

CHAPTER 1

PRINCIPLES AND PRACTICES OF BANKING

BANK



A **bank** is a financial institution that accepts deposits from the public and provides loans and advances. It also offers various financial services such as money transfer, cheque facilities, ATM services, and safe custody of valuables. A bank collects money from people and lends it to individuals, businesses, and governments to promote economic activities.

FEATURES OF BANK

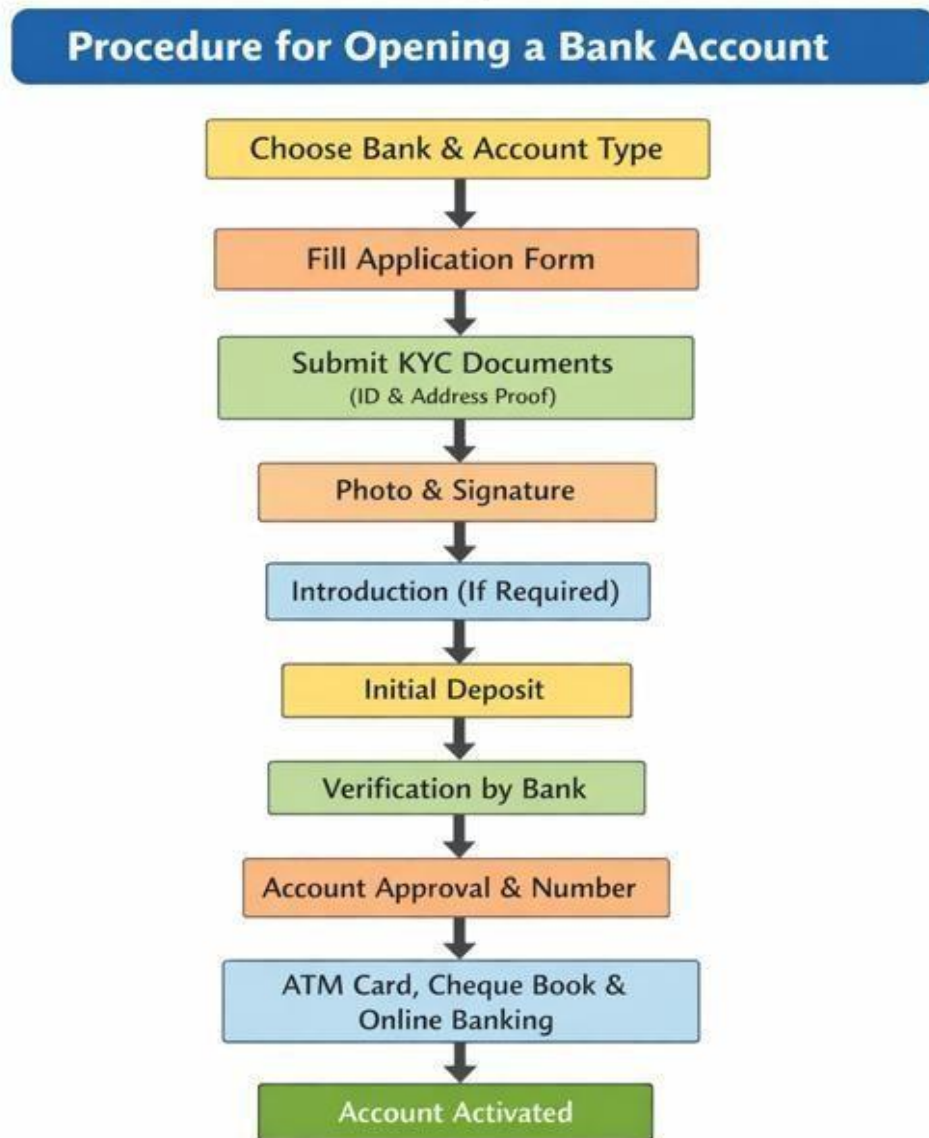
- a) A bank is a financial institution that deals with money and credit.
- b) It accepts deposits from the public in various forms like savings, current, and fixed deposits.
- c) It provides loans and advances to individuals, businesses, and governments.
- d) Banks create credit by lending money from deposited funds.
- e) They provide payment and money transfer facilities such as cheques, ATM, and online banking.
- f) Banks are profit-oriented institutions that earn through interest and service charges.
- g) Banks are regulated by the government and the Reserve Bank of India and contribute to economic development.

IMPORTANCE OF BANK

- a. **Promotes Saving Habit** Banks encourage people to save money by providing savings accounts and fixed deposits.
- b. **Provides Credit** Banks give loans to individuals, businesses, farmers, and industries for development.
- c. **Facilitates Payments** Banks help in easy money transfer through cheques, ATMs, online banking, UPI, and cards.
- d. **Supports Economic Growth:** By financing industries, trade, and agriculture, banks help in national economic development.
- e. **Creates Employment:** Banks provide jobs directly in banking and indirectly in industries and businesses.
- f. **Promotes Financial Inclusion:** Banks provide services to rural and poor people through schemes like Jan Dhan Yojana.

- g. **Ensures Safety of Money:** Banks keep money safe and provide locker facilities for valuables.

OPENING OF AN ACCOUNT IN THE BANK



- a. **Choosing the Bank and Account Type:** The customer first chooses a bank and the type of account like savings account, current account, fixed deposit, or recurring deposit according to their need.
- b. **Filling the Account Opening Form:** The bank gives an account opening form. The customer fills in personal details such as name, address, occupation, income, and nominee details.
- c. **Submitting KYC Documents:** The customer submits identity proof and address proof such as Aadhaar card, PAN card, voter ID, passport, or driving license as required by RBI rules.
- d. **Providing Photographs and Signature:** The customer gives passport-size photographs and signs on the form. The signature is used by the bank to verify transactions.

