

**II Year Non Major Elective**

# **BANKING PRACTICES**

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**Unit III to V**

**Presented By**

**Dr.L.Satheeskumar,**

Assistant Professor,  
Department of Commerce,  
K.N. Govt. Arts College for Women (A),  
Thanjavur 613 007

## II Year

### NON- MAJOR ELECTIVE - I : BANKING PRACTICES

#### Unit III - ACCOUNT OPENING PROCEDURE

#### FORMS OF DEPOSITS

##### 1. Current Accounts : Special Features

- a. Convenience
- b. Collect the bills, drafts, cheques etc
- c. No charges
- d. Certain privileges:
  - i. Third party cheques with endorsement deposited in the current account
  - ii. OD Facilities
  - iii. The loans and advances granted

##### 2. Savings Accounts: Person Eligible to Open a Savings Account

1. Any individual or own behalf
2. More than one person
3. A minor
4. Secretaries, Treasurers, Manager or other officers of non-trading concerns
5. Trading concern

##### Features of Savings Account

1. Min. 500 Rs.
2. 25 withdrawals
3. Less min. Bal. Rs.10 service charges
4. Withdrawal exceeds
5. The amount exceeds
6. Savings interest  $\frac{1}{2}$  %

##### 3. Fixed Deposits Accounts / Receipts : Features

1. It's a negotiable instrument not transferred
2. it can assigned
3. Cheques cannot be drawn against FD receipts
4. Duly signed by the customer

5. If lost, money can be claimed by court's orders.
6. It made jointly by many persons
7. Limitation period

#### 4. Recurring Deposits

### OPENING OF CURRENT AND SAVINGS BANK ACCOUNTS

1. Application on the Prescribed Form
2. Introduction of the applicant

#### **Risk in opening accounts without proper introduction**

- a. The banker cannot avail of the Statutory protection
- b. Risk in case of overdrafts
- c. Risk in case of undischarged insolvent
- d. Risk in case of issue of Bogus(false) cheques

#### **Forms Used in the Operation of Account**

1. The pay-in-slip book
2. The cheque book, and
3. The pass book

### Difference between Savings Account Vs. Current Account

Sl. No.	Features	Savings Account	Current Account
1	Who prefers it	Salaried people	Business people
2	Privileges	Enjoys limited privileges such as collection of cheques, safe custody of valuables, etc	Enjoys more privileges
3	Withdrawal	Withdrawal is limited with regard to period and amount	No such limitation
4	Interest	Carries a nominal rate of interest	Usually does not carry any interest
5	Objectives	To promote thrift and banking habits	Business transaction
6	Minimum balance	Rs.500	Rs.1,000
7	Overdraft	Not available	Available
8	Reserves	No need to hold reserves in proportion to the volume of deposits	There is a need to hold reserves in proportion to the volume of deposits.

## **CLOSING OF A BANK ACCOUNT**

1. If a customer writing to close
2. Un operated account
3. Banker terminate the account
4. Death of a customer
5. Banker receives a notice regarding the insanity (lunatic) of his customer
6. Insolvent or liquidation
7. Garnishee order from the Court
8. Banker received notice to settle the amount to third party.

## **PROCEEDURES FOR OPENING A NEW ACCOUNT IN THE CASE OF SPECIAL CUSTOMERS**

### **I. MINOR**

#### **Precautions to be taken by a banker:**

1. Opening the account
2. Date of Birth
3. Loan to a Minor
4. Guarantees
5. Minor as a party to a negotiable instrument. Sec. 26
6. Minor as a partner. Sec. 30 (7)
7. Minor as an Agent
8. Minor as a Witness
9. Safe Custody Articles
10. Stock and Shares

### **II. MARRIED WOMEN**

#### **Precautions to be taken by a banker:**

1. Name and address of the husband
2. Operate the account only sufficient balance
3. Not grant an OD
4. Advance agreement with husband
5. Before granting loan or OD better for the banker to require her to sign a “**Free Will**” clause.

