.
- **Right of Sale:** In case of simple, equitable and English mortgage, the mortgagee can cause through the court, the mortgaged properties to be sold in case of default by the mortgagor in

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repayment of the mortgage-money. Transfer of Properties Act, however, confers upon the mortgagee right of sale without the intervention of the court under certain circumstances.

- **Right of possession:** to any accession to mortgaged property. If any accession (addition) is made to the mortgaged property, the mortgagee, in the absence of a contract to the contrary is entitled to the possession of such accession for the purposes of security. For instance, if a person mortgages a plot of land and later erects a building on it, for the purposes of security, the mortgagee is entitled to the plot as well as the building.
- **Right of foreclosure:** In case of mortgage by conditional sale, usufructuary mortgage or anomalous mortgage, a mortgagee may sue for foreclosure, i.e. may obtain a decree from the court debarring the mortgagor of his right to redeem the property.

3.10 Types of Security

Secured loans are those which are granted against the security of tangible assets, like stock in trade and immovable property. Thus, while granting loan against the security of some assets, a charge is created over the assets of the borrower in favours of the bank. This enables the bank to recover the dues from the customer out of the sale proceeds of the assets in case the borrower fails to repay the loan.

There are various types of securities which may be offered as security for the loans granted, but all of those are not acceptable to the banks. The types of securities generally accepted by the bank are the following:

- Tangible assets such as plant and machinery, fixtures, annuities, motor-van, Gold ornaments, jewels etc.
- Documents of title to goods like Railway Receipt (R/R), Bills of exchange, etc.
- Financial Securities (Shares and Debentures),
- Stock (raw material / work in process / finished goods)
- Life-Insurance Policy
- Real estate's (Land, building, etc).
- Fixed Deposit Receipt (FDR)

Types of Securities available in the market are:

- Equity
- Bonds
- Mutual Funds
- Warrants

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Equity share: Its owner owns a part of the capital of the company which has issued the shares in question. The shares enable the shareholder the right to take part in the decision-making in the company. If the latter operates with profit, the owners of shares may receive dividends. The amount of the dividend is decided upon by the shareholders at a General Meeting of the Shareholders.

Bond: A bond is a debt security. When purchasing a bond, you have no right to participate in the company's decision making but are entitled to the reimbursement of the principal and the interest. Companies may decide that the principal be paid in regular annual instalments or on the maturity of bonds.

Interest paid can be on fixed rate / floating rate. Issuers pay the interest Half Yearly / Yearly

Warrants: Warrants are options issued by a company, which give holders the right to purchase a certain quantity of the respective company's shares at a pre-determined price.

3.11 Summary

- Liquidity Risk management is the critical function in all Banks and is managed by the Asset Liability Management (ALM) team of the Bank using the following parameters:
- Loans can be categorized into revolving loan and instalment loan, secured and unsecured loan, fixed and floating rate loan etc.
- CIBIL helps lenders to increase granting good quality loans which results in reduced losses and faster processing of applications.
- Banks follow the 5 C's of lending which are Character, Capacity, Capital, Collateral, & Conditions while granting loans.
- Bank provides different types of loans such as Credit cards, personal loans, educational loans, consumer durable loans, car loans & home loans based on the needs of the customers
- Corporates require working capital loan such as cash credit, overdrafts, discounting of Bills, Export Credit (short term loan) and Term Loan (Long term loan) to manage the running of the organisation.
- Banks while providing secured loans take security from the customer to manage the counterparty credit risk. Different methods of creating charge on security are Lien, Pledge, Hypothecation, and Mortgage.

3.12 Self Test Questions

I. Choose the correct option:

1. A secured loan is
 - a) a loan where the borrower has assured of repayment
 - b) a loan where the bank is quite sure of repayment
 - c) a loan where some security is given to the bank

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2. Which of the following is Third Party Product?
 - a) Insurance
 - b) Mutual Fund
 - c) None of them
 - d) Both of them
3. In a non-fund facility the bank
 - a) promises to pay
 - b) pays immediately
 - c) does not do anything
4. A specific lien on an asset is
 - a) A type of security
 - b) A type of charge
 - c) Both of them
 - d) None of them
5. A revolving credit limit
 - a) is the same as open ended limit
 - b) is the same as close ended limit
 - c) is partially open ended and partially close ended
 - d) none of them
6. A non-revolving credit limit
 - a) is the same as open ended limit
 - b) is the same as close ended limit
 - c) is partially open ended and partially close ended
 - d) None of the above
7. What type of loan is granted by the Bank for the purchase of white goods?
 - a) Consumption Loan
 - b) Consumer Durable Loan
 - c) Mortgage Loan
 - d) Home Loan
8. Banks generally don't pay interest on money deposited in which of the following account?

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- a) Savings account
 - b) Current account
 - c) Fixed deposit account
 - d) Overdraft Account
9. Which loan will be recommended to the customer who requires loan for short and has no collateral?
- a) Car Loan
 - b) Home Loan
 - c) Personal Loan
10. A loan is known to _____ when the debtor fails to repay the loan
- a) Default
 - b) Insolvency
 - c) Bankruptcy
 - d) No specific name
11. A borrower defaults on a secured loan of Rs. 25,000. The underlying security is worth Rs. 40,000. Which of the following is true?
- a) Bank can retain Rs. 25,000.
 - b) Balance Rs. 15,000 has to be paid to the borrower
 - c) Bank cannot sell the underlying security because its value is higher than loan amount.
 - d) Bank can retain the entire sale proceeds of Rs. 40,000
 - e) The excess of Rs. 15,000 has to be shared equally between the bank and the borrower
12. Out of the following which is a fee based product?
- Mutual Fund sale
 - Personal Loan
 - Education Loan
 - Auto Loan

Answers: 1 – c, 2 - d, 3 – a, 4 – b, 5 – a, 6 - b, 7 -b, 8 - b, 9 - c, 10 – a, 11 – b, 12 – a,

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II. Fill in the blanks:

1. The principal balance at the end of the life of an installment loan will be _____.
2. The interim loan for the new house is known _____
3. _____ is the organization that maintains the borrower's history in India.
4. Loan amount repaid in equal installment is known as _____
5. Garnishee Order is issued by a _____.
6. Pre payment penalties for the housing loan in India is _____

Answers: 1- zero, 2 – Bridge Loan, 3 - CIBIL, 4 – EMI, 5 – Court, 6 – Zero

III. Answer in detail:

1. What is liquid asset and explain when an asset is considered liquid?
2. What is difference between Fund based and Non fund based loans?
3. What is the difference between Cash Credit and Overdraft facility?
4. Explain the 5C's of Lending.
5. Explain the features of Housing loan?
6. Explain the different modes of creating charge on securities
7. Explain the bills discounting process
8. What are warrants?

IV. Activities:

1. Prepare a chart showing against which loans, Bank requires which types of asset?
2. Do a comparative study of one Public Sector Bank, one Private sector bank, one foreign bank and one cooperative for the Housing and Vehicle loan and present to the class?
3. Discuss the difference between various types of charge created on an asset given for taking a loan?

Laws Relating to Negotiable Instruments

Unit - 4

Learning Objective

Location	Duration-20 HOURS			
Classroom or Banks	SESSION -1 DEFINITION & CHARACTERISTICS OF CHEQUES			
	Learning Outcome	Knowledge Evaluation	Performance Evaluation	Teaching and Training Method
	After studying this topic the learners would be able to learn about the concept of a cheque and its distinct features.	<ol style="list-style-type: none"> Describe the definition of cheques. Understand the various sections of NI act applicable throughout life of the cheque. 	<ol style="list-style-type: none"> Evaluate the characteristic of cheques. Detail description of NI Acts applicable from the time of issuance till paid. 	Classroom teaching
	SESSION -2 BILLS OF EXCHANGE (BOE) & PROMISES NOTES (PN)			
	After studying this topic the learners would be able to learn about the distinct features of these instruments & the difference between them.	<ol style="list-style-type: none"> Definition of BOE & PN Key elements of BOE & PN NI Acts applicable to BOE & PN 	<ol style="list-style-type: none"> Explain the concept of BOE & PN Describe the NI Acts applicable to BOE & PN throughout its life Usage of BOE & PN 	Classroom teaching, PPTs
SESSION-3 CROSSINGS				
After studying this topic the learners would be able to learn about the concept of crossing & its significance.	<ol style="list-style-type: none"> Meaning crossing of cheques Requisites of crossing of cheques Various forms of Crossing <ul style="list-style-type: none"> ➤ Special Crossing ➤ General Crossing ➤ Account Payee Crossing NI Acts applicable to crossing of cheques 	<ol style="list-style-type: none"> Describe with Illustrations various forms of crossings Enlist the persons who can cross a cheque Elucidate the significance of Crossing of Cheques. 	Classroom teaching, PPTs	

SESSION-4 ENDORSEMENTS			
Learning Outcome	Knowledge Evaluation	Performance Evaluation	Teaching and Training Method
After studying this topic the learners would be able to learn about the concept of endorsement.	<ol style="list-style-type: none"> 1. Meaning of Endorsement. 2. Use of Endorsements 3. Essentials of Endorsement. 	<p>List the types of endorsements.</p> <p>Explain the impact of endorsement on Businesses.</p>	Classroom teaching, PPTs
SESSION-5 DISHONOUR, NOTING & PROTESTING OF BE			
After studying this topic the learners would be able to know about the process of Dishonour, Noting and Protesting of BE.	<ol style="list-style-type: none"> 1. Understanding of process of acceptance of bill of exchange. 2. Meaning of dishonour by non acceptance & non payment. 3. Understanding Noting & Protesting . 	<ol style="list-style-type: none"> 1. Explain the acceptance process of BE. 2. List reason of dishonour by non acceptance. 3. Elucidate what is noting & protesting. 	Classroom teaching, PPTs
SESSION-6 LIABILITIES OF PARTIES			
After studying this topic the learners would be able to identify the Liabilities of Parties.	<ol style="list-style-type: none"> 1. Meaning of primary & secondary liabilities. 2. Liabilities of various parties. 	List the liabilities of various parties.	Classroom teaching, PPTs

Banking

Laws Relating to Negotiable Instruments

Unit - 4

Learning Objective

After reading this unit, you will be able to:

- Explain the definition & characteristics of a cheque.
- Describe the features of a Bill of Exchange & Promissory note.
- Understand what is Crossing and its advantages.
- Understand what is Endorsement and its uses.
- Explain about the process of Dishonour, Noting and Protesting of BE.
- Summarise the liabilities of parties to negotiable instruments.

STRUCTURE

- 4.1 Definition & Characteristics of Cheques
- 4.2 Bills of Exchange & Promissory Notes
- 4.3 Crossings
- 4.4 Endorsement
- 4.5 Dishonour, Noting and Protesting of BE
- 4.6 Liabilities of Parties
- 4.7 Summary
- 4.8 Practice Questions

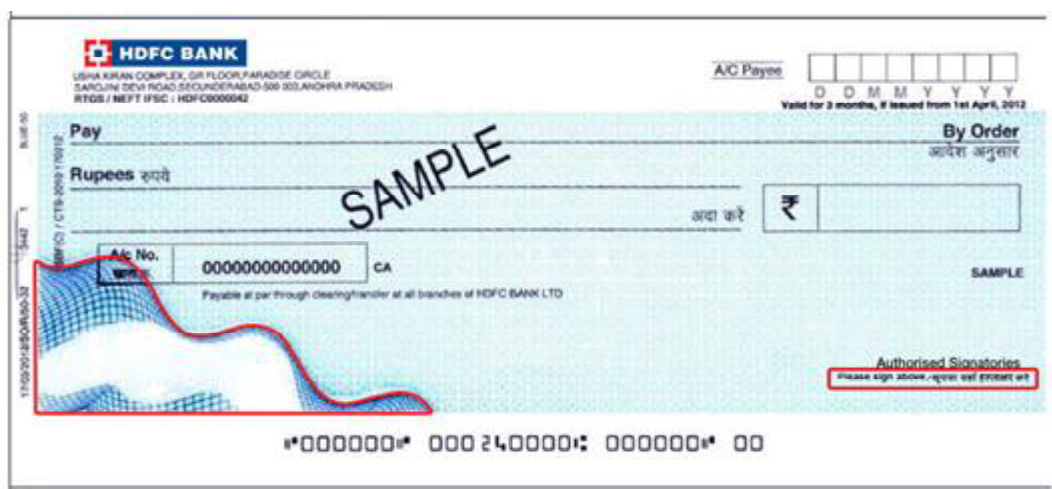
Introduction

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 period of time. In modern business, large number of transactions involving huge sums of money takes place every day. 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. In this lesson let us learn about these documents

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4.1 Definition & Characteristics of Cheques

Cheque is a very popular negotiable instrument. If you have a savings bank account or current account in a bank, you can issue a cheque in your own name or in favour of others, thereby directing the bank to pay the specified amount to the person named in the cheque. A cheque may be regarded as a bill of exchange; the only difference is that the bank is always the drawee in case of a cheque. The Negotiable Instruments Act, 1881 defines a cheque as a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand. Actually, a cheque is an order by the account holder of the bank directing his banker to pay on demand, the specified amount, to or to the order of the person named therein or to the bearer.