- e. **Introduction (If required):** In some cases, the bank may ask for an introduction from an existing customer or bank official to confirm the identity of the new customer.
- f. **Initial Deposit:** The customer deposits the minimum amount required to open the account. This amount depends on the type of account and bank policy.
- g. **Verification by Bank:** The bank checks all documents and customer details. Sometimes address verification or video KYC is done.
- h. **Opening of Account:** After verification, the bank opens the account and gives an account number to the customer.
- i. **Issuing Banking Facilities:** The bank provides ATM card, cheque book, passbook, and internet/mobile banking facilities to the customer.

TYPES OF BANK ACCOUNT:

A. SAVINGS ACCOUNT



A **Savings Account** is a type of bank account designed to promote savings among individuals by providing a safe place to deposit money. It offers interest on deposits while allowing limited withdrawals and payment facilities. Savings accounts are mainly opened by individuals, salaried persons, students, and small savers for personal financial management.

FEATURES OF SAVINGS ACCOUNT

- a. **Promotion of Savings:** Savings accounts encourage individuals to develop regular saving habits.
- b. **Interest Bearing Account:** Deposits in savings accounts earn interest as prescribed by the bank.
- c. **High Liquidity:** Funds can be withdrawn easily through ATM, cheque, or online banking.
- d. **Low Minimum Balance Requirement:** Banks generally require a low minimum balance compared to other accounts.
- e. **Safety of Funds:** Money deposited in savings accounts are protected by banking regulations.
- f. **Payment Facilities:** Account holders are provided with cheque books, debit cards, and digital banking services.

- g. **Suitable for Individuals and Small Savers:** Savings accounts are ideal for individuals, households, and small-scale savers.

B. CURRENT ACCOUNT



A **Current Account** is a type of bank account mainly opened by business firms, traders, and organizations to conduct frequent financial transactions. It allows unlimited deposits and withdrawals and is used for day-to-day business operations. Current accounts generally do not earn interest on deposits but provide high transaction flexibility.

FEATURES OF CURRENT ACCOUNT

- a) **Suitable for Business Use:** Current accounts are mainly opened by traders, firms, companies, and institutions.
- b) **No Interest on Deposits:** Banks usually do not pay interest on the balance maintained in current accounts.
- c) **High Liquidity:** Account holders can withdraw money any number of times without restrictions.
- d) **Overdraft Facility:** Banks may provide overdraft facilities to current account holders for short-term credit needs.
- e) **Cheque Facility:** Payments and receipts are mainly made through cheques, making business transactions easy.
- f) **High Minimum Balance Requirement:** Banks require a higher minimum balance compared to savings accounts.
- g) **Digital Banking Services:** Current accounts provide online banking, NEFT/RTGS, UPI, and other payment facilities.

C. FIXED DEPOSIT ACCOUNT



A **Fixed Deposit Account** is a bank account in which a fixed amount of money is deposited for a specified period at a predetermined rate of interest. The depositor cannot withdraw the amount before maturity without paying a penalty. Fixed deposit accounts are preferred by individuals who seek safety of funds and assured returns.

FEATURES OF FIXED DEPOSIT ACCOUNT

1. **Fixed Period:** Money is deposited for a specific period ranging from a few months to several years.
2. **Higher Rate of Interest:** Fixed deposits earn a higher rate of interest compared to savings accounts.
3. **Safety of Investment:** Fixed deposits are considered a safe investment as they are backed by banks.
4. **No Regular Withdrawals:** Withdrawals are allowed only after maturity, except in emergencies with penalty.
5. **Assured Returns:** The depositor receives a guaranteed return at the end of the deposit period.
6. **Loan Facility:** Banks provide loans or overdraft facilities against fixed deposit receipts.
7. **Suitable for Risk-Averse Investors:** Fixed deposit accounts are ideal for individuals who prefer low-risk and stable income.

D. RECURRING DEPOSIT ACCOUNT



A **Recurring Deposit Account** is a bank account in which a fixed amount of money is deposited regularly (monthly) for a specific period. It is designed to help individuals save systematically and earn interest on their savings. At the end of the maturity period, the depositor receives the total amount deposited along with interest.

FEATURES OF RECURRING DEPOSIT ACCOUNT

1. **Regular Monthly Deposits:** A fixed amount is deposited every month for a predetermined period.
2. **Promotes Saving Habit:** RD accounts encourage disciplined and systematic saving among individuals.
3. **Fixed Tenure:** The deposit period is fixed, usually ranging from 6 months to 10 years.
4. **Interest on Deposits:** Banks pay interest on the accumulated deposits, usually higher than savings accounts.
5. **Safe Investment:** Recurring deposits are considered safe as they are maintained with banks.
6. **Premature Withdrawal Facility:** Depositors can withdraw before maturity, but penalty charges may apply.
7. **Suitable for Small Savers:** RD accounts are ideal for students, salaried persons, and small income earners.

E. SPECIAL PURPOSE A/C

A **Special Purpose Account** is a bank account opened for a specific objective or scheme as prescribed by the government or bank. These accounts are designed to serve particular sections of society such as farmers, women, senior citizens, or low-income groups. They help in promoting financial inclusion and achieving social and economic development goals.

FEATURES OF SPECIAL PURPOSE ACCOUNT

1. **Specific Objective:** These accounts are opened for a particular purpose such as subsidies, pensions, or welfare schemes.
2. **Government Support:** Many special purpose accounts are linked with government schemes like subsidies and direct benefit transfers (DBT).
3. **Low or Zero Minimum Balance:** Most special purpose accounts require very low or no minimum balance to encourage poor and rural people to open accounts.
4. **Interest Benefits:** Some accounts provide interest on deposits, similar to savings accounts.
5. **Financial Inclusion:** They help bring unbanked people into the formal banking system.
6. **Special Facilities:** Account holders may receive benefits like insurance, overdraft facility, and RuPay debit cards.
7. **Target Group Oriented:** These accounts are designed for specific groups such as farmers, women, senior citizens, students, and low-income households.