### **III. LUNATICS**

#### **Precautions to be taken by a banker:**

1. Not opening a/c – if knowing
2. Customer who was sane – when he knows immediately close the a/c
3. If banker suspending

### **IV. TRUSTEES**

#### **Precautions to be taken by a banker:**

1. Trust deed
2. Rights and duties of the trustees
3. The beneficiary and the extent of benefits due
4. Borrowing powers
5. Duration of the trustees
6. Identification of the trust property
7. The value of the trust properly
8. The loan granted – signed by all the trustees
9. Insolvency of the trustee – not affect his position
10. Letter of appointment before operate the account
11. Cheque drawn by trust must contain the seal of the trust
12. Specimen signature of the trustees

### **V. PARTNERSHIP FIRM**

#### **Precautions to be taken by a banker:**

1. Number of Partners
2. Title of firm's a/c
3. Opening of an account
4. The partnership letter or mandate
  - a. Name and address
  - b. Nature of business
  - c. Name of the partner who operate the a/c

5. Revocation(withdraw) of authority to operate the account
6. Delegation of authority
7. Cheque endorsed by a partner in his favour
8. Implied authority of a partner
9. Admission of a new partner
10. Insolvency of a partner
11. Retirement of a partner
12. Lunacy of a partner
13. Alterations in the constitution of a Firm

## **VI. JOINT STOCK COMPANIES**

### **Steps to be taken in opening an Account**

1. Certificate of incorporation – Registrar of Joint Stock Companies
2. Memorandum and Articles of Association copies
3. Certificate of commerce business from Registrar certifying
4. B/S and P&L a/c copies
5. Newly started companies look the Articles of Association
6. Resolution of the Board appointing

### **Precautions to be taken by a banker:**

1. The borrowing powers of the company
2. Provisions in the Company's Act, 1956 – Board of Directors
3. Delegation of powers
4. Ultra vires the Memorandum
5. Winding up – receiving the notice of resolution
6. Sec.125 of the Companies Act, 1956 gives a list of charges requiring registration

## Unit IV

### NEGOTIABLE INSTRUMENTS

#### **Define**

“A bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand”

#### **Features of a Cheque**

1. Instrument in writing
2. Contains an unconditional order
3. Drawn on a specific banker
4. Payee to be certain
5. A certain sum of money
6. Payable on demand
7. To be signed by the drawer(customer)
8. Cheque

#### **A banker and a Post-dated Cheque**

1. Not to honour a post-date cheque
2. To bear any loss as a result of honouring a post-date cheque
3. Has no authority to debit customer's account
4. Violation of customer's mandate
5. Loss of statutory protection
6. Liable to pay damages for wrongful dishonour
7. Marking or certification is not valid

#### **Different parts of a Cheque**

1. Place
2. Date
3. Payee
4. Amount
5. Signature
6. A/c No.

## **TYPES OF CHEQUES**

1. Bearer Cheque
2. Order cheque – certain person
3. Crossed cheque

## **CROSSING OF CHEQUE – TYPES OF CROSSING**

1. **General Crossing – two parallel, And Company, & Co., Not Negotiable, Payee's A/c, Under Rupees Fifty**

### **Significance of General Crossing**

- a. Effect of General crossing
  - b. Implication of general crossing
  - c. Liability if paid at the counter
  - d. Intention of crossing
2. **Special Crossing – Modern Bank Ltd. , Modern Bank Ltd. Not Negotiable, Modern Bank Ltd. Payees' A/c, Modern Bank Ltd. Not Negotiable A/c Payee**

### **Essential of Special Crossing**

- a. Two parallel transverse lines
- b. The name of a banker
- c. Left hand side, preferably on the corner
- d. “Not Negotiable”

### **Significance of Special Crossing**

- a. Direction to the paying banker
- b. Special crossed
- c. Special crossing – more protection

## **Persons authorized to cross a cheque**

1. Drawer
2. Holder
3. Banker

## **Not Negotiable Crossing - Meaning**

Section 130 of the Negotiable Instruments Act, 1881 which provides as follows

“A person taking a cheque crossed generally or specially, bearing in either case the words ‘not negotiable’, shall not have, and shall not be capable of giving, a better title to the cheque than that which the person from whom he took it had”.