Section 6 of the Act provides that a cheque is a bill of exchange drawn on a specified banker, and not expressed to be payable otherwise than on demand. Simply stated, a cheque is a bill of exchange drawn on a bank payable always on demand. Thus, a cheque is a bill of exchange with two additional conditions, namely:

- It is always drawn on a banker, and
- It is always payable on demand.

A cheque being a species of a bill of exchange must satisfy all the requirements of a bill; it does not, however, require acceptance.

By virtue of Section 31 of the Reserve Bank of India Act, no bill of exchange or hundi can be made payable to bearer on demand and no promissory note or a bank draft can be made payable to bearer at all, whether on demand or after a specified period of time. Only a cheque can be payable to bearer on demand.

Parties to a cheque: The following are the parties to a cheque:

- (a) The drawer: The person who draws the cheque.

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- (b) The drawee: The banker of the drawer on whom the cheque is drawn.
- (c) The payee: one to whom the sum stated in the cheque is payable, either the drawer himself or any other person may be the payee.
- (d) The holder: is either the original payee or any other person to whom, the payee has endorsed the cheque. In case of a bearer cheque, the bearer is the holder.
- (e) The endorser: when the holder endorses the cheque to anyone else, the latter becomes the endorser.
- (f) The endorsee: is the person to whom the cheque is endorsed.

Essentials of a Cheque

- It is always drawn on a banker where the drawer has an account.
- It is always payable on demand.
- It does not require acceptance. There is, however, a custom among banks to mark cheques as good for purposes of payment.
- Cheques may be payable to the drawer himself. It may be made payable to bearer on demand unlike a bill or a promissory note.
- The banker is liable only to the drawer. A holder has no remedy against the banker if a cheque is dishonoured.
- A cheque is usually valid for 3 months in India. However, it is not invalid if it is post dated or ante-dated.
- No Stamp is required to be affixed on cheques.

Types of Cheque: Broadly speaking, cheques are of classified as follows:

- a) Open cheque, and Crossed cheque.
- b) Bearer cheque and Order cheque
- c) Ante-dated cheque and Stale cheque or Post-dated cheque
- a) **Open cheque:** A cheque is called 'Open' when it is not crossed and can be encashed over the counter at the bank. The holder of an open cheque can do the following:
 - Receive its payment over the counter at the bank,
 - Deposit the cheque in his own account
 - Pass it to someone else by signing on the back of a cheque.
- a) **Crossed cheque:** Since open cheque is subject to risk of theft, it is risky to issue such cheques. This risk can be avoided by issuing another types of cheque called 'Crossed cheque'. The payment

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of such cheque is not made over the counter at the bank. It is only credited to the bank account of the payee. A cheque can be crossed by drawing two transverse parallel lines across the cheque, with or without the writing 'Account payee' or 'Not Negotiable'.

- b) **Bearer cheque:** A cheque which is payable to any person who presents it for payment at the bank counter is called 'Bearer cheque'. A bearer cheque can be transferred by mere delivery and requires no endorsement.

Order cheque: An order cheque is one which is payable to a particular person. In such a cheque the word 'bearer' may be cut out or cancelled and the word 'order' may be written. The payee can transfer an order cheque to someone else by signing his or her name on its back.

- c) **Ante-dated cheques:** Cheque in which the drawer mentions the date earlier to the date of presenting it for payment. For example, a cheque issued on 20th May 2015 may bear a date 5th May 2015.
- d) **Stale Cheque:** A cheque which is issued today must be presented before the bank for payment within a stipulated period. After expiry of that period, no payment will be made and it is then called 'stale cheque'. Validity period of cheque in India is 3 months.
- e) **Post-dated Cheque:** Cheque on which drawer mentions a date which is subsequent to the date on which it is presented, is called post-dated cheque. For example, if a cheque presented on 8th May 2015 bears a date of 25th May 2015, it is a post-dated cheque. The bank will make payment only on or after 25th May 2015.
- f) **Mutilated Cheque:** In case 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. But if a cheque is torn at the corners and no material fact is erased or cancelled, the bank may make payment against such a cheque.

4.2 Bills of Exchange & Promissory Notes



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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. (Section 5)

The definition of a bill of exchange is very similar to that of a promissory note and for most of the cases the rules which apply to promissory notes are in general applicable to bills. There are however, certain important points of distinction between the two.

Parties to bills of exchange: The following are the parties to a bill of exchange:

- (a) The Drawer: the person who draws the bill.
- (b) The Drawee: the person on whom the bill is drawn.
- (c) The Acceptor: one who accepts the bill. Generally, the drawee is the acceptor but a stranger may also accept it on behalf of the drawee.
- (d) The payee: one to whom the sum stated in the bill is payable, either the drawer or any other person may be the payee.
- (e) The holder: is either the original payee or any other person to whom, the payee has endorsed the bill. In case of a bearer bill, the bearer is the holder.
- (f) The endorser: when the holder endorses the bill to anyone else he becomes the endorser.
- (g) The endorsee: is the person to whom the bill is endorsed.
- (h) Drawee in case of need: Besides the above parties, another person called the “drawee in case of need” may be introduced at the option of the drawer. The name of such a person may be inserted either by the drawer or by any endorser in order that resort may be had to him in case of need, i.e., when the bill is dishonoured by either non-acceptance or non-payment.
- (i) Acceptor for honour: Further, any person may voluntarily become a party to a bill as acceptor. A person, who on the refusal by the original drawee to accept the bill or to furnish better security, when demanded by the notary, accept the bill supra protest in order to safeguard the honour of the drawer or any endorser, is called the acceptor for honour.

Essentials of a Bill of Exchange:

- (1) It must be in writing.
- (2) It must contain an unconditional order (not a request) to pay money.
- (3) It must be signed by the drawer.
- (4) The parties must be certain.
- (5) The sum payable must also be certain.
- (6) It must comply with other formalities e.g. stamps, date, etc.

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Promissory Notes:

Specimen of a Promissory Note to pay a certain sum of money along with interest:

The undersigned jointly and severally promise to pay to the order of _____, the sum of Rs. _____, together with interest of _____% per annum on the unpaid balance. For value received,

Place

Date: _____ (Signatures of the Promisors)

.....

Specimen of Usance PN

30 days after date I, _____ S/o. _____

promise to pay Sri. _____ S/o. _____

or order, the sum of Rs. _____ (Rupees _____ only), for value received

Place:

Date: _____ Signature of the Promisor

A “promissory note” is an instrument in writing (not being a bank note or a currency note) containing an unconditional undertaking, signed by the maker to pay a certain sum of money to, or to the order of, a certain person, or only to bearer of the instrument. (Section 4)

Parties to a Promissory Note: A promissory note has the following parties:

- (a) The maker: the person who makes or executes the note promising to pay the amount stated therein.
- (b) The payee: one to whom the note is payable.
- (c) The holder: is either the payee or some other person to whom he may have endorsed the note.
- (d) The endorser.
- (e) The endorsee.

Essentials of a Promissory Note:

To be a promissory note, an instrument must possess the following essentials:

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- (a) It must be in writing. An oral promise to pay will not do.
- (b) It must contain an express promise or clear undertaking to pay. A promise to pay cannot be inferred. A mere acknowledgement of debt is not sufficient.

If A writes to B "I owe you (I.O.U.) Rs. 500", there is no promise to pay and the instrument is not a promissory note.

- (c) The promise or undertaking to pay must be unconditional. A promise to pay "when able", or "as soon as possible", or "after your marriage to I?" is conditional. But a promise to pay after a specific time or on the happening of an event which must happen, is not conditional, e.g. "I promise to pay Rs. 1,000 ten days after the death of B", is unconditional.
- (d) The maker must sign the promissory note in token of an undertaking to pay to the payee or his order.
- (e) The maker must be a certain person, the note must state clearly who is the person promising to pay.
- (f) The payee must be certain. The promissory note must contain a promise to pay to some person or persons described by name or designation or to their order.
- (g) The sum payable must be certain and the amount must not be capable of contingent additions or subtractions. If A promises to pay Rs. 100 and all other sums which shall become due to him, the instrument is not a promissory note.
- (h) Payment must be in legal tender money of the country. Thus, a promise to pay Rs. 500 and deliver 10 quintals of rice is not a promissory note.
- (i) It must be properly stamped in accordance with the provisions of the Indian Stamp Act. Each stamp must be duly cancelled by maker's signature or initials.
- (j) It must contain the name of place and the date on which it is made. However, their omission will not render the instrument invalid, e.g. if it is undated, it is deemed to be dated on the date of delivery.

A promissory note cannot be made payable or issued to bearer, no matter whether it is payable on demand or after a certain time

PN in Installments:

A PN can be drawn payable in installments also and a provision also can be made that on default of one installment the entire amount mentioned in PN becomes payable.

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Specimen of a PN payable in instalment:

I Sri. _____ S/o. _____ promise to pay to
Sri. _____ S/o. _____ the sum of
Rs. _____ (Rupees _____ only) in five equal installments,
the first installment of Rs. _____ (Rupees _____ only) to be paid on
the _____ day of _____, the second on the day of _____, the third on
the _____ day of _____, the fourth on the _____ day of _____ and the fifth on
the _____ day of _____ with interest thereon at the rate of _____ per cent per annum
(the interest to cease on the installment paid) in consideration of full value received.

Place:-

Date:

Signature.

Since a PN is transferable, when a PN is transferred to another party, the latter become the 'holder'. Any person who becomes a party to a NI should be capable of entering into a valid contract.

Persons who are incapable of entering into a contract

- Minor: As per Section 26 of the Act, a minor may draw, endorse, deliver and negotiate a NI so as to bind all parties except himself. He does not incur any liability but other adult parties do remain liable. He can be an endorsee or payee.
- An insolvent person is not competent to draw, make, accept or endorse a NI
- A person of unsound mind cannot enter into a contract when he is in that state. A person in a drunken state of mind cannot enter into a valid contract
- A company cannot incur liability under NI unless expressly or impliedly permitted by the Memorandum of Association or Article of Association. However it can be a payee or an endorsee.
- As per Section 27, every person capable of binding himself or being bound, by a NI, may so bind himself or be bound by a duly authorised agent acting in his name.
- As per Section 29, a Legal Representative can deal with the NIs belonging to the deceased, to the same extent as the deceased could have done. While signing he must use words to indicate that he is signing in the capacity of a legal representative, so as to avoid being held personally responsible.
- In the case of a Hindu Undivided Family (HUF) (also known as Joint Hindu Family), the Karta (eldest member of the family) can bind the joint family by executing a NI provided it is for the benefit of family. It should be noted that the other members are not liable personally.

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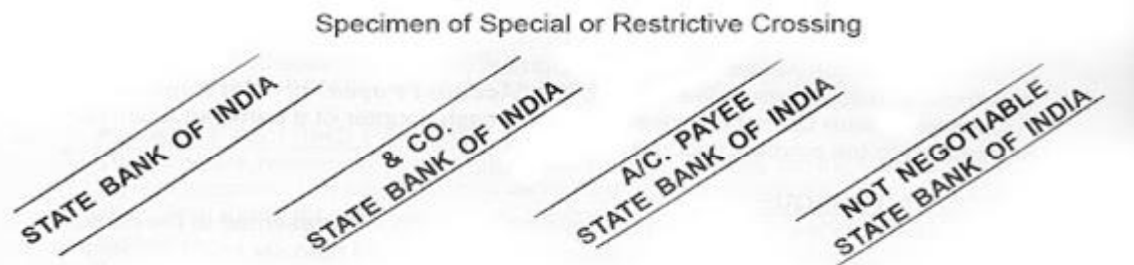
Similarities and Differences between Bill of Exchange and Cheque:

Similarities:	
Three parties : Drawer, Drawee and Payee; Drawer and Payee may be the same person;	
Written and signed, should contain an unconditional order to pay a certain sum of money only;	
Payee may endorse the instrument to another person.	
Differences :	
B/E	Cheques
Drawee may be anybody including a banker.	Drawee is always a banker
May be payable on demand or after the expiry of a specified period.	Always payable on demand
3 days' grace are allowed to the drawee for making the payment in the case of bills payable after the expiry of the specified usance period.	Cheque is always payable on demand and so there is no question of 3 days of grace for payment.
If dishonoured, it should be noted and protested for filing a suit.	A bank dishonours a cheque drawn on it only when the cheque is not payable for some reasons like for want of balance in the account of the drawer and so it cannot be protested.
Stamp duty is applicable on bills payable after 90 days	Cheques being payable on demand stamp duty is not applicable
A PN or a BE cannot be crossed	A cheque can be crossed

Differences between a PN and a BE:

Promissory Note	Bill of Exchange
It contains a promise to pay	It contains an Order to pay
Primary liability is PN that maker of the	Primary liability is that of the drawee. If the drawee fails, the liability will fall on the drawer.
A PN has to be presented for payment only (not for acceptance since the PN is itself issued by the person who has to pay).	A 'demand' BE has to be presented for payment. A 'usance' BE has to be first presented for acceptance and after acceptance it has to be presented to the acceptor for payment on or before the due date

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A cheque is either “open” or “crossed.” An open cheque can be presented by the payee to the paying banker and is paid over the counter. A crossed cheque cannot be paid across the counter but must be collected through a banker.