F. MINOR A/C

A **Minor Account** is a bank account opened in the name of a person who is below 18 years of age. It is usually operated by a parent or legal guardian until the minor becomes a major. Minor accounts are opened to encourage saving habits and financial awareness among children.

FEATURES OF MINOR ACCOUNT

1. **Account for Children:** Minor accounts are opened for individuals below 18 years of age.
2. **Operated by Guardian:** The account is operated by a parent or legal guardian on behalf of the minor.
3. **Encourages Saving Habit:** It helps children develop the habit of saving from an early age.
4. **Interest on Deposits:** Banks pay interest on deposits similar to savings accounts.
5. **Restricted Operations:** There are limits on withdrawals and transactions to protect the minor's funds.
6. **No Overdraft Facility:** Banks generally do not provide overdraft or credit facilities to minors.
7. **Converted After Majority:** When the minor turns 18, the account is converted into a regular savings account.

G. DEMAT A/C

A **Demat Account (Dematerialized Account)** is an account used to hold shares and securities in electronic form instead of physical certificates. It is opened with a Depository Participant (DP) such as a bank or stockbroker and is mandatory for trading in the stock market. Demat accounts make buying, selling, and holding securities easy, safe, and paperless.

FEATURES OF DEMAT ACCOUNT

1. **Electronic Holding of Securities:** Shares, bonds, mutual funds, and other securities are stored in digital form.
2. **Mandatory for Trading:** A Demat account is compulsory for buying and selling shares in the stock market.
3. **Safe and Secure:** It eliminates the risk of theft, loss, and damage of physical share certificates.
4. **Easy Transfer of Securities:** Securities can be transferred quickly through electronic transactions.
5. **Reduced Paperwork:** It reduces paperwork and simplifies record keeping.
6. **Cost Effective:** It reduces stamp duty and handling costs compared to physical trading.

7. **Linked with Trading and Bank Account:** Demat accounts are linked with a trading account and bank account for seamless transactions.

H. SALARY A/C



A **Salary Account** is a special type of savings account opened by an employer for paying salaries to employees. The salary is directly credited by the employer into this account every month. It provides all the facilities of a savings account, often with additional benefits and zero minimum balance requirements.

FEATURES OF SALARY ACCOUNT

- Opened Through Employer:** Salary accounts are opened by companies for their employees in tie-up with banks.
- Zero Minimum Balance:** Most salary accounts do not require maintaining a minimum balance.
- Direct Salary Credit:** Monthly salary is directly credited by the employer into the account.
- Interest on Balance:** Banks pay interest on the balance similar to savings accounts.
- Debit Card and ATM Facility:** Account holders receive debit cards, ATM access, and cheque book facilities.
- Digital Banking Services:** Salary accounts provide internet banking, mobile banking, UPI, and fund transfer services.
- Additional Benefits:** Banks may offer extra benefits like insurance cover, personal loans, and credit card offers.

I. NON-RESIDENT A/C



A **Non-Resident Account** is a bank account opened in India by a person who resides outside India (Non-Resident Indian – NRI). It is used to manage income earned in India and abroad and to send money to India. NRI accounts are regulated by the Reserve Bank of India under FEMA guidelines.

FEATURES OF NON-RESIDENT ACCOUNT

1. **For Non-Resident Indians (NRIs):** These accounts are opened by Indians living or working outside India.
2. **Types of NRI Accounts:** There are three main types: NRE Account, NRO Account, and FCNR Account.
3. **Foreign Currency Facility:** Some NRI accounts allow deposits in foreign currency (especially FCNR accounts).
4. **Repatriation Facility:** Funds can be transferred back to the foreign country as per RBI rules.
5. **Interest Benefits:** NRI accounts earn interest, often tax-free in some cases (NRE and FCNR).
6. **Joint Account Facility:** NRIs can open joint accounts with resident Indians or other NRIs.
7. **Regulated by RBI:** These accounts are strictly regulated under Foreign Exchange Management Act (FEMA).

J. SENIOR CITIZEN A/C



A **Senior Citizen Account** is a special bank account designed for individuals aged 60 years and above. It provides higher interest rates and special benefits to encourage savings among senior citizens. This account helps elderly people secure their retirement income and meet financial needs easily.

FEATURES OF SENIOR CITIZEN ACCOUNT

1. **For Elderly Persons:** This account is available to individuals who are 60 years or above (55 in case of voluntary retirement schemes).
2. **Higher Rate of Interest:** Banks offer higher interest rates compared to regular savings and fixed deposit accounts.
3. **Special Deposit Schemes:** Senior citizens can invest in special schemes like Senior Citizen Savings Scheme (SCSS).
4. **Regular Income Facility:** Interest can be paid monthly, quarterly, or annually to provide regular income.
5. **Tax Benefits:** Senior citizens get tax benefits under Income Tax Act on interest income and investments.

6. **Premature Withdrawal Facility:** Deposits can be withdrawn before maturity with reduced penalty compared to normal deposits.
7. **Nomination Facility:** Account holders can nominate a person to receive the amount after their death.

BANK CUSTOMER



A **Bank customer** is a person or organization that uses the services of a bank, such as depositing money, taking loans, or using payment facilities. Customers include individuals, businesses, institutions, and government bodies that maintain accounts with banks.

DEFINITION OF BANK CUSTOMER

According to **CENTRAL BANK OF INDIA**, “A customer is a person who has the habit of resorting to the same place or person to do the business”.

TYPES OF BANK CUSTOMER

- a. **Individual Customers:** These are persons who open savings, salary, or fixed deposit accounts for personal use.
- b. **Business Customers:** Traders, firms, and small businesses who maintain current accounts and take business loans.
- c. **Corporate Customers:** Large companies and multinational corporations that use banks for corporate finance and transactions.
- d. **Institutional Customers:** Schools, colleges, hospitals, trusts, and NGOs that maintain accounts for institutional purposes.
- e. **Government Customers:** Central and State Governments that use banks for public finance and treasury operations.
- f. **NRI Customers:** Non-Resident Indians who live abroad and maintain NRI accounts in Indian banks.
- g. **Special Category Customers:** Minors, senior citizens, self-help groups, and farmers who have special banking schemes.