## **Forms of Not Negotiable Crossing**

1. Not Negotiable & Co.,
2. Not Negotiable Modern Bank Ltd.,
3. Not Negotiable State Bank of India Ltd.,

## **Forms of Account Payee Crossing**

1. A/c Payee
2. & Co. A/c Payee
3. Modern Bank Ltd., Patel A/c
4. Income Tax Office

**Opening of Crossing** – the drawer has the right to cancel the crossing by writing the words “**Pay Cash**” and putting his full signature.

## **Advantages of Crossing**

1. If payment is made by means of a crossed cheque, receipt not be obtained.
2. The cheque are drawn can receive payment
3. Automatic record of the amount

## **M.I.C.R. Cheques/Drafts – Magnetic Ink Character Recognition**

The code line contains the following information

1. The first six numbers indicate the cheque Number
2. The next three numbers indicate the city code
3. The next three numbers indicate the bank code
4. The next three numbers indicate the branch code

**Stale Cheque** – not presented for payment within a reasonable time

**Mutilated Cheque** – damaged – not honour

**Marking of a Cheque** - not in India – Good for Payment

## **ENDORSEMENTS**

Sec. 15 of the Act defined endorsement as follows “when the maker or holder of a negotiable instrument signs the same otherwise as such maker for the purpose of negotiation, on the back or face thereof or on a slip of paper annexed thereto, or so signs for the same purpose a stamped paper intended as negotiable instrument he is said to endorse the same and is called the endorser”.

### **Requisites of valid Endorsement**

1. Signature
2. Place of endorsement
3. Allonge – additional slip of paper
4. Order of endorsement
5. Copies of a bill

### **Significance of Endorsement**

1. He had a good title to it
2. Genuine
3. Procedure must follow
4. Right of further negotiation

### **Legal effects on an Endorsement**

1. It transfers the property in the negotiable instrument (Sec. 50)
2. Recovery the amount
3. Holder right of further negotiating the bill

### **General Rules regarding the Forms of Endorsements**

1. Signature of the endorser
2. Spelling
3. No addition or omission of Initial of the name
4. Prefixes and Suffixes to be excluded
5. Endorsement by different parties

- a. Endorsement by women
- b. Endorsement by Illiterate person
- c. Endorsement by Firm
- d. Endorsement by Companies
- e. Endorsement by clubs and other non-trading association

## **KINDS OF ENDORSEMENTS**

1. General or Blank Endorsement – pay Vijay
2. Endorsement “In full” or special Endorsement – “Pay X or Order”, “Pay to the Order of X” and “Pay X”
3. Restrictive Endorsements Sec. 50 – “Pay to X only”
4. Conditional Endorsement Sec. 52 – Pay X if he returns from Mumbai
5. Endorsement ‘Sans Recourse’ –“Pay to X or Order at his Own Risk”
6. Facultative Endorsement – Pay to X or to his Order – notice of dishonour waived
7. San Frals Endorsement – Pay to Y-without expense
8. Partial Endorsement – part of amount
9. Forged Endorsement – invalid
10. Per pro Endorsement – authorised agent, prior information about the delegation of authority

## **Endorsement Liability**

1. Sec.35 of the negotiable instants act, every endorser is liable
2. 2 or more endorsement on the instrument – the liability of the endorser will be fixed in the order
3. Liability continue even after death till the instrument is paid
4. The endorser is liable, only if he is served with a notice of dishonour
5. Excluded by separate contract.
6. When the instrument is paid in due course, the endorser is relieved from his liability.

## UNIT V

### MODERN SERVICES

#### INTERNET BANKING

Many banks have their own websites that offer banking facilities on the Internet.