A crossing is a direction to the paying banker to pay the money generally to a banker or to a particular banker, and not to pay otherwise. 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. Crossing is a direction to the paying banker that the cheque should be paid only to a banker or a specified banker. To restrain negotiability, addition of words “Not Negotiable” or “Account Payee Only” is necessary. A crossed bearer cheque can be negotiated by delivery only but a crossed order cheque must have an endorsement also. Crossing provides security and protection to the holder of the cheque.

Modes of Crossing (Sections 123-131A)

There are two types of crossings namely: (i) General and (ii) Special Crossings.

In case of general crossing a cheque bears across its face an addition of two parallel transverse lines and/or the addition of the words “and Co.” between them, or addition of “not negotiable”. As stated earlier, where a cheque is crossed generally, the paying banker will pay to any banker. Two transverse parallel lines are essential for a general crossing (Sections 123-126).

In case of general crossing, the holder or payee cannot get the payment over the counter of the bank but through a bank only. The addition of the words “and Co.” do not have any significance but the addition of the words “not negotiable” restrict the negotiability of the cheque and in case of transfer, the transferee will not give a better title than that of a transferor.

Where a cheque bears across its face an addition of the name of a banker, either with or without the words “not negotiable” that addition constitutes a crossing and the cheque is crossed specially and to that banker. The paying banker will pay only to the banker whose name appears across the cheque, or to his collecting agent. Parallel transverse lines are not essential but the name of the banker is the insignia of a special crossing.

In case of special crossing, the paying banker is to honour the cheque only when it is presented through the bank mentioned in the crossing or its agent bank.

Account Payee’s Crossing: Such crossing does, in practice, restrict negotiability of a cheque. It directs the collecting banker that the proceeds are to be credited only to the account of the payee, or the party named, or his agent. If the collecting banker credits the proceeds of a cheque bearing such crossing to any other account, he will be liable to compensate the true owners for the loss sustained by

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him. Such crossing does not affect the paying banker, who is under no duty to ascertain that the cheque is in fact collected for the account of the person named as payee.

Not Negotiable Crossing:

A cheque may be crossed not negotiable by writing across the face of the cheque the words “Not Negotiable” within two transverse parallel lines in case of a general crossing or along with the name of a banker in case of a special crossing.

Section 130 of the Negotiable Instruments Act provides “A person taking a cheque crossed generally or specially bearing in either case with the words “not negotiable” shall not have and shall not be capable of giving, a better title to holder of the cheque than that which the person from whom he took it had”. The crossing of cheque “not negotiable” does not mean that it is non-transferable. It only deprives the holder of the instrument the right of better title to the instruments.

The object of this Section is to afford protection to the drawer or holder of a cheque who is desirous of transmitting it to another person, as much protection as can reasonably be afforded to him against dishonestly or actual miscarriage in the course of transit. For example, a cheque payable to bearer is crossed generally and is marked “not negotiable”. It is lost or stolen and comes into the possession of X who takes it in good faith and gives value for it, X collects the cheque through his bank and paying banker also pays. In this case, both the paying and the collecting bankers are protected under Sections 128 and 131 respectively. But X cannot claim that he is a holder-in-due course which he could have under the normal circumstances claimed. The reason is that cheque is crossed “not negotiable” and hence the true owner’s (holder’s) right supersedes the rights of the holder-in-due-course. Since X obtained the cheque from a person who had no title to the cheque, X can claim no better title solely because the cheque was crossed “not negotiable” and not for any other reason. Thus “not negotiable” crossing not only protects the rights of the true owner of the cheque but also serves as a warning to the endorsees’ to enquire thoroughly before taking the cheque as they may have to be answerable to the true owner thereof if the endorser’s title is found to be defective. “Not negotiable” crossing does not restrict the negotiability of the cheque but in case of transfer; the transferee will not get a better title than that of the transferor.

A cheque crossed specially or generally bearing the words “not negotiable” lacks negotiability and therefore is not a negotiable instrument in the true sense. It does not restrict transferability but restricts negotiability only.

As per Section 131, a collecting banker who ‘in good faith’ and ‘without negligence’ collects the proceeds of a cheque crossed generally or specially to himself on behalf of his customer is not liable to the true owner of the cheque if the title of the cheque is proved to be defective.

According to section 131-A, these sections are also applicable in case of Bank drafts. Thus not only cheques but bank drafts also may be crossed.

4.4 Endorsement

Introduction: A negotiable instrument may be transferred by negotiation. Negotiation can be effected by mere delivery if the instrument is a bearer one and by endorsement and delivery in case it is an order instrument.

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An order instrument means instrument payable to a specified person or to the order of that specified person. If an instrument payable to order is transferred without endorsement, it is merely assigned and the holder thereof is not entitled to the rights of a holder in due course.

Meaning of Endorsement: An endorsement is the mode of negotiating a negotiable instrument. A negotiable instrument payable otherwise than to a bearer can be negotiated only by endorsement and delivery. According to section 15 of the NIA Act “when the maker or holder of a negotiable instrument signs the same, otherwise than as such marker for the purpose of negotiation on the back or face thereof or on a slip of paper annexed thereto, he is said to have endorse the same and is called the endorser. The person to whom the instrument is endorsed is called the endorsee.

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

Who may endorse?

The payee of an instrument is the rightful person to make the first endorsement. Thereafter the instrument may be endorsed by any person who has become the holder of the instrument. The maker or the drawer cannot endorse the instrument but if any of them has become the holder thereof he may endorse the instrument (Section 51). The maker or drawer cannot endorse or negotiate an instrument unless he is in lawful possession of instrument or is the holder thereof. A payee or indorsee cannot endorse or negotiate unless he is the holder thereof.

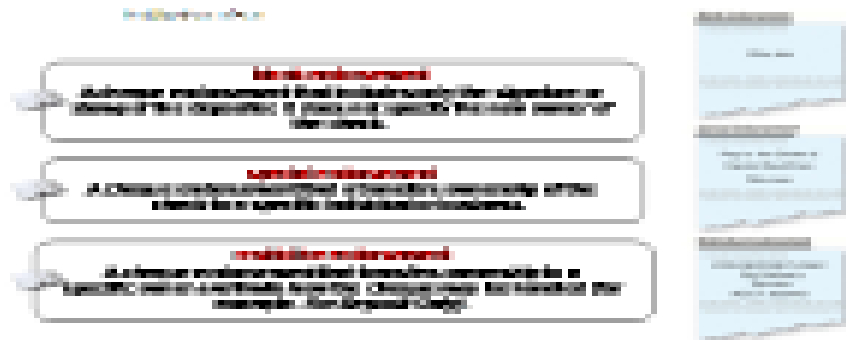
Essentials of a Valid Endorsement: In order to operate as mode of negotiation an endorsement must comply with the following conditions, namely:

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

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- An endorsement may be either an endorsement in blank or special endorsement. It may also be restrictive endorsement.

Types of Endorsement



According to the N.I. Act, 1881 endorsement may be of any of the following types:

- Endorsement in blank or general endorsement.
- Endorsement in full or special endorsement.
- ∅ Restrictive endorsement.
- Partial endorsement.
- Conditional endorsement.

Endorsement in Blank or General Endorsement: In case of an endorsement in blank, the payee or endorser does not specify an endorsee and he simply signs his name (Section 16 of NI Act).

Endorsement in Full or Special Endorsement: When the payee or endorser specifies the person to whom or to whose order the instrument is to be paid, the endorsement is called special endorsement or endorsement in full. The specified person i.e. the endorsee then becomes the payee of the instrument.

Restrictive Endorsement: An endorsement is restrictive when it prohibits further negotiation of a negotiable instrument. Sec. 50 of the NI Act 1881 states: "The endorsement may, by express words, exclude the right to negotiate or may constitute the endorsee an agent to endorse the instrument or to receive its contents for the endorser or for some other specified person."

For example, if B endorses an instrument payable to bearer as follows, the right of C to further negotiate is excluded

- Pay the contents to C only
- Pay C for my use

Partial Endorsement: If only a part of the amount of the instrument is endorsed, it is a case of partial endorsement. An endorsement which purports to transfer to the endorsee only a part of the amount payable, or which purports to transfer the instrument to two or more endorsee severally, is not valid.

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Conditional Endorsement: If the endorser of a negotiable instrument, by express words in the endorsement, makes his liability or the right of the endorsee to receive the amount due thereon, dependent on the happening of a specified event, although such event may never happen, such endorsement is called a conditional endorsement (Section 52 of NI Act).

Such an endorser gets the following rights:

He may make his liability on the instrument conditional on the happening of a particular event. He will not be liable to the subsequent holder if the specified event does not take place. For example, “pay C if he returns from London”. Thus C gets the right to receive payment only on the happening of a particular event, i.e. if he returns from London.

Effects of endorsement: The legal effect of negotiation by endorsement and delivery is:

- (i) To transfer property in the instrument from the endorser to the endorsee.
- (ii) To vest in the latter the right of further negotiation, and
- (iii) A right to sue on the instrument in his own name against all the other previous parties (Section 50).

Cancellation of endorsement:

When the holder of a negotiable instrument, without the consent of the endorser destroys or impairs the endorser’s remedy against prior party, the endorser is discharged from liability to the holder to the same extent as if the instrument had been paid at maturity (Section 40).

4.5 Dishonour, Noting & Protesting of BE

DISHONOUR OF A NEGOTIABLE INSTRUMENT

When a negotiable instrument is dishonoured, the holder must give a notice of dishonour to all the previous parties in order to make them liable. A negotiable instrument can be dishonoured either by non-acceptance or by non-payment. A cheque and a promissory note can only be dishonoured by non-payment but a bill of exchange can be dishonoured either by non-acceptance or by non-payment.

Dishonour by non-acceptance (Section 91)

A bill of exchange can be dishonoured by non-acceptance in the following ways:

1. If a bill is presented to the drawee for acceptance and he does not accept it within 48 hours from the time of presentment for acceptance it is treated as dishonoured. When there are several drawees even if one of them makes a default in acceptance, the bill is deemed to be dishonoured unless these several drawees are partners. Ordinarily when there are a number of drawees all of them must accept the same, but when the drawees are partners, acceptance by one of them means acceptance by all.
2. When the drawee is a fictitious person or if he cannot be traced after reasonable search, the will is treated as dishonoured.

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3. When the drawee is incompetent to contract, the bill is treated as dishonoured.
4. When a bill is accepted with a qualified acceptance, the holder may treat the bill of exchange as dishonoured.
5. When the drawee has either become insolvent or is dead.
6. When presentment for acceptance is excused and the bill is not accepted. Where a drawee in case of need is named in a bill or in any indorsement thereon, the bill is not dishonoured until it has been dishonoured by such drawee.

Dishonour by non-payment (Section 92)

A bill after being accepted has to be presented for payment on the date of its maturity. If the acceptor fails to make payment when it is due, the bill is dishonoured by non-payment. In the case of a promissory note if the maker fails to make payment on the due date the note is dishonoured by non-payment. A cheque is dishonoured by non-payment as soon as a banker refuses to pay.

An instrument is also dishonoured by non-payment when presentment for payment is excused and the instrument when due remains unpaid (Sec 76).

Effect of dishonour: When a negotiable instrument is dishonoured either by non acceptance or by non-payment, the other parties thereto can be charged with liability. For example, if the acceptor of a bill dishonours the bill, the holder may bring an action against the drawer and the indorsers. There is a duty cast upon the holder towards those whom he wants to make liable to give notice of dishonour to them.

Notice of dishonour: Notice of dishonour means the actual notification of the dishonour of the instrument by non-acceptance or by non-payment. When a negotiable instrument is refused acceptance or payment notice of such refusal must immediately be given to parties to whom the holder wishes to make liable. Failure to give notice of the dishonour by the holder would discharge all parties other than the maker or the acceptor (Sec. 93).

Notice by whom: Where a negotiable instrument is dishonoured either by non- acceptance or by non-payment, the holder of the instrument or some party to it who is liable thereon must give a notice of dishonour to all the prior parties whom he wants to make liable on the instrument (Section 93). The agent of any such party may also be given notice of dishonour. A notice given by a stranger is not valid. Each party receiving notice of dishonour must, in order to render any prior party liable give notice of dishonour to such party within a reasonable time after he has received it. (Section 95)

When an instrument is deposited with an agent for presentment and is dishonoured, he may either himself give notice to the parties liable on the instrument or he may give notice to his principal. If he gives notice to his principal, he must do so within the same time as if he were the holder. The principal, too, in his turn has the same time for giving notice as if the agent is an independent holder. (Section 96)

Notice to whom? Notice of dishonour must be given to all parties to whom the holder seeks to make liable. No notice need be given to a maker, acceptor or drawee, who is the principal debtors (Section

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93). Notice of dishonour may be given to an endorser. Notice of dishonour may be given to a duly authorised agent of the person to whom it is required to be given. In case of the death of such a person, it may be given to his legal representative. Where he has been declared insolvent the notice may be given to him or to his official assignee (Section 94). Where a party entitled to a notice of dishonour is dead, and notice is given to him in ignorance of his death, it is sufficient (Section 97).

Mode of notice: The notice of dishonour may be oral or written or partly oral and partly written. It may be sent by post. It may be in any form but it must inform the party to whom it is given either in express terms or by reasonable intendment that the instrument has been dishonoured and in what way it has been dishonoured and that the person served with the notice will be held liable thereon.

What is reasonable time? It is not possible to lay down any hard and fast rule for determining what is reasonable time. In determining what reasonable time is, regard shall be had to the nature of the instrument, the usual course the dealings with respect to similar instrument, the distance between the parties and the nature of communication between them. In calculating reasonable time, public holidays shall be excluded (Section 105).

Section 106 lays down two different rules for determining reasonable time in connection with the notice of dishonour (a) when the holder and the party to whom notice is due carry on business or live in different places, (b) when the parties live or carry on business in the same place. In the first case the notice of dishonour must be dispatched by the next post or on the day next after the day of dishonour. In the second case the notice of dishonour should reach its destination on the day next after dishonour.

Place of notice: The place of business or (in case such party has no place of business) at the residence of the party for whom it is intended, is the place where the notice is to be given. If the person who is to give the notice does not know the address of the person to whom the notice is to be given, he must make reasonable efforts to find the latter's address. But if the party entitled to the notice cannot after due search be found, notice of dishonour is dispensed with.

Duties of the holder upon dishonour

- (1) **Notice of dishonour.** When a promissory note, bill of exchange or cheque is dishonoured by non-acceptance or non-payment the holder must give notice of dishonour to all the parties to the instrument whom he seeks to make liable thereon. (Sec. 93)
- (2) **Noting and protesting.** When a promissory note or bill of exchange has been dishonoured by non-acceptance or non-payment, the holder may cause such dishonour to be noted by a notary public upon the instrument or upon a paper attached thereto or partly upon each (Section 99). The holder may also within a reasonable time of the dishonour of the note or bill, get the instrument protested by notary public (Section 100).
- (3) **Suit for money.** After the formality of noting and protesting is gone through, the holder may bring a suit against the parties liable for the recovery of the amount due on the instrument.

Instrument acquired after dishonour: The holder for value of a negotiable instrument as a rule is not affected by the defect of title in his transferor. But this rule is subject to two important exceptions (i) when the holder acquires it after maturity and (ii) when he acquires it with notice of dishonour. The

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holder of a negotiable instrument who acquired it after dishonour, whether by non-acceptance or non-payment, with notice thereof, or after maturity, has only, as against the other parties, the rights thereon of his transfer (Section 59).

As per Section 138, a person who issues a cheque which is unpaid by the bank for want of funds / arrangement in the account is deemed to commit an offence and may be punished with imprisonment and fine.

Section 138: Dishonour of cheque for insufficiency, of funds in the account: Where any cheque drawn by a person on an account maintained by him with a banker for payment of any amount of money to another person from out of that account for the discharge, in whole or in part, of any debt or other liability, is returned by the bank unpaid, either because of the amount of money standing to the credit of that account is insufficient to honour the cheque or that it exceeds the amount arranged to be paid from that account by an agreement made with that bank, such person shall be deemed to have committed an offence and shall, without prejudice to any other provision of this Act, be punished with imprisonment for a term which may extend to one year, or with fine which may extend to twice the amount of the cheque, or with both: The above shall apply if the following condition are fulfilled.

- The cheque has been presented to the bank within a period of three months from the date on which it is drawn or within the period of its validity, whichever is earlier;
- The payee or the holder in due course of the cheque as the case may be, makes a demand for the payment of the said amount of money by giving a notice, in writing, to the drawer of the cheque, within fifteen days of the receipt of information by him from the bank regarding the return of the cheque as unpaid; and
- The drawer of such cheque fails to make the payment of the said amount of money to the payee or, as the case may be, to the holder in due course of the cheque, within fifteen days of the receipt of the said notice.
- “Debt or other liability” means a legally enforceable debt or other liability.

NOTING AND PROTESTING

When a negotiable instrument is dishonoured the holder may sue his prior parties’ i.e. the drawer and the indorsers after he has given a notice of dishonour to them. The holder may need an authentic evidence of the fact that a negotiable instrument has been dishonoured. When a cheque is dishonoured generally the bank who refuses payment returns back the cheque giving reasons in writing for the dishonour of the cheque. Sections 99 and 100 provide convenient methods of authenticating the fact of dishonour of a bill of exchange and a promissory note by means of ‘noting’ and ‘protest’.

Noting

As soon as a bill of exchange or a promissory note is dishonoured, the holder can after giving the parties due notice of dishonour, sue the parties liable thereon. Section 99 provides a mode of authenticating the fact of the bill having been dishonoured. Such mode is by noting the instrument. Noting is a minute recorded by a notary public on the dishonoured instrument or on a paper attached to such instrument.

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When a bill is to be noted, the bill is taken to a notary public who presents it again for acceptance or payment as the case may be and if the drawee or acceptor still refuses to accept or pay the bill, the bill is noted as stated above.

Noting should specify in the instrument, (a) the fact of dishonour, (b) the date of dishonour, (c) the reason for such dishonour, if any (d) the notary's charges, (e) a reference to the notary's register and (f) the notary's initials.

Noting should be made by the notary within a reasonable time after dishonour. Noting and protesting is not compulsory but foreign bills must be protested for dishonour when such protest is required by the law of the place where they are drawn. Cheques do not require noting and protesting. Noting by itself has no legal effect. Still it has some advantages. If noting is done within a reasonable time protest may be drawn later on. Noting without protest is sufficient to allow a bill to be accepted for honour.

Protest

Protest is a formal certificate of the notary public attesting the dishonour of the bill by non-acceptance or by non-payment. After noting, the next step for notary is to draw a certificate of protest, which is a formal declaration on the bill or a copy thereof. The chief advantage of protest is that the court on proof of the protest shall presume the fact of dishonour. Besides the protest for non-acceptance and for non-payment the holder may protest the bill for better security. When the acceptor of a bill becomes insolvent or suspends payment before the date of maturity, or when he absconds the holder may protest it in order to obtain better security for the amount due. For this purpose the holder may employ a notary public to make the demand on the acceptor and if refused, protest may be made. Notice of protest may be given to prior parties. When promissory notes and bills of exchange are required to be protested, notice of protest must be given instead of notice of dishonour (Section 102). Inland bills may or may not be protested. But foreign bills must be protested for dishonour when such protest is required by the law of the place where they are drawn (Sec. 104).

Where a bill is required to be protested under the Act within a specified time, it is sufficient if it is 'noted for protest' within such time. The formal protest may be given at any time after the noting (Section 104A)

Contents of protest

Section 101 of the Act lays down the contents of a regular and perfect protest which are as follows:

1. The instrument itself or a literal transcript of the instrument; and of everything written or printed thereupon.
2. The name of the person for whom and against whom the instrument has been protested.
3. The fact of and reasons for dishonour i.e. a statement that payment or acceptance or better security, as the case may be, has been demanded of such person by the notary public from the person concerned and he refused to give it or did not answer or that he could not be found.
4. The time and place of demand and dishonour.
5. The signature of the notary public.

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4.6 Liabilities of Parties

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

Liability of Drawer (Section 30):

The drawer of a bill of exchange or cheque is bound, in case of dishonour by the drawee or acceptor thereof, to compensate the holder, provided due notice of dishonour has been given to or received by the drawer. The nature of drawer's liability is that by drawing a bill, he undertakes that

- (i) on due presentation, it shall be accepted and paid according to its tenor, and
- (ii) In case of dishonour, he will compensate the holder or any endorser, provided notice of dishonour has been duly given.

However, in case of accommodation bill no notice of dishonour to the drawer is required. The liability of a drawer of a bill of exchange is secondary and arises only on default of the drawee, who is primarily liable to make payment of the negotiable instrument.

Liability of the Drawee of Cheque (Section 31):

The drawee of a cheque having sufficient funds of the drawer in his hands properly applicable to the payment of such cheque must pay the cheque when duly required to do so and, or in default of such payment, he shall compensate the drawer for any loss or damage caused by such default. The banker, therefore, is bound to pay the cheque of the drawer, i.e., customer, if the following conditions are satisfied:

- (i) The banker has sufficient funds to the credit of customer's account.
- (ii) The funds are properly applicable to the payment of such cheque, e.g., the funds are legally available for the payment of the cheque.
- (iii) The cheque is duly presented during banking hours and on or after the date on which it is made payable. If the banker is unjustified in refusing to honour the cheque of its customer, it shall be liable for damages.

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

In the absence of a contract to the contrary, the maker of a promissory note and the acceptor before maturity of a bill of exchange are bound to pay the amount thereof at maturity, according to the apparent tenor of the note or acceptance respectively. The acceptor of a bill of exchange at or after maturity is bound to pay the amount thereof to the holder on demand:

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

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Liability of endorser (Section 35)

Every endorser incurs liability to the parties that are subsequent to him. Whoever endorses and delivers a negotiable instrument before maturity is bound thereby to every subsequent holder in case of dishonour of the instrument by the drawee, acceptor or maker, to compensate such holder of any loss or damage caused to him by such dishonour provided (i) there is no contract to the contrary; (ii) he (endorser) has not expressly excluded, limited or made conditional his own liability; and (iii) due notice of dishonour has been given to, or received by, such endorser. Every endorser after dishonour, is liable upon the instrument as if it is payable on demand. He is bound by his endorsement notwithstanding any previous alteration of the instrument. (Section 88)

Liability of Prior Parties (Section 36)

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

Liability interse

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

Liability of Acceptor of Forged Endorsement (Section 41)

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

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

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

4.7 Summary

A Negotiable instrument means

- A promissory note
- Bill of exchange or
- Cheque
- Either to order or bearer.
- Negotiable instruments can be

Banking

- Payable to Order
- Payable to Bearer
- Payable to Joint payee
- Negotiable instruments are regulated by the Negotiable instruments Act which was passed in 1881.
- Promissory note is an instrument in writing 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.
- 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.
- Cheque is a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand and it includes the electronic image of a truncated cheque and a cheque in the electronic form

Characteristics of Negotiable instrument are:

- Instrument in writing
- Unconditional order / promise
- A cheque is drawn on a specific banker
- The promise or acceptance to pay is for payment of money and money only
- Certainty of the sum
- Payable to order or bearer
- Payee must be a certain person
- Delivery of the instrument
- Currency note
- Transferability
- Confers absolute and good title on the transferee

Parties to Negotiable Instruments:

- Bill of Exchange are Drawer, Drawee, Acceptor, Payee, Endorser, Endorsee & Holder
- Parties to a Promissory Note are maker, Payee & Holder

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- Parties to a Cheque are Drawer, Drawee & Payee
- There are type of crossing of cheques – General and Special. Crossing provides a protection and safeguard to the owner of the cheque as by securing payment through a banker it can be easily detected to whose use the money is received. A cheque can be crossed by the holder, drawer and the Banker.
- Negotiation of an instrument is a process by which the ownership of the instrument is transferred by one person to another. There are two methods of negotiation: by mere delivery and by endorsement. In its literal sense, the term ‘indorsement’ means writing on an instrument but in its technical sense, under the Negotiable Instrument 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 annexed thereto, for the purpose of negotiation.
- A bill may be dishonoured by non-acceptance (since only bills require acceptance) or by non-payment, while a promissory note and cheque may be dishonoured by non-payment only. Noting means recording of the fact of dishonour by a notary public on the bill or paper or both partly. Protest is a formal notarial certificate attesting the dishonour of the bill.
- The term ‘discharge’ in relation to negotiable instrument is used in two senses, viz., (a) discharge of one or more parties from liability thereon, and (b) discharge of the instrument. When a person signs a negotiable instrument as maker, drawer, endorser or some other capacity, the person becomes contractually liable on the instrument (i.e., to pay). Liability also arises from improper transfer or presentment of an instrument, negligence in instrument issuance, alteration, or endorsement, improper payment or conversion.

4.8 Practice Questions

I. Choose the correct option:

1. The purpose of accommodation bill is :
 - a) To finance actual purchase or sale of goods
 - b) To facilitate trade transmission
 - c) When any one or both parties are in need of funds
 - d) None of these
2. If the due date is a public holiday, what will be the due date of the PN or BE :
 - a) Following Business day
 - b) Preceding Business day
 - c) The same day only
 - d) One month later

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3. A cheque issued by a branch of a bank against consideration received is known as
 - a) Drawing Cheque
 - b) Banker's cheque
 - c) Clearing cheque
4. According to Negotiable Instrument Act, 1881, all of the following are types of the cheque, EXCEPT:
 - a) Bearer Cheques
 - b) Pay Order cheques
 - c) Crossed Cheques
 - d) Blank Cheques
5. Dishonour of a cheque due to 'insufficient fund' is punishable under which section of NI Act?
 - a) Sec 128
 - b) Sec 131
 - c) Sec 138
 - d) Not punishable
6. Endorsement in blank is
 - a) writing nothing on the cheque
 - b) signing by the holder on the cheque
 - c) neither of them
 - d) both of them
7. If a cheque is drawn 'Payable to Ramesh Verma only', it means
 - a) Ramesh Verma cannot further negotiate or transfer the cheque to another person by delivery
 - b) Ramesh Verma can further negotiate or transfer the cheque to another person by endorsement & delivery
 - c) Cheque can be paid to Ramesh Verma only
 - d) None of these
8. In a PN / BE / cheque, the endorsers are
 - a) principals
 - b) sureties
 - c) neither of the above
 - d) both

Banking

9. Mr. Gupta issued a cheque in favor of a charitable trust for donation. Here, Trust is
- a) Holder
 - b) Holder in due course
 - c) Both of the above
 - d) None of the above
10. Which of the following is true when words 'Not Negotiable' are included in a generally or specially crossed cheque?
- a) Cheque becomes non-transferable.
 - b) Cheque can be further transferred but the transferee cannot get the better title than the transferor.
 - c) An open or uncrossed cheque with the words 'Not Negotiable' has similar effect.
 - d) None of these.
11. Which of the followings is not the feature of Negotiable Instrument?
- a) It is transferable by mere delivery if payable to bearer.
 - b) It is transferable by endorsement & delivery if payable to order.
 - c) Both of the above
 - d) None of the above

Answers: 1 – c, 2 - b, 3 – b, 4 – b, 5 – c, 6 - b, 7 -c, 8 - c, 9 - c, 10 – a, 11 – c,

II. Fill in the blanks:

1. A PN payable by installments, grace period of ___ days is allowed.
2. In a cheque, there is no grace period as the cheque is ____ instrument.
3. Stamp duty is applicable on bills payables after ___ days.
4. A bill of exchange is a _____ order to pay.
5. The bill has to be _____ to the payee to make it an effective BE/ cheque.
6. Maker of the BE / Cheque is called the _____.
7. Where the drawee is incompetent to contract, or the acceptance is qualified, the BE may be treated as _____.

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Answers: 1- 3, 2 – demand, 3 – 90 days, 4 – unconditional, 5 – delivered, 6 – drawee, 7 – dishonoured

III. Answer in detail:

1. What is negotiable instrument?
2. What does “Endorsement in Blank” means?
3. What is payment in due course?
4. Compare the characteristics of Bills of Exchange and Promissory note?
5. Explain the difference between Demand and Usance Promissory Note?
6. Explain how to distinguish between a holder and a holder in due course?
7. Explain what is protest?
8. Explain the parties to the Promissory note and cheque?
9. What is the notice of dishonour?
10. Explain what is the noting and protest?
11. What are the types of endorsements available as per NI act?
12. Explain briefly the noting and protesting process of a BE?
13. What is Surety ship?

IV. Activities:

1. Prepare a chart showing the different negotiable instrument?
2. Explain the class the different ways a cheque can be crossed and it implications?
3. Prepare a chart showing the characteristics, differences and usage of Bill Payable, cheque and Promissory Note?
4. Carry out a role play on the parties involved in Bills of Exchange, Promissory note and cheque?

Banking

Business Communication

Unit - 5

Learning Objective

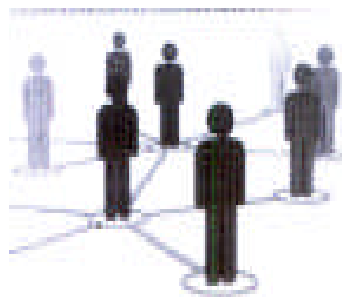
We, as individuals, communicate 70% of our time, an organization communicates 90% of its working time. The importance and role of communication in an organization can be seen as a job of bringing all aspects of the business together- employees, superiors, suppliers, customers, public, etc.



Hence it is essential to understand the importance of Effective Communication.

Communication is a process of exchanging information, ideas, thoughts, feelings and emotions through speech, signals, writing, or behavior. In communication process, a sender (encoder) encodes a message and then using a medium/channel sends it to the receiver (decoder) who decodes the message and after processing information, sends back appropriate feedback/reply using a medium/channel.

Relevant Knowledge



Communication is also a professional and social need of an individual.

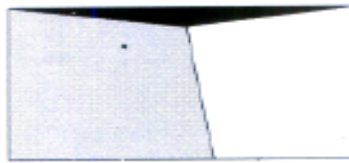
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Workplace Communication

It is of paramount importance to any organization. Effective or ineffective Communication at a workplace, very often, marks the difference between success and failure.

What matters is HOW you say it not alone WHAT you say. Body language, Gestures and tone play a major role in communication.



As the quote states “Actions speak louder than words”

Understanding the Communication Process Relevant Knowledge

People communicate with each other in a number of ways that depend upon’ the message and its context in which it is being sent.

Choice of communication channel and your style of communicating also affect communication. So, there is variety of types of communication. .

Types of communication based on the communication channels used are:

1. Verbal Communication
2. Nonverbal Communication

Fundamentals of Effective Communication: The 7 C’s of Communication are:

Correct, Courteous, Clear, Concise, Consideration, Concrete and Complete

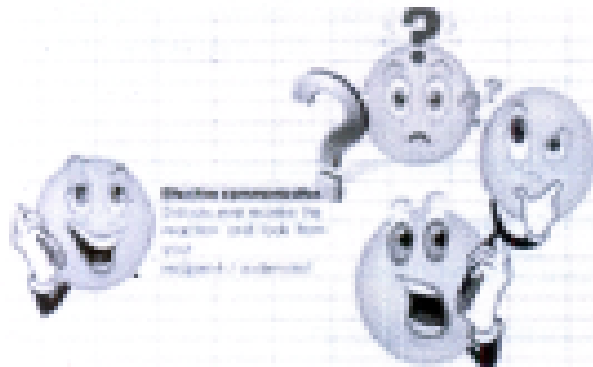
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When communication is incomplete it is ineffective.

Understanding Communication with Internal and External Customers

Communication within an organization is called “**Internal Communication**”.

It includes all communication within an organization. It may be formal or an informal communication. Effective internal communication is a vital means of addressing organizational concerns. Good communication may help to increase job satisfaction, safety, productivity, and profits and decrease grievances and turnover.



External Communication

Communication with people company is called ‘external communication’. Supervisors communicate with sources outside the organization, such as vendors and customers.

Both Internal and External Communication are equally important.

- Improves profits and profitability
- Holds Employees Together
- Builds mutual trust and Harmonious workplace relations
- Binds our Customers with us
- Increases Product Quality
- Increases Service Quality
- Increases Team Spirit
- Increases Confidence

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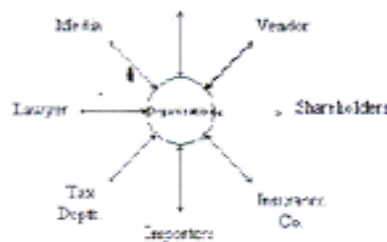
Increases Respect for Top Management

Increases Workplace Discipline (read- obedience)

Increases Job Satisfaction

Assignment : Role Play

Divide students into 4 groups of 10 each. The students have to prepare a Role play on the scenario “My day at the Mall” while using verbal and non verbal communication (All components example: Words, tone, gestures postures and body language)



Assessment

Answer the following questions

(Use additional sheets of paper if necessary)



A Fill in the blanks

1. Communication within an organization is called _____.
2. Both _____ and _____ Communication are equally important.
3. What matters is _____ you say it not alone _____ you say.
4. Types of communication based on the communication channels used are _____ and _____

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B. State whether true or false

1. Body language plays a very minor role in communication.
2. Choice of communication channel and your style of communicating also affect communication.

Checklist for Assessment Activity

Use the following checklist to see if you've met all the requirements for assessment.

Exercise



Part A

1. Differentiate between Verbal and Non Verbal communication.
2. Differentiate between Internal and External Communication.

Part B

1. What is Communication? What are the C's of communication?

The performance Standard covered by the assessment includes the following, but not limited to:

Performance Standards	y e 5	N 0
Able to understand the communication process with internal and external customers		

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Understanding the Organisational Culture

Relevant Knowledge

Organizational Culture is a collective behaviour of humans that are a part of an organization.



It is also formed by the values, visions, or practices followed by the organization. It is the pattern of such collective behaviour of the employees. These practices are taught and are supposed to be adopted by new members of the organization.



Organizational culture affects the way people and groups interact with each other. This could be with clients, with associated partners or internally as an organization.

Every company has its “own unique culture”. The organizational culture may also have negative and positive aspects.

Organizational culture is taught to the person as culture is taught by parents to children. Therefore people applying for a job are selected depending upon their capability and ability to match their “personality to a company’s culture” and fit into it.

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Culture is shared by all in the organization

Culture helps members solve problems

Culture is taught to newcomers

Culture strongly influences behaviour

STEPS TO PRACTICING HEALTHY ORGANIZATIONAL CULTURE

A variety of characteristics describe a healthy culture:

Acceptance and appreciation of others

Diversity

Team spirit ,

Fair treatment of each employee

Respect for each employee's contribution

Equal opportunity for each employee

Effective communication among all employees

A sense of direction and purpose

Ability to compete fairly in the organization

Innovation and customer service

Willingness to learn



Examples of Unhealthy Organization Culture:

Uncooperative

Aggressive styles of communication

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Inequity

Bias

No sense of vision or mission

No respect for others' contribution at work

Understanding the importance of organizational culture:

The most important building blocks for a highly successful organization and an extraordinary workplace is “organizational culture.”

We define organizational culture as the shared values, beliefs and practices in organizations. Organizational culture is the way people behave in an organization when no one is looking. Why should we think about this? How does this impact people in an organization? It is very important because what happens in the day-to-day life of organizations and employees is culture. Culture is everywhere and affects everyone in the organization. It directly impacts what happens or does not happen in organizations.

Understanding the Organisational Culture

Assignment:

1. Visit 2 retail stores. Identify and compare the culture of the two stores.

Name of the store	Customer Service	Friendly	Efficient	Team Spirit

2. Visit a Kirana shop and identify the difference in the culture from the retail Store.

Assessment

Answer the following questions

(Use additional sheets of paper if necessary)

1. Acceptance and appreciation of others describesculture.
2. Ability to compete in the organization, is a step to practicing Organizational culture
3. Culture helps members problems.
4. Every company has its culture”.

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UNDERSTANDING ORGANISATIONAL CULTURE:

Session-3

Understanding the Organisational Culture

Understanding Qualities and of Team Members

Checklist for Assessment Activity

Use the following checklist to see if you've met all the requirements for assessment. Part A

1. Differentiated between practicing healthy and unhealthy organizational culture.
2. Differentiated between Fair treatment of each employee and Respect for each employee's contribution.

Part B

1. What is organizational Culture?
2. What are the characteristics of organizational culture?

Performance standards

The performance Standard covered by the assessment includes the following, but not limited to:

Performance Standards	y	N
	e	0
	5	
Able to understand the organisation culture		

Session-4

Understanding Qualities and Role of Team Members

Relevant Knowledge

What is a team? A team is a collection of a small number of people with skills that complement each other. These people are collectively committed to a common purpose.

Most organizations are made up of different types of teams.

Example- Production team, Sales-Team Why Have Teams Become So Popular?

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The reasons teams have become so popular are

Teamwork Divides the Task and Multiplies the Success.

Session: 4

Understanding Qualities and Role of Team Members

Talent wins games, but teamwork and intelligence wins championships.

Many hands makes work light.

Teams perform better than individuals. (More people with diverse strengths) .

An employee's talent is used better in teams. (tasks are assigned according to capability)

Teams are more flexible. (collective opinion and decisions)

Teams are an effective way to increase motivation and output.



Tips for Team Building:

Clear Expectations - Vision/Mission Commitment - dedication -

Service- as valuable to Organization & Competence

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Capability - Knowledge

Charter - agreement - Assigned area of responsibility

Control - Freedom & Limitations Collaboration - Team work and working together

Communication- Effective Creative- Innovation .

Consequences - Accountable for rewards Coordination - Delegation

Cultural Change

Qualities of a good team member:

People skills (good listener, good communicator, self motivated)

Personal characteristics (good sense of humour, participative, cooperative, meets commitments)

Role of a Team member while working in teams:

- a) Take responsibility for task assigned(never blame others for incomplete work)
- b) Respect the work and opinions of others
- c) Allow equal participation from all members of the team .
- d) Take action when required and help other team members
- e) Clarity while Giving and Taking instructions (asking questions to make sure that the instruction has been understood correctly)
- f) When in doubt, ask; if not, ask anyway. It's important to ensure that you have understood everything the way meant and nothing else
- g) Understanding proper Escalation (if unable to solve a particular problem ask or consult the correct person from the appropriate department)



UNDERSTANDING QUALITIES AND ROLE OF A TEAM MEMBER:

Banking

Assignment Role Play

Learning How to become a good team member

The employees of a retail store that deals in groceries and other household products are having a big quarrel. The manager enquired why they were fighting with each other.

The team members started yelling at each other and started fighting again.

Manager: Will, all of you stop fighting? And will anybody tell me what the matter is?

Amit (Employee 1) : Sir, all the dairy products got spoiled due to Ramesh's mistake.

Ramesh (Employee 2) : I didn't do anything. He is the incharge of the dairy section.

Amit: Exactly, he didn't do anything despite, I told him that I was going on a short leave and requested him to put the dairy in the fridge. Also somehow all the pulses are spilled everywhere. He is saying that it's entirely my mistake.

Manager: Didn't you tell him Amit? Or is it that, Ramesh you didn't listen properly.

Ramesh: He told me that he is going on a short leave, but didn't mention the time.

Manager: Hmm Let me look into the matter. Amit if you were leaving early, why didn't you the appropriate details with Ramesh, weren't you told during your training how important is it to communicate properly and clearly?

And Ramesh as an employee, isn't it your duty to work according to need. If you knew dairy was getting spoiled why didn't put it in fridge on priority.

Rakesh (Employee 3): Sir, Ramesh fights with everyone and blames us if something goes wrong?

Manager: Is that so Ramesh? We should learn to behave responsibly and take responsibility for our own actions.

Now all of you clean up the mess, start taking good care of our customers.

Teacher can further elaborate the role of ideal team members.

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UNDERSTANDING QUALITIES AND ROLE OF A TEAM MEMBER:

Checklist for Assessment Activity

Use the following checklist to see if you've met all the requirements for assessment. Part A

1. Differentiated between teams and individuals.
2. Differentiated between responsibilities of a team member and an individual,

PART B

1. Why have teams become so popular in organisations?
2. What are the different types of teams in a retail store?
4. What are the qualities of a team member?

Performance standards

The performance Standard covered by the assessment includes the following, but not limited to:

Performance Standards	y	N
	e	0
	5	
Able to understand the importance of team		

Session–1 : Communication at Work Place

Unit - 5

Learning Objective

Location	Duration-10 HOURS			
Classroom or Banks	SESSION -1 DEFINITION & CHARACTERISTICS OF CHEQUES			
	Learning Outcome	Knowledge Evaluation	Performance Evaluation	Teaching and Training Method
	To understand the concept of communication	1. Introducing and Greeting a) Introduce and greet in a proper way 2. Framing of Questions and Complete Sentences a) Framing of question and sentence 3. Dealingwith Customers in Banking Environment a) Dealingwith customers while they are in the Bank 4. Principles Communication a) Identify of elements communication cycle	1. Be able to introduce and greet people confidently 2. Be able to frame Questions on his own 3. Explain requirement of polite, courteous communication requirement with customers 4. List the principles of effective communication	Interactive lecture on role of importance of communication at the work place

Session -1: Communication at Workplace

Unit - 5

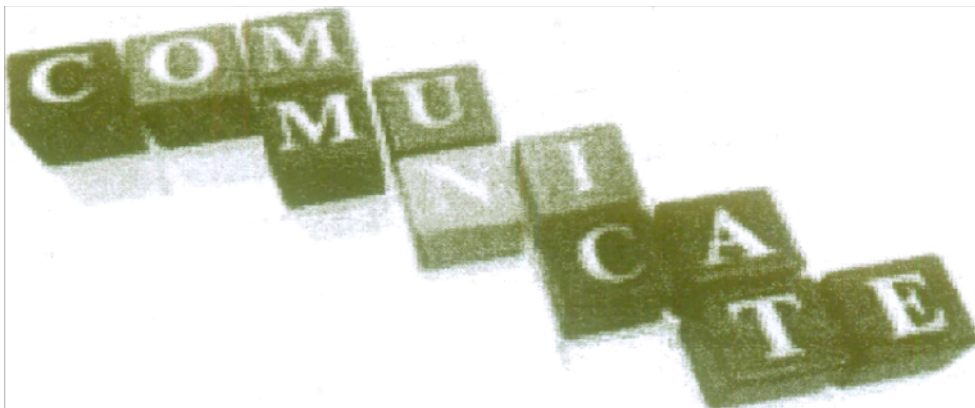
Learning Objective

After reading this unit, you will be able to:

- Define communication?
- Identify the Barriers to communication?
- Unspoken communication?
- Know How to greet a person?
- Understand how to deal with Customers in Banking Environment
- Learn how to interact and deal with customers while they are in the Bank
- Describe the Principles of communication

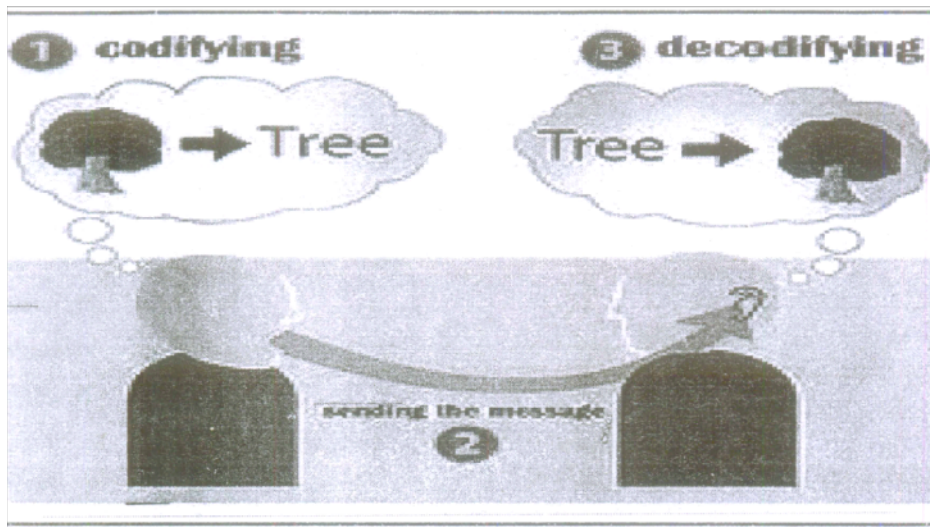
STRUCTURE

- 1.1 Introducing and Greeting at work place
- 1.2 Framing of Questions and Complete Sentences
- 1.3 Dealing with Customers in Banking Environment
- 1.4 Principles of Communication
- 1.5 Summary
- 1.6 Self Test Questions



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1.1 Introduction and Greeting at Work Place



Communication is an act of imparting or exchanging of information, ideas, or feeling. Communication is a two-way activity that takes place between two or more people. Sending, giving or exchanging information and ideas are often expressed verbally and non-verbally. It is an important process through which facts, ideas, experiences and feelings are shared and exchanged. Effective communication occurs only if the receiver understands the exact information or idea that the sender intended to transmit. Communicating in an effective manner, irrespective of the mode of communication used. The process of conveying a message is complete only when the person receiving it has understood the message in completely properly. Better communication helps better job performance. Effective and communication promotes better relations and work culture among the employees.

To be successful, a person requires a combination of communication skills. These skills are, writing skills, speaking skills, listening skills and non verbal skills (body language).

Effective communication skills are particularly important for those engaged in “Front End” activities of retailing. The should be able to explain the characteristics and features of percent products to prosp ctive customers in order to convince them to buy. They also need to understand the customer’s needs to be able to recommend the right product. All this is not possible without good communication skills.

To develop good relationship with a customer, it is important to look well groomed and communicate effectively and in a politemanner. This is the starting point for establishing awinning relationship with the customer.

Establishing relationship with customers: You can establish effective relationships with customers by:

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- Communicating with your customers in a way which makes them feel valued and respected.
- Identifying and confirming the needs and expectations of your customers.
- Treating your customers courteously and helpfully even when you are working under pressure.
- Maintaining communication with your customers to ensure that they are kept informed and reassured.
- Adapting your behavior to respond effectively to different customer behavior.

Respond appropriately to customers by:

- Checking with your customers that you have fully understood their needs and expectations.

Communicate information to customers by:

- Greeting customers like good morning/good afternoon/good evening, etc. >- Quickly locating information which will help your customer.
- Giving your customers, the information they need about the products or services offered by your organization.

Telephone Etiquette

Following are some of the important points to be taken care of while communicating on telephone

- Answering to the call at the earliest
- Greet the caller or customer
- Take a message and communicate it to the concerned person
- Call back on time if you have assured the customer that you will be calling him/her at a particular time.

Etiquette at Workplace

Being polite, sets the tone for work relationships, how you interact with people. Good Manners Mean Good Business. It takes 15 seconds to make a good first impression, and the rest of your life to undo it, if it was a negative one. So always be prepared to look and sound your best. Etiquette is very important for different communication and working styles. How do you deal with difficult people making impossible demands?

Focusing on listening to their entire request and then determining what they really need—not what they say they want. A good hearing can resolve a lot of difficulties. Active listening is the best etiquette.

- Your uniform talks a lot about your organization.
- First impressions are made within the first 5 minutes of meeting someone
- A neat clean and well ironed uniform is acceptable and appreciated by one and all at all times.

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The Business Introduction: In business introductions, rank and position take precedence over age and gender. Whenever you find yourself in a group or in situations where you must introduce a colleague to a senior person or your client to your boss, always say the name of the most important person first to show respect.

The Right Handshake: The handshake is the universally accepted way of greeting people and introducing oneself in the business world. It should be a warm, palm-to-palm handshake, lasting about 3-4 seconds.

Value Time, Value Business:

- Time is precious, time is money.
- Be time conscious and stick to the rules of punctuality.
- Final advice on workplace etiquette is simple. Take charge of what is your duty, maintain proper decorum at all times and always treat others the way you want to be treated.

ETIQUETTE

Expressing general requests

- I beg your pardon
- Excuse me
- Sorry?
- What?

Greeting somebody

- Please have a seat.
- Thanks for agreeing to meet with me.
- He'll be right with you. .
- Can I offer you something to drink?
- My pleasure.
- Hello Sir, How are you
- Hello, may I speak to Mr. Malik? (on telephone)

Grooming

Grooming describes basic personal hygiene as well as the process that prepares employees for a specific position within a company. The difference is that personal grooming is focused on appearance, while organizational grooming is focused on behavior. Both types of grooming are necessary to succeed in a work environment. Grooming includes:

- **Personal Grooming**

Personal grooming is taking care of your body in a hygienic manner. Caring for your body by washing

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your hands, brushing your teeth, combing your hair, trimming your nails, shaving, wearing clean clothing and showering is important for a person's own health.

● Clothing

Personal grooming also includes how you dress. Clothing style is an extension of your attitude. Personal grooming also determines the impression you make on people and how you feel about yourself. Someone who has good personal grooming habits looks clean, neat, does not have visible body piercings other than in the ear, wears deodorant to limit body odour and does not overdo perfume. Well-groomed people wear clothes that are ironed, fit and are not torn. Pockets should, preferably be empty, avoid tangling of change and jewellery should be understated, as opposed to jewellery that is bright or chunky. Personal grooming is also important to avoid the spread of germs in the workplace.

● Organizational Grooming

Organizational grooming is how one is prepared to for a position in a workplace. Many organizations have required dress codes. Personal grooming can help demonstrate organizational commitment and is a sign of respect for yourself and your job. Depending on where you work, dress codes will vary.

● Job Grooming

Organizational grooming also includes demonstrating work-appropriate behavior. These include a positive attitude, use of good manners, smiling, making eye contact, listening and discussing rather than arguing. Grooming individuals for jobs is also part of organizational grooming. Managers groom employees on how to do their jobs more efficiently and skillfully. Organizational grooming is also a matter of accepting responsibility, being honest and committing yourself to your accomplishments.

Class Room Activity

Given below is a conversation between Mr. X who enters the Bank Mr. Y who is a customer service representative:

Mr. Y: Good Morning Sir, Can I help you? Mr. X' No thank you! I am OK.

Mr. Y: Do you want any assistance? What are you looking for? Mr. X' I have come to deposit the cheque. Thank you.

1.2 Framing of Questions and Complete Sentences

How to Frame questions?

The interrogative pronouns who, what, whom, whose, which and the interrogative adverbs where, when, why and how are used to frame information questions.

The structure 'how + an adjective/adverb' may also be used to frame information questions. Frame questions which will elicit the following answers.

1. These are John's books.
2. I want a pen.
3. We will stay with our cousins.
4. I am going with my aunt.

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5. I went there to meet James.
6. My boy is the one in red shirt.
7. I come from Bangkok.
8. I met him last week.
9. This bridge is fifty feet long.
10. My father is sixty years old ..
11. I have two brothers and two sisters.
12. Mr. Mathew is our headmaster.
13. We came to this place five years ago.

Answers

1. Whose books are these?
2. What do you want?
3. Whom will you stay with?
4. Whom are you going with?
5. Why did you go there?
6. Which is your boy?
8. When did you meet him?
9. How long is this bridge?
10. How old is your father?
11. How many brothers and sisters do you have?
12. Who is your headmaster?
13. When did you come to this place? Incomplete sentences

Incomplete sentences

Sentence fragments are a common mistake. A sentence fragment is an incomplete sentence. It could be a prepositional phrase. Or it could be a dependent clause.

An English sentence must have a subject and a verb of its own. Study the sentences given below. Mike took out his pen.

He started writing.

As you can see, both sentences given above have a subject and a verb of their own. They also make complete sense. A sentence can have any number of clauses but it must have at least one main or **independent clause**. A dependent or **subordinate clause**, too, will have a subject and a verb of its own. However, a dependent clause cannot stand on its own. It needs to be attached to an independent

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clause. It is easy to determine whether a clause is a dependent clause or an independent clause. A **dependent clause** will almost always begin with a **subordinating conjunction**. Examples are: if when, whether, before, after, unless, though, although, even if, because, as, since etc.

Study the examples given below.

- ‘Why are you crying?’ ‘Because mummy hit me.’

Here the dependent clause ‘Because mummy hit me’ is perfectly normal in spoken English, but it is considered incorrect in writing.

When you write you have to use complete sentences.

- I am crying **because mummy hit me.**
- ‘Why did he lose his job?’ ‘**Because he was never on time.**’

The sentence fragment ‘because he was never on time’ needs to be attached to an independent clause.

- He lost his job **because he was never on time.**

Sentence fragments are perfectly acceptable in spoken English. In fact, when you speak if you use complete sentences all the time, you will sound very unnatural. However, you must make a conscious effort to avoid fragments in writing.

Remember that all dependent clauses need to be attached to an independent clause.

Making Complete Sentences:

Eliminate incomplete sentences from your writing. We have already learned that a sentence must have a subject and a finite-verb of its own. An independent clause can make a sentence because it has a subject and a verb. Phrases, on the other hand, cannot be sentences. A phrase is a group of words that does not have a subject or a verb. A phrase can consist of any number of words; however, most phrases are not all that long. Students sometimes mistake phrases for sentences.

Examples are given below:

- I think that the new shopping mall will bring many benefits. For example, more jobs and economic development.

Here the group of words ‘for example, more jobs and economic development’ is a phrase. It cannot make a sentence.

It should, therefore, be attached to the previous sentence.

- I think that the new shopping mall will bring many benefits, for example, more jobs and economic development.

We can convert a phrase into a clause by supplying a suitable subject and verb.

Consider the example given below.

- I think that the new shopping mall will bring many benefits. For example, it will create more jobs and economic development.

Another example is given below.

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- I support the decision to build a new theatre. To improve the economy and entertain people.

Consider the group of words 'to improve the economy and entertain people'. Although it contains the verb 'to improve', it cannot be a clause because infinitives are non-finite verbs. Therefore, the sentence should be rewritten as:

- To improve the economy and entertain people support the decision to build a new theatre.

Exercise 1: Complete the following sentences using an appropriate word or phrase.

1. She _____ wait for over two years.
 - a) was made to
 - b) had made to
 - c) has made to
 - d) would make to
2. It _____ during the whole of last week.
 - a) rained
 - b) was raining
 - c) is raining
 - d) has been raining
3. He would have accepted this proposal, if you _____ ore courteous.
 - a) had been
 - b) have bee
 - c) ar
 - d) wer
4. What I don't understand is why they _____ so long without lodging a complaint.
 - a) waited
 - b) were to wait
 - c) are to waitin
5. Should it prove to be true, I _____ resign from the committee.
 - a) shall
 - b) were t
 - c) had to
 - d) should
6. If he drank less, he _____ liver trouble.
 - a) wouldn't develop

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- b) couldn't have developed
 - c) shouldn't have developed
 - d) wouldn't have developed
7. Newton saw the apple _____ to the ground.
- a) fall
 - b) fell
 - c) fallen
 - d) to fall

Answers

1. She **was made** to wait for over two years.
2. It **rained** during the whole of last week.
3. He would have accepted this proposal, if you **had been** more courteous.
4. What I don't understand is why they **waited** so long without lodging a complaint.
5. Should it prove to be true, I **shall** resign from the committee.
6. The drank less, he **wouldn't develop** liver trouble.
7. Newton saw the apple **fall** to the ground.

1.3 Dealing with Customers in Banking Environment:

In addition to the skills mentioned above, the customer service representative should ensure that he has all the products knowledge bank is providing. In case, he does not know, he should look up the Standard Operating procedure of the Bank. If does not find the information in the SOP, he should check with his seniors before advising the customer. Remember it is OK to say that "Can I get back to you". Also do remember to get back to the customer in the time line mentioned.

Some strategies for making a good impression when dealing with customers in the branch:

1. When you greet people in person for the first time - To make a positive first impression when meeting new people include the following as part of your greeting: a warm smile, an introduction that includes your first and last name, a welcoming comment, direct eye contact and a firm handshake, if appropriate. I also recommend repeating the person's name. For instance, "It's very nice to meet you Bob."
2. When you meet people who don't tell you their name-If this occurs, simply ask them for their name. I might say, "I didn't catch your name." After they respond, I will repeat their name as described in the previous point. This is a simple way of demonstrating your interest in them.
3. When someone introduces you and does not include your name-When you are introduced to someone and the person making the introduction doesn't include your name, it's likely they forgot for they don't know how to make a proper introduction. In this case, offer a warm greeting as I

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described in the first tip and be sure to include your first and last name. This will prove, that are paying attended that you realize your name was omitted.

4. When you greet someone who likely forgot your name-When I greet people I have not seen in a while, I always take the initiative to introduce myself by name. I could say, “Hi Paul; Todd Smith; how are you doing?” If I don’t remember the person’s name, I will introduce myself by sharing my name and hope they respond by sharing theirs. If people
5. When you are not introduced-I was with a friend in a restaurant recently and a couple of his friends stopped by the table to say hi. He talked to them for a few minutes but never introduced me. The proper etiquette in this circumstance would have been for him to introduce me to his friends. When I’m not introduced to people, I generally respond by introducing myself if the right opportunity presents itself. This seems to make everyone feel more comfortable.
6. When you meet with a group of people, you DON’T mow-Have you ever walked into a room with a small group of people you didn’t know and stood there awkwardly not knowing what you should do? If this happens, be proactive and introduce yourself to each person in the room. This will make you stand out from the group as someone with confidence. It will also make everyone feel more at ease.
7. When you meet with a group of people, you DO know -When you get together with a group of friends or business associates, immediately greet each person with a friendly greeting. As new people join the group, be the first one to show you care by greeting them. It is also called “Being Like a Dog.” Dogs are always happy to see you and they’re the first ones to greet you.
8. When you meet with a group of people, some know and some you don’t know -When I find myself in this situation, I will always greet the people I know and introduce myself to .the people I have not yet met. Once again, this seems to make everyone in the group feel comfortable.
9. When you greet a receptionist-Whether you are greeting the receptionist at your dentist’s office or at the offices of one of your clients, always introduce yourself with a smile and friendly greeting. For instance, “Hi my name is Todd Smith, I have a 4:00 appointment with Steve Johnson.” In the case of a business environment, I always hand the receptionist my business card to go along with my verbal introduction.
10. Practice, practice, practice-If you will follow these tips, you can be assured of making a positive first impression and enhance your existing relationships. You will be viewed as someone who is friendly, confident and recognizes the value of making people feel comfortable. Some of these recommendations may feel a little uncomfortable at first, but like anything, the more you do it, the more comfortable it will become. When you show an interest in others and the things important to them, they will show an interest in you and the things important to you!

Greeting People:

- Hello. /Hi.
- Good morning. (before 12 o’clock)
- Good afternoon (after 12 o’clock)

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- Good evening

Introducing People?

- What's your name?
- Who are you?
- My name is ...
- I am ...
- My friends call me ...
- You can call me ...
- Haven't we met (before)?
- Yes,. I think we have.
- No, I don't think we have.
- I think we've already met.
- I don't think we've met (before).
- This is ...
- Meet ...
- Have you met ... ?
- Yes, I have.
- No, I haven't.
- Yes, I think I have.
- No, I don't think I have.
- Hello, ... (name)
- Nice to meet you. (informal)
- Pleased to meet you.
- How do you do? (formal)
- Nice to see you.
- Nice to see you again.

Say Goodbye:

- Good bye.
- Bye. I See you.
- See you later.
- See you soon.

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- See you tomorrow.
- See you next week.
- Good night.

Health:

- How are you?
- How are you today?
- Fine, thank you/thanks.
- Not too bad.
- Verywell
- I'm okay/all right.
- Not too well, actually.
- What's wrong with you?
- What's the matter with you?
- Are you all right?
- I'm tired
- I'm exhausted
- I've got a cold.

As banking becomes more digitized, customers still crave a human connection. Here's how to ensure a rewarding customer experience.

Banks are looking to streamline services in the name of cutting costs to compensate for declining revenue. One added benefit of these simplified policies and procedures is that banks also are providing a simpler, easier customer experience.

Simplification, in particular, provides a more consistent customer experience.

But as new channels, such as mobile and sophisticated collaboration technologies, drive customer expectations higher, just making the experience simpler and more consistent won't be enough to provide competitive advantage.

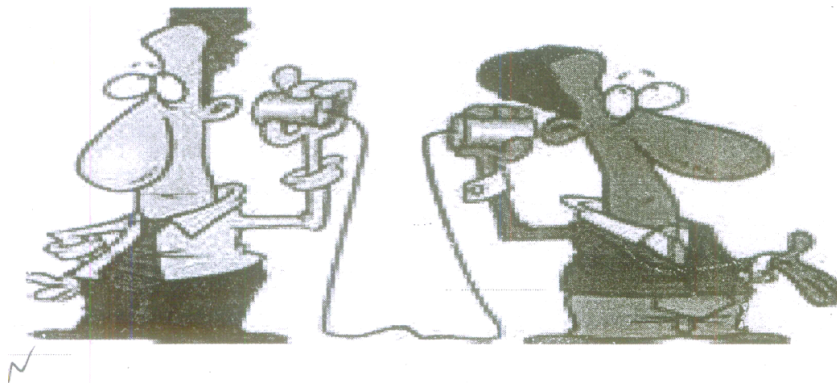
Some tactics that can help banks produce a more compelling customer experience.

- Customer is the king. Make him feel like one. We are dependent on him and not otherwise
- Be polite and warm while speaking to the customer
- Listen to the customer complaints / queries
- Apologise first to the customer and ensure rectification of the error
- Provide solutions to meet the customer requirements

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- Explain in detail any form filling to be done and ensure the customer has understood the requirement.
- Meet the customers expectations and strive to do better than that
- Do what you promise
- Strive to add a “VOW” experience while servicing them
- Do what you say / promise
- Thank your customer for providing opportunity to serve them

1.4 Understanding Communication Cycle



Effective communication creates healthy and happy environment within and outside the organization. Breakdown in communication is either due to lack of skill in communicating or lack of proper understanding. This also happens due to the breakdown of the communication network. This creates a communication gap.

Communication cycle: Communication has three important parts - **transmitting or sending, listening and feedback**. The sender transmits the message through one medium or another. The receiver listens to the message and then conveys his understanding of the message to the sender in the form of feedback to complete the communication cycle.

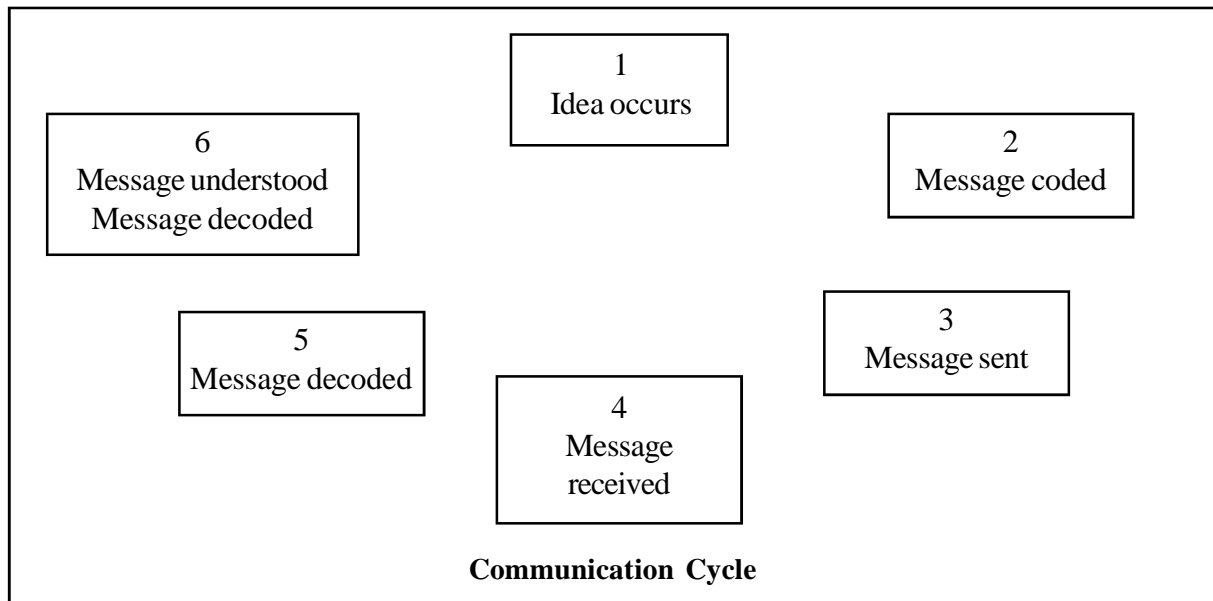
Elements of Communication Cycle:

- **Sender:** The sender sends or encodes a message, e.g. greets a visitor or a customer.
- **Message:** The message in this case is the greeting.
- **Medium:** It is the channel used for communication. The medium may be in any of the following forms - verbal, non- verbal, pictorial, symbolic and written.

Receiver: The receiver decodes the incoming message or expression, and reacts in the form of a response. The communication cycle is the process by which the “**sender**” “**encodes**” the message into words/ sentence or phrases, sends the coded message as he/she speaks, writes or understands the “message”. Messages are conveyed through **channels** e.g. Telephone, video-conferencing, letters, emails, meetings, memos, records and reports. It is then “**decoded**” by the “**receiver**” by hearing or reading the message in order to understand what the sender wants to convey.

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Feedback – How the receiver responds or reacts is known as feedback



Encoding takes place according to the personality of the sender, which determines the words or style used by the sender in the message. These assumptions are unspoken and so are only perceived through non-verbal communication.

Decoding also takes place according to the receiver's personality. Sometimes the sender and receiver think differently and therefore these assumptions hinder him/her from interpreting the message in the context that was meant by the sender.

In an effective communication cycle, the receiver understands the language and the message in the same way that the sender meant it to be. The words, tone, body language etc, all convey the same message and nothing gets changed or lost in the process of sending it.

To deliver your messages effectively, you must break down the barriers that exist in each of these stages of the communication process. If your message is too lengthy or contains errors, your message can be misunderstood and misinterpreted.

Types of Communication:

The medium of communication determines the type of communication. Based on the medium used for communicating, the process of communication can be broadly classified as verbal communication and non-verbal communication.

Verbal communication includes written and oral communication, whereas non-verbal communication includes body language, facial expressions and pictures. Thus, the various methods of communication are verbal communication (oral and written), non-verbal communication (including body language, pictorial communication, symbolic communication).

Verbal communication uses words as the medium of communication. An effective verbal communication is a two-way process—speaking and listening must occur. Usually verbal communication is in the one-to-one mode or one-to-one interaction.

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Factors Influencing Verbal Communication:

R - Rhythm - Maintaining rhythm while speaking is important for communicating effectively. Pauses in speech allow the speaker the time to think of his/her next thought, and also provide the listener enough time to process the information.

S - Speech - It is the act of delivering a formal spoken communication to an audience.

T - Tone - Tone is the quality of sound that portrays feelings or changes in meaning. A monotone delivery could indicate that a speaker is fed up. An emphatic tone might reveal interest or anger. The statement: "That is just great" delivered in a normal tone would mean the speaker likes something. A speaker delivering this statement in a sarcastic tone: "That is just GREAT" would mean the opposite.

P - Pitch - Pitch occurs because of the vibration of the human vocal cords. Changes in the tension of the vocal cords cause differences in pitch. Usually, the pitch of women's voices is higher than that of men.

Written communication skill is the ability of an individual to communicate in writing. Important skills in effective written communication are:

- It is done in a one-to-one mode or in a one-to-many mode.
- Words should be clearly written and should be legible, giving all the essential information needed.
- Effective writing involves careful choice of words, their organization in correct order in sentences and preparing a comprehensive composition of sentences.

Non-verbal communication: Communication that uses physical parts of the body. It includes facial expressions, tone of voice, sense of touch, sense of smell, and body movements.

By understanding the important aspects of non-verbal communication or body language, you can learn to read people more easily.

Features of non-verbal communication that conveys information:

1. Distance: The distance one stands from another frequently conveys a non-verbal message. In some cultures it is a sign of attraction, while in others it may reflect status or the intensity of the warmth or feeling. In India, a foot away from another person is considered a respectful distance while communicating.

2. Orientation: People may present themselves in various ways: face-to-face, side-to-side, or even back-to-back. For example, cooperating people are likely to side-by-side while competitors frequently face one another. In the security sector, face-to-face orientation is common.

3. Posture: Your posture conveys message. For example if you are sitting on a chair with your legs crossed or your arms folded, then such postures convey a degree of relaxation in the communication exchange.

4. Gestures with hands and arms: Shaking hands, touching, holding, embracing or patting on the back, all convey messages. They all reflect an element of intimacy.

5. Facial Expressions: A smile, frown, raised eyebrow, yawn, and sneer all convey information. Facial expressions continually change during interaction and are observed constantly by the recipient. There is

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evidence that the meaning of these expressions may be similar across cultures. Smiling is considered to be pleasant and helpful. A frown conveys confusion and at times anger. Raised eyebrows, yawn, a sneer are all unacceptable body language, as they reflect anger or ignorance.

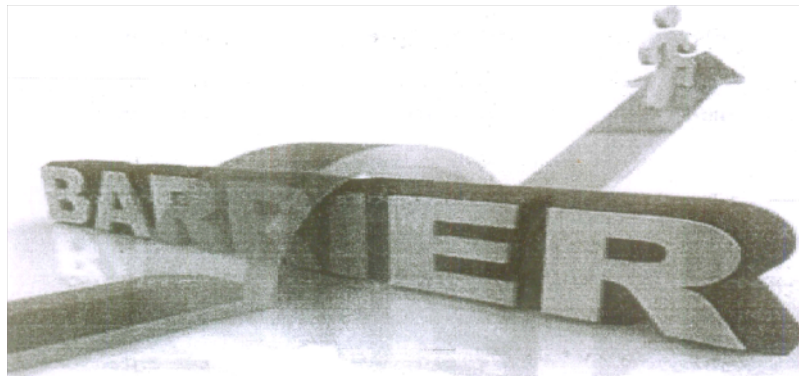
6. Gestures: One of the most frequently observed, but least understood cues is a hand movement. Most people use hand movements regularly when talking. Hands at the side or at the back are considered non-threatening, encouraging and acceptable.

7. Looking: A major feature of social communication is eye contact. Eye contact is crucial for effective communication. The frequency of contact may suggest either interest or boredom. For example, a Security Guard should look straight into the eyes of the person, although pleasantly and affably.

8. Pictorial Communication includes communicating with signs like traffic signals, the 21-gun salute, horns, sirens, etc. For example, the sign of 'stop' tells you to stop at the given point, the sign of two children with school bags indicate the school zone, the sign of U-turn tells you to take a U-turn, and the sign of a person crossing the road indicates the place where you can cross the road.

9. Symbolic Communication: Symbolic communication uses symbols that signify religion, school, stop communication devices, etc. money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise

OVERCOMING BARRIERS IN COMMUNICATION:



There are various factors that not only affect communication but also act as barriers to effective communication. We will now learn about the various factors that may act as barriers in communication and also discuss the possible solutions to overcome those barriers.

A. Environmental Factors

Environmental factors that affect communication include noise and physical obstacles like distance and lack of proper instruments for communication.

(i) **Noise:** Noise causes stress. Background noise and excessive echo are great distracters to listening, especially for the persons with poor concentration. Similarly use of loud speakers, noise from generators or other machinery interferes with communication.

(ii) **Physical Obstacles:** Physical obstacles like distance and use of defective instruments for

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communication affects the effectiveness of communication. Poor lighting, uncomfortable seating arrangements and unhygienic rooms also affect communication.

Checking the instrument before using it for communication is useful in avoiding unpleasant situation.

B. Attitudinal Factors

Attitudinal factors that affect communication include fear of upsetting others, fear of rejection or ridicule and low self image.

C. System Design

(i) **Time:** Some functions are time sensitive and cannot be delayed. Time pressures affect the ability to communicate.

Manage your time and pace of communication to ensure effectiveness.

(ii) **Information overload:** Too much information may result in confusion, misinterpretation and loss of information.

Effective Communication:

(i) **Physical characteristics:** Individual characteristics include biological factors like lisping.

(ii) **Language differences:**

Knowledge of vocabulary, grammar, etc. affects communication effectiveness.

Perception is generally how each individual interprets the world around him. Communication distortion occurs if there is wrong perception about the message. Rephrasing or asking questions to clarify and checking for understanding helps in reducing barrier due to perceptual differences.

iv. In attention

At times we do not listen, but only hear, especially when there are more important things to be taken care of. For instance, if a visitor comes to you at the same instance when you are answering the phone, then it is important to excuse yourself from the person on the phone so that exclusive attention can be given to the visitor or you may request the visitor to wait for some time.

Conclusion:

- Listening to others is an art.
- By Good listening reflects courtesy and good manners.
- Listening carefully to the instructions of superiors improve competence and performance. The result of poor listening skill could be disastrous in business, and employment
- Good listening can eliminate a number of imaginary grievances of employees.

Use the following checklist.

Part A

Role Play

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- (a) Differentiate between Sender, Message, Medium, Receiver and Feedback.

Part B

- (a) What is communication cycle?
(b) What are the different elements of communication cycle?
(c) How communication cycle is important in effective communication?

Performance standards

The performance standard covered by the assessment includes the following, but not limited to:		
Performance standards	Yes	No
Identify elements of communication cycle.		
Able to draw a diagram of communication cycle		

1.5 Summary

- Communication is a two-way activity that takes place between two or more people. Sending, giving or exchanging information and ideas are often expressed verbally and non-verbally. It is an important process through which facts, ideas, experiences and feelings are shared and exchanged.
- Effective communication takes place if both the sender and the receiver understand the exact information or idea which is being conveyed.
- Effective and timely communication promotes better relations with the customers.
- Self grooming, communicate effectively in a polite manner is a must for the customer facing staff of the Bank
- Communication in writing should have complete sentences
- Customer is the King. Make him feel like one.
- Effective communication is a must even in everyday life and we should be alert to barrier incommunication and do active listening

Key Words:

EffectiveCommunication

Etiquette

Grooming

Barriers to communication

Active listening

Practice, practice, practice

1.6 Self Test Questions

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1. Choose the correct option:

Exercise 2: Complete the following sentences using an appropriate word or phrase.

1. He attributed his good health to his _____ with nature.
 - a) communion
 - b) company
 - c) commitment
 - d) commi.-nication
2. She is _____ a career in writing.
 - a) keen on building
 - b) keen at building
 - c) keen for building
 - d) keen to building
3. They _____ him to prison for five years.
 - a) sent
 - b) are sent
 - c) send
 - d) were sent
4. Sometimes I wish..... , .
 - a) I had never been born
 - b) I have never born
 - c) I was never been born
 - d) I had never born
5. What _____ if the train had been late?
 - a) would you do
 - b) will you do
 - c) would you have did
 - d) would you have done
6. He _____ understood.
 - a) was not able to be
 - b) can't be
 - c) won't be

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- d) is not able to
7. After marching through the foothill for two days, we found ourselves _____ proper.
- a) at the bottom of the mountain
 - b) under the mountain
 - c) beneath the mountain
 - d) at the base of the mountain
8. She smiled _____
- a) in a friendly way
 - b) friendlily
 - c) a friendly way

Answers: 1 - a, 2 - a, 3 - a, 4 - a, 5 - d, 6 - b, 7 - d, 8 - a.
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- d) friendly

Complete the following using an appropriate clause or phrase. Choose your answers from the given options.

1. I want to know _____
- a) why is she angry with me
 - b) that she is angry with me
 - c) Either could be used here
2. If he had asked me, _____
- a) I would help him
 - b) I would have helped him
 - c) I will help him
3. She would have come _____
- a) if you invited her
 - b) if you had invited her
 - c) if you would invite her
4. We are looking forward to _____
- a) hear from you

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- b) hearing from you
c) Either could be used her~
5. No sooner did we hear the gunshots _____
a) when we rushed to the camp
b) than we rusheq to the camp
c) than we would rush to the camp
6. Would you mind _____?
a) moving a bit
b) by to move a bit
c) Either could be used here
7. She is very fond _____
a) of her grandchildren
b) with her grandchildren
c) Either could be used here
8. He enjoys _____ .
a) swimming in the sea
b) to swim in the sea
c) Either could be used here
9. She accused me _____
a) that J poisoned her dog
b) of poisoning her dog
c) about poisoning her dog
10. She is very confident _____
a) of winning
b) to win

Answers: 1 - a, 2 - b, 3 - b, 4 - b, 5 - b. 6 - a, 7 - a, 8 - a, 9 - b, 10 - a.

- c) Either could be used here

II. Fill in the blanks:

1. The sales person is expected to meet the standards for appearance and

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behaviour.

2. _____ the needs and expectations of the customer is important for developing relationship with customer.
3. The sales person should be trained to respond effectively to different customer _____.
4. The handshake is the universally accepted way of _____ people and introducing oneself in the business world.
5. _____ when you speak to the customers.
6. In India, _____ is the way to greet without touching the customer.
7. Be time conscious and stick to the rules of _____.
8. Time is precious, time is _____.

Answers: 1 - organizational, 2 - Meeting, 3 - needs, 4 - greetings, 5 - smile, 6 - Namaste, 6 - Credit risk, Liquidity risk and Interest rate risk, 7 - punctuality, 8 - money, 9 - behaviour

9. Organizational grooming is focused on _____.
1. Grooming Telephone and Work place
2. Etiquette Written communication
3. Complete Sentence Eye Contact
4. Barrier to communication Personal & Organisation

Answers: 1 - 4, 2 - 1, 3- 2, 4 - 5, 5 - 3.

5. Verbal communication Noise

IV. True or False:

1. Oral communication is a form of non-verbal communication
2. Written communication is a form of verbal communication
3. Body language is a form of non-verbal communication
4. Pointing fingers while talking is a good gesture of communication-

Answers: 1 - False, 2 - True, 3- True, 4 - True, 5 - True.

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5. Maintaining eye contact while talking or giving speech is a means of effective communication

V. Answer the following briefly

1. Explain why effective communication is important in the Banking environment?
2. What is verbal communication?
3. What is non verbal communication?
4. What are the elements of communication?
5. Explain the communication cycle

VI. Answer in detail:

1. What is Grooming and explain in detail?
2. What are the barriers to communication?
3. What are the ways to overcome barriers to communication?
4. Explain in detail the non verbal communication
5. What are the telephone etiquettes to be followed while answering the phone?

VII. Activities

1. Plan a visit to the nearest Bank branch and observe the way communication is carried with the customers?
2. Do a role play for communicating to the customer for the following:
 - Dealing with problems or complaints of customers
 - Dealing with an arrogant customer
 - Dealing with an alcoholic customer
 - Dealing with an angry customer
3. Play a game in which one team identifies the various non verbal ways of communication used by another person. Team with maximum points wins.