FUNCTIONS OF A BANK CUSTOMER

- a. **Opening and Operating Bank Account:** A bank customer opens and operates accounts such as savings, current, fixed deposit, or salary accounts.
- b. **Depositing Money:** Customers deposit money in banks for safekeeping and to earn interest.
- c. **Withdrawing Money:** Customers withdraw money through cheque, ATM, online banking, or bank branches for personal or business needs.
- d. **Using Credit Facilities:** Customers take loans, overdrafts, and credit facilities from banks for consumption and business purposes.
- e. **Making Payments and Transfers:** Customers use banking services for bill payments, fund transfers, and remittances through NEFT, RTGS, UPI, and cheques.
- f. **Investment Activities:** Customers invest in fixed deposits, recurring deposits, mutual funds, and government schemes through banks.
- g. **Availing Banking Services:** Customers use other services like locker facility, debit/credit cards, internet banking, and foreign exchange services.

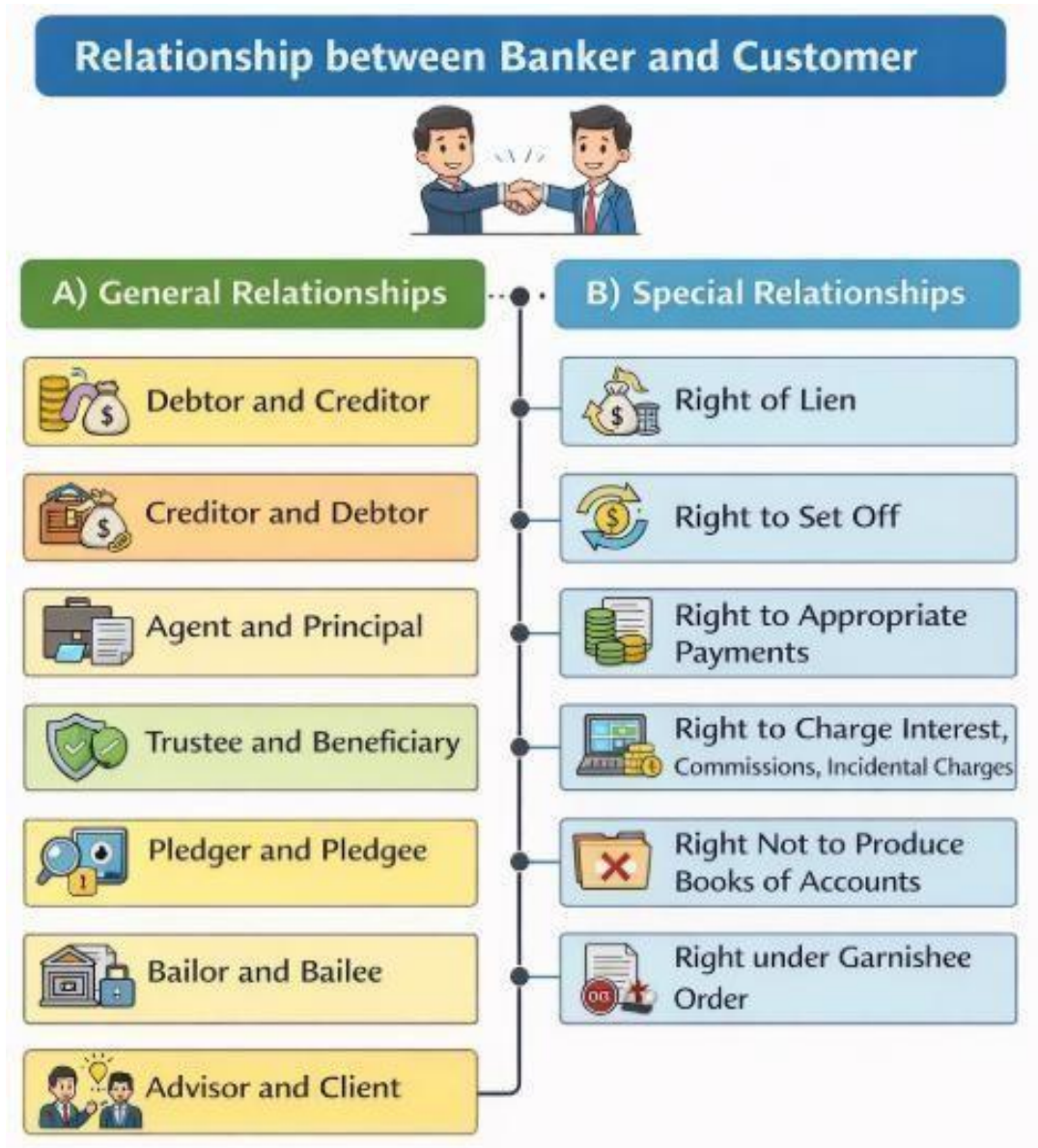
BANKER



A **Banker** is a person or financial institution that conducts the business of banking by accepting deposits from the public and providing loans and advances. In addition to these core activities, a banker offers various financial services such as money transfer, foreign exchange, investment advisory, and safe custody of valuables.

DEFINITION OF BANKER

ACCORDING TO ENGLISH LAW, “A banker is a person who carries on the business of banking which is specified as conducting current a/c for his customers, paying cheques drawn on him and collecting cheques for his customers”.

RELATIONSHIP B/W BANKER AND CUSTOMER**A) General Relationships**

1. Debtor and Creditor: When a customer deposits money in a bank, the bank becomes the debtor and the customer becomes the creditor because the bank must repay the money on demand. Example: If Ravi deposits ₹10,000 in SBI, SBI is the debtor and Ravi is the creditor.

2. Creditor and Debtor: When a bank gives a loan to a customer, the bank becomes the creditor and the customer becomes the debtor because the customer must repay the loan. Example: If SBI gives Ravi a loan of ₹1,00,000, SBI is the creditor and Ravi is the debtor.

3. Agent and Principal: A bank acts as an agent when it performs services like collecting cheques, paying bills, or transferring money on behalf of the customer. The customer is the principal. Example: If Ravi asks the bank to collect a cheque from another bank, the bank acts as his agent.

4. Trustee and Beneficiary: A bank becomes a trustee when it holds money or property for a specific purpose and must use it only for that purpose. The customer or another person is the beneficiary. Example: If money is kept in a trust account for a minor child, the bank is trustee and the child is beneficiary.

5. Pledger and Pledgee: When a customer gives goods or securities as security for a loan, the customer is the pledger and the bank is the pledgee. Example: If Ravi pledges gold for a loan, Ravi is pledger and the bank is pledgee.

6. Bailor and Bailee: When a customer deposits valuables in a bank locker or safe custody, the customer is the bailor and the bank is the bailee. Example: If Ravi keeps documents in the bank locker, Ravi is bailor and the bank is bailee.

7. Advisor and Client: Banks give financial advice to customers regarding investments, loans, and savings, so the bank acts as an advisor and the customer is the client. Example: If a bank suggests mutual funds to Ravi, the bank is advisor and Ravi is client.

B) Special Relationships (Rights of Banker)

1. Right of Lien: The bank has the right to keep a customer's goods or securities until the loan is repaid. Example: A bank can keep pledged shares until the borrower repays the loan.

2. Right of Set-Off: The bank can adjust money from one account of a customer to another account to recover dues. Example: If Ravi has a savings account and loan account, the bank can transfer money from savings to loan account.

3. Right to Appropriate Payments: The bank can decide how to use payments made by the customer when multiple debts exist, if the customer does not specify. Example: If Ravi pays ₹5,000 without instruction, the bank can decide which loan to adjust.

4. Right to Charge Interest, Commission and Incidental Charges: Banks can charge interest on loans and commission for services like cheque collection and money transfer. Example: A bank charges interest on personal loans and commission on demand drafts.

5. Right Not to Produce Books of Accounts: A bank is not required to show its books of accounts in court unless ordered by the court. Example: A bank cannot be forced by a customer to show account books without court order.

6. Right under Garnishee Order: When a court orders, the bank must stop payment to a customer and pay the money to the court or creditor. Example: If Ravi loses a case, the court can order the bank to transfer money from his account to the creditor.

CUSTOMER RELATIONSHIP



Customer relationship refers to the professional and legal relationship between a bank and its customers based on trust, mutual rights, and obligations. In banking, it involves providing financial services such as deposits, loans, and payment facilities while ensuring customer satisfaction and compliance with banking rules.

IMPORTANCE OF CUSTOMER RELATIONSHIP

- a. **Builds Trust and Confidence:** A good customer relationship creates trust and confidence between the bank and its customers.
- b. **Customer Satisfaction:** Strong relationships help banks provide better services and meet customer needs effectively.
- c. **Customer Retention:** Good relationships help banks retain existing customers and reduce customer switching.
- d. **Business Growth:** Satisfied customers bring more business through deposits, loans, and referrals.
- e. **Enhances Bank Reputation:** Positive customer relationships improve the bank's image and goodwill in the market.
- f. **Reduces Complaints and Disputes:** Effective communication and service reduce misunderstandings and legal disputes.
- g. **Promotes Financial Inclusion:** Good relationships encourage more people to use banking services, supporting financial inclusion and economic development.

TYPES OF CUSTOMER RELATIONSHIP

1. **Transactional Relationship:** This is a basic relationship where interactions are limited to financial transactions such as deposits, withdrawals, and payments. It is short-term and focuses only on completing specific banking operations.

2. **Relational Relationship:** This type builds a deeper connection between the bank and customer by understanding their financial needs, providing personalized services, and maintaining long-term engagement.
3. **Value-Based Relationship:** Banks focus on delivering added value through services like investment advice, wealth management, loans, and customized offers, aiming to enhance customer satisfaction and loyalty.
4. **Community-Based Relationship:** Banks develop relationships by engaging with the wider community through social initiatives, financial literacy programs, and supporting local economic development, strengthening goodwill and brand image.

BANK LENDING



Bank lending refers to the process by which banks provide funds to individuals, businesses, or governments with the expectation of repayment along with interest. It is one of the primary functions of banks and plays a vital role in promoting trade, industry, and economic growth.

PRINCIPLES OF BANK LENDING

- a) **Principle of Safety:** The primary principle of lending is that the bank should ensure the repayment of the loan. Loans must be given only to borrowers who are **creditworthy and reliable**.
- b) **Principle of Liquidity:** Banks should lend in a way that ensures the loan can be converted into cash when needed. They must maintain sufficient **liquidity** to meet their own obligations.
- c) **Principle of Profitability:** Loans should be granted in a manner that earns reasonable **interest and income** for the bank while balancing safety.
- d) **Principle of Purpose:** Loans should be given for **productive and specific purposes** like business, trade, agriculture, or personal needs. Banks must avoid lending for speculative or illegal activities.
- e) **Principle of Security:** Banks should ensure adequate **collateral or security** to protect themselves against defaults, especially for large loans.
- f) **Principle of Repayment:** Loans must be structured so that the borrower can **repay comfortably** through instalments, cash flows, or proceeds from the funded activity.

- g) Principle of Diversification:** Banks should **avoid concentrating loans** to a single borrower or sector to reduce risk and ensure a balanced loan portfolio.

5 C'S OF LENDING

- 1. Character:** This refers to the borrower's reputation, honesty, and financial behavior. Banks evaluate whether the borrower has a history of repaying debts responsibly.
- 2. Capacity:** Capacity is the borrower's ability to repay the loan based on income, cash flow, and business performance. It measures whether the borrower can meet repayment obligations comfortably.
- 3. Capital:** Capital refers to the borrower's own investment or net worth in the business or project. A higher personal stake indicates commitment and reduces risk for the bank.
- 4. Conditions:** Conditions include external factors like economic environment, industry prospects, regulatory policies, and purpose of the loan. Banks assess whether these factors support loan repayment.
- 5. Collateral:** Collateral is security offered by the borrower to protect the bank in case of default. It can include property, machinery, stocks, or other valuable assets.

TYPES OF LENDING

- a. **Cash Credits:** Cash credit is a short-term loan provided by a bank to a business to meet its working capital needs. The borrower can withdraw money up to an approved limit against security like stock or receivables.
- b. **Overdraft:** An overdraft allows a customer to withdraw more money than is available in their current account, up to a sanctioned limit. Interest is charged only on the amount overdrawn, not the full limit.
- c. **Discounting of Bills:** Bill discounting is when a bank pays the holder of a bill of exchange before its maturity date, minus a discount. It provides immediate funds to the business while the bank collects the payment later.
- d. **Clean Loans:** Clean loans are unsecured loans given by banks without requiring any collateral. They are granted based on the borrower's creditworthiness and repayment capacity.
- e. **Letter of Credit (LC):** A letter of credit is a bank's guarantee to pay a seller on behalf of the buyer, provided the seller meets the terms and conditions. It is commonly used in international trade to reduce payment risk.
- f. **Bank Guarantee:** A bank guarantee is a promise by a bank to pay a beneficiary if the customer fails to fulfill contractual obligations. It assures security for business transactions and contracts.

MODES OF CREATING A CHARGE

- i. **Express Charge:** An **express charge** is created explicitly through an agreement between the borrower and the bank. The terms and assets charged are clearly specified in writing.
- ii. **Implied Charge:** An **implied charge** arises automatically by the nature of the transaction, even if no formal agreement exists. It is recognized by law based on the circumstances.
- iii. **Statutory Charge:** A **statutory charge** is created by operation of law under specific statutes, giving the lender security over certain assets. Example: Charge under Companies Act on company assets for loan repayment.
- iv. **Equitable Charge:** An **equitable charge** is created by an agreement but does not transfer ownership of the asset to the lender. It gives the lender the right to enforce payment through a court in case of default.
- v. **Fixed Charge:** A **fixed charge** is created on specific assets such as land, building, or machinery. The borrower cannot sell or dispose of these assets without the lender's consent.
- vi. **Floating Charge:** A **floating charge** is created over a class of assets such as stock, inventory, or receivables, which may change over time. The borrower can deal with the assets in the ordinary course of business until the charge crystallizes on default.

LENDER SECURITY OVER FIXED AND FLOATING CHARGE

1. Fixed Charge: A fixed charge is a type of loan security where the lender has a claim on specific important assets of the borrower, like land, buildings, machinery, or vehicles. The borrower cannot sell or transfer these assets without the lender's permission. This protects the lender because if the borrower fails to repay the loan, the lender can take legal action to claim the asset. Fixed charges are usually used for big, long-term loans. Example: If a manufacturing company borrows money and uses its factory building as security, the bank has a fixed charge on the building until the loan is fully paid.

2. Floating Charge: A floating charge is a type of loan security over assets that keep changing, like inventory, stock, or receivables. The borrower can use, sell, or replace these assets during normal business operations. The charge becomes fixed only if the borrower defaults, goes bankrupt, or a specific event happens, giving the lender a claim on the assets. Example: A trading company borrows money and puts a floating charge on its inventory. The company can sell and restock items, but if it fails to repay the loan, the bank can claim the inventory.

LIEN

A lien is the right of a banker to retain a customer's property, securities, or goods in their possession until the customer fulfils their financial obligations, such as repayment of a loan or dues. It is a legal right of retention and does not transfer ownership to the banker; the customer remains the owner of the property. Liens are primarily used to protect the banker's interest, ensuring that the bank can recover its dues before releasing any pledged or deposited asset.

FEATURES OF LIEN

- a. **Right of Retention:** Lien gives the banker the legal right to retain a customer's property, securities, or goods until the dues or debts are cleared.
- b. **Ownership Remains with Customer:** The customer continues to own the property; the banker only has the right to hold it temporarily.
- c. **Purpose of Security:** The lien exists to protect the banker's financial interest and ensure repayment of loans or dues.
- d. **Automatic or Contractual:** A lien may arise automatically by law (statutory lien) or be expressly agreed between the banker and customer (contractual lien).
- e. **Limited to Possession:** The banker can exercise lien only over assets in their possession; they cannot claim property not held by them.
- f. **Right of Sale (in Some Cases):** In certain cases, if dues are not paid, the banker may have the right to sell the retained asset to recover the debt, subject to legal rules.
- g. **Applicable to Various Assets:** Lien can be exercised over cash, goods, securities, or documents of title, depending on the nature of the banking transaction.

TYPES OF LIENS

- a. **Particular Lien** – The banker can retain only the specific asset related to a particular transaction until dues for that transaction are paid.
- b. **General Lien** – The banker can retain all assets of the customer in the bank until all outstanding debts or dues are cleared.

- c. **Equitable Lien** – The banker has a right to retain the customer’s property by law or fairness, even if there is no written agreement.

PLEDGE



A pledge is a type of security in which a borrower (pledgor) delivers goods or movable property to a lender (pledgee) as collateral for a loan or debt. The ownership of the goods remains with the pledgor, but the pledgee has the right to retain and, in some cases, sell the goods if the debt is not repaid. Pledges are commonly used in banking to secure short-term loans, trade credits, or advances against goods.

FEATURES OF PLEDGE

- a) **Delivery of Goods:** In a pledge, the borrower (pledgor) delivers movable goods or property to the lender (pledgee) as security.
- b) **Purpose of Security:** The pledge is created to secure repayment of a loan or obligation.
- c) **Possession, Not Ownership:** The ownership remains with the pledgor, while the pledgee has the right to retain possession.
- d) **Right of Retention:** The pledgee has the right to hold the goods until the debt is repaid.
- e) **Right of Sale:** If the pledgor defaults, the pledgee can sell the goods to recover the loan amount.
- f) **Consent-Based Agreement:** Pledge arises through consent or agreement between the pledgor and pledgee.
- g) **Movable Property Only:** Only movable goods or property can be pledged, not immovable assets.

RIGHTS OF PLEDGOR (BORROWER)

- a) **Right to Redeem:** The pledgor has the right to **get back the pledged goods** after repaying the debt or fulfilling the obligation.
- b) **Right to Return Surplus:** If the goods are sold by the pledgee and the sale proceeds **exceed the debt**, the pledgor has the right to receive the **excess amount**.

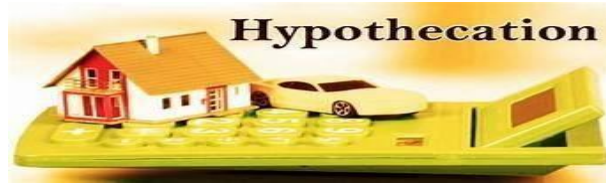
- c) **Right to Terminate Pledge:** The pledgor can **terminate the pledge** once the debt is repaid or by mutual consent.
- d) **Right to Information:** The pledgor can demand **information about the goods** or their condition while in possession of the pledgee.

RIGHTS OF PLEDGEE (LENDER)

1. **Right to Retain Goods:** The pledgee has the **right to keep possession of goods** until the debt or obligation is fully repaid.
2. **Right of Sale:** If the pledgor **defaults**, the pledgee can sell the pledged goods to recover the debt.
3. **Right to Receive Interest or Charges:** The pledgee can claim **interest, expenses, or charges** incurred for preserving or managing the pledged goods.
4. **Right to Sue:** The pledgee can **initiate legal action** if the pledgor fails to repay or if the goods are not returned after default.

PRECAUTIONS TO TAKE WHILE PLEDGING

1. **Proper Valuation of Goods:** Ensure the pledged goods are accurately valued so that the loan amount does not exceed their market worth.
2. **Written Agreement:** Always have a clear written agreement specifying the terms, loan amount, interest, and rights of both parties.
3. **Description of Goods:** Clearly describe the goods being pledged, including quantity, quality, and any distinguishing marks.
4. **Delivery of Goods:** Physically deliver the goods to the pledgee or arrange secure custody to avoid disputes.
5. **Insurance of Goods:** Consider insuring the goods against loss, damage, or theft while they are in pledgee's possession.
6. **Awareness of Rights:** Understand the rights of pledgor and pledgee, including redemption, sale, and retention of goods.
7. **Avoid Over-Pledging:** Do not pledge the same goods to multiple lenders unless allowed, to avoid legal complications.

HYPOTHECATION

Hypothecation is when a borrower offers movable assets like stock, machinery, or vehicles as security for a loan. In this case, the borrower keeps possession and ownership of the assets and can use them in normal business. The lender gets a legal claim over the assets and can take action if the borrower fails to repay the loan.

MERITS OF HYPOTHECATION

- a) **Retention of Ownership** – The borrower keeps ownership of the assets while using them as security for the loan.
- b) **Flexibility in Use** – The borrower can continue using the assets in normal business operations.
- c) **Easy to Arrange** – Hypothecation requires minimal paperwork and formalities compared to other securities.
- d) **Encourages Borrowing** – Businesses can obtain loans without giving up possession of their assets.
- e) **Low Cost** – Creating hypothecation involves minimal legal and administrative expenses.
- f) **Supports Short-Term Finance** – It is ideal for financing working capital like stock and receivables.

DEMERITS OF HYPOTHECATION

- a) **Higher Risk for Lender** – The lender faces more risk as they do not have possession of the assets.
- b) **Difficult to Enforce** – Legal action may be needed to recover dues in case of default.
- c) **Asset Depreciation Risk** – The value of movable assets may decline over time.
- d) **Possibility of Fraud** – The borrower may pledge the same asset to multiple lenders.
- e) **Limited Security** – Hypothecation is not suitable for long-term or high-value loans.

LETTER OF HYPOTHECATION:

A Letter of Hypothecation (LoH) is a formal document executed by a borrower in favor of a bank, confirming that certain movable assets, such as stock, machinery, or receivables, are hypothecated as security for a loan. It outlines the terms and conditions of the loan, the assets offered as security, and the rights of the bank in case of default. The letter serves as legal evidence of the hypothecation agreement and allows the bank to take necessary action if the borrower fails to repay the loan.

PRECAUTIONS WHILE EXECUTING A LETTER OF HYPOTHECATION

- a) **Clear Description of Assets** – The letter should clearly describe the movable assets being hypothecated, including quantity, quality, and distinguishing features.
- b) **Proper Valuation** – Assets should be accurately valued to ensure the loan amount does not exceed their market worth.
- c) **Written Agreement** – The LoH must be properly drafted in writing and signed by both parties to avoid disputes.
- d) **Specify Terms and Conditions** – The letter should clearly state the loan amount, interest rate, repayment schedule, and the bank's rights in case of default.
- e) **Borrower's Consent** – The hypothecation should be executed voluntarily by the borrower with full understanding of the terms.
- f) **Legal Compliance** – The document should comply with banking regulations and applicable laws to ensure enforceability.
- g) **Insurance of Assets** – Consider **insuring the hypothecated assets** to protect against loss, damage, or theft while they are pledged as security.

MORTGAGE



A mortgage is a legal arrangement in which a borrower (mortgagor) transfers or pledges immovable property such as land, building, or house to a lender (mortgagee) as security for a loan. The borrower retains possession or sometimes ownership, depending on the type of mortgage, while the lender has the right to recover the loan from the property in case of default. Mortgages are commonly used for long-term financing, like housing loans, commercial property loans, or agricultural loans.

FEATURES OF MORTGAGE

- a. **Security for Loan** – A mortgage is created to secure repayment of a loan or debt using immovable property.

- b. **Transfer or Pledge of Property** – The borrower either transfers ownership or pledges the property as security to the lender.
- c. **Immovable Property** – Only immovable assets like land, buildings, or houses can be mortgaged.
- d. **Legal Agreement** – A mortgage is always based on a written and legally enforceable agreement.
- e. **Right of Lender** – The lender has the right to recover the loan from the property in case of default by the borrower.
- f. **Repayment Obligation** – The borrower is obliged to repay the loan as per the terms agreed in the mortgage deed.
- g. **Possession** – Depending on the type of mortgage, the borrower may retain possession, or the lender may take possession until the loan is repaid.

TYPES OF MORTGAGES:

- a. **Simple Mortgage** – The borrower gives the property as security but continues to live in it; the lender can recover the loan only by selling the property. *Example:* Mr. A mortgages his house with a bank but keeps living in it while repaying the loan.
- b. **Mortgage by Conditional Sale** – The property is given to the lender and will be returned after repayment; if the borrower defaults, the lender keeps it. *Example:* Mr. B gives his land to a bank, which will be returned after he repays the loan, otherwise the bank keeps it.
- c. **Usufructuary Mortgage** – The lender gets possession and can earn income from the property until the loan is repaid. *Example:* A farmer mortgages his field to a bank, and the bank collects the crops until the loan is cleared.
- d. **English Mortgage** – The borrower transfers the property to the lender but will get it back after repayment. *Example:* Mr. C gives his shop to the bank as security and will get it back after paying the loan.
- e. **Mortgage by Deposit of Title Deeds (Equitable Mortgage)** – The borrower deposits property deeds as security while keeping possession. *Example:* Mrs. D deposits her flat's title deeds with a bank to get a loan but continues to live in the flat.
- f. **Reverse Mortgage** – The senior citizen receives money from the bank while staying in the property; the bank gets the property later. *Example:* Mr. E, a retired person, receives monthly payments from the bank on his house, and the bank gets the house after his death.

KYC (KNOW YOUR CUSTOMER)



KYC (Know Your Customer) is a process used by banks and financial institutions to verify the identity, address, and other personal details of their customers before opening accounts or providing financial services. It helps the bank prevent fraud, money laundering, and illegal transactions by ensuring that only genuine and verified customers can access banking facilities. KYC is mandatory under banking regulations and applies to all types of accounts, including savings, current, and investment accounts.

COMPONENTS OF KYC

- a. **Customer Identification** – Collecting official documents like Aadhaar, PAN card, passport, or voter ID to verify the customer’s identity.
- b. **Customer Due Diligence (CDD)** – Assessing the customer’s background, financial status, and transaction behavior to evaluate risk.
- c. **Customer Risk Profiling** – Classifying customers as low, medium, or high risk based on their occupation, source of income, and transaction patterns.
- d. **Ongoing Monitoring** – Continuously monitoring customer transactions to detect suspicious or unusual activities.
- e. **Record Keeping** – Maintaining accurate records of identity documents, transaction history, and verification details for regulatory compliance.

APPLICATIONS OF KYC:

- a. **Account Opening** – KYC is mandatory when opening savings, current, or fixed deposit accounts.
- b. **Loan Applications** – Banks verify customer identity and financial background before sanctioning personal, home, or business loans.
- c. **Credit and Debit Cards** – KYC is required to issue credit cards, debit cards, or prepaid cards.
- d. **Investment Services** – KYC is necessary for mutual funds, stocks, bonds, and other investment accounts.
- e. **Foreign Exchange Transactions** – KYC helps in verifying customers for remittances, currency exchange, and international transfers.

- f. **Insurance Policies** – KYC ensures the identity of policyholders while issuing life, health, or general insurance.
- g. **Preventing Fraud and Money Laundering** – KYC is used to monitor transactions and detect suspicious or illegal activities.

OBJECTIVES OF KYC

- a. **Prevent Fraud** – To protect the bank and its customers from identity theft, scams, and financial fraud.
- b. **Prevent Money Laundering** – To ensure that the bank is not used for illegal activities or laundering of black money.
- c. **Verify Customer Identity** – To confirm that the person opening an account or conducting transactions is a genuine and legitimate customer.
- d. **Assess Risk** – To classify customers as low, medium, or high risk based on their occupation, source of funds, and transaction patterns.
- e. **Regulatory Compliance** – To comply with legal and banking regulations, such as RBI guidelines in India.
- f. **Facilitate Transparency** – To maintain clear and documented records of all customers and their transactions.
- g. **Enhance Customer Trust** – By ensuring secure and verified banking services, banks can build trust and confidence with their customers.

DOCUMENTS TO BE VERIFIED

- a. **Proof of Identity (POI)** – Documents such as Aadhaar card, PAN card, passport, voter ID, or driving license to verify the customer's identity.
- b. **Proof of Address (POA)** – Documents like utility bills, bank statements, ration card, Aadhaar, or rental agreements to confirm the residential address.
- c. **Photograph** – A recent passport-size photograph of the customer for identification records.
- d. **Proof of Date of Birth** – Documents like birth certificate, PAN card, or passport to verify the customer's age, especially for accounts with age-specific criteria.
- e. **Signature Verification** – Specimen signatures or thumb impressions for future transaction authentication.
- f. **Business or Occupation Proof (for non-individuals)** – For companies or firms, documents such as Certificate of Incorporation, partnership deed, or business license.
- g. **Financial or Income Proof** – For certain accounts or loans, documents such as salary slips, income tax returns, or bank statements may be required.

KYC PROCESS

- a. **Customer Identification** – The bank collects official documents such as Aadhaar, PAN card, passport, or voter ID to verify the customer's identity.
- b. **Customer Due Diligence (CDD)** – The bank assesses