#### Prerequisites

1. A bank a/c in which Internet banking facility is activated.
2. User ID and password to log on to the Internet banking account.
3. Transaction password and ATM or debit card to transfer funds.
4. Internet connection for accessing the bank's website.

#### Services Available Internet Banking

1. View a/c bal. & statements
2. Transfer funds between a/c and mobile
3. Created deposits online
4. Request for a demand draft.
5. Pay utility bills or LIC
6. Order cheque books
7. Request stop payments on a cheque.
8. Manage Demat a/c
9. Refill a prepaid mobile card
10. Track dividends, int. r/d
11. Request for renewal and premature closure of FD

#### Benefits of Internet Banking

1. It is real time and gives details on customers' a/c
2. It can be accessed anytime, from anywhere, giving a complete control over customer's fin.
3. It does not involve customers to stand in queues
4. It is quick and saves time.
5. It is a secured service.

## **Safety Measures for Internet Banking**

### **For the Customer**

1. Not share user ID or password.
2. Avoid password in their name
3. Should combine alphanumeric with spl. character.
4. Must change password regularly.
5. Report any suspected misappropriation from their a/c

### **For the Banks**

1. Generate and despatch user ID and passwords separately.
2. Prohibit the employees of the bank to ask customers for their user ID and password.
3. Randomly verify or authenticate the customer's ATM or debit card number.
4. Maintain high level of security standards for websites.

### **The various services provided through Phone Banking**

1. Check a/c bal.
2. Enquire cheque status.
3. Request for a cheque book
4. Request for account statement
5. Record stop payment
6. Report the loss of ATM/ Debit/Credit cards.
7. Queries relate to loans and credit cards.
8. Information on bank products
9. Request for cash pick up
10. Make queries related to fixed deposits.
11. Make enquiries related to interest rates and Forex rates.

### **Drawbacks of Telephone Banking System**

1. Waste of Time
2. Disturbance to the Normal work
3. Loss of Privacy
4. Nervousness for the Customers
5. Frustrating PIN
6. Too mechanical
7. Customer Reluctances
8. Problems of Security and Confidentiality

### **MOBILE BANKING – Definition**

Mobile banking refers to the banking activities that are carried out on mobile (cell) phone. That is, banking is enabled, even while a person is on the move.

### **Features**

1. Mobile Customer
2. M-commerce
3. Technology-based
4. Type of services
5. Eligibility
6. Application

### **Essential Requirements**

1. Service is available only to an existing customer
2. Registration of mobile banking
3. Available for the Individual customer
4. Need for owning a mobile phone

### **Advantages of Mobile Banking**

1. Anytime Banking (24 x 7)
2. Mobile Banking is Free
3. Various banking services
4. Transfer of money
5. Secure banking
6. Low cost service

## **Disadvantages of Mobile Banking**

1. Need iphone
2. Needed internet connection
3. Security issues
4. English language only

## **RTGS**

Real-Time Gross Settlement (RTGS) is an online fund transfer mechanism provided by the RBI. RTGS facilitates fund transfer from one bank account to the other on real-time basis without any waiting time. Further, gross settlement emphasizes that the transaction is settled on one to one basis.

### **What are the advantages of RTGS fund transfer?**

1. An RTGS electronic fund transfer facilitates fund transfer on real time basis. In case of a holiday, the amount gets credited on the next working day.
2. RTGS could also be done offline by submission of the remittance form at the bank branch of the remitter.
3. RTGS avoids the cost involved in other instruments of fund transfer such as demand draft.
4. Fund transfer through RTGS involves comparatively lower remittance charges. Inward remittances are free of cost, while banks can charge a fee not exceeding Rs 30 for an outward remittance on transaction amount of Rs 2lac-5lac. For higher amounts, banks could charge a fee of Rs 55. Thus, RTGS is a safe and secure fund transfer mechanism and avoids risk of loss associated with cheques and demand draft that are used for fund transfer.

### **BOOKS FOR REFERENCE:**

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- ❖ Santhanam B, “Banking Theory Law & Practice”, Margham Publications, Chennai, 2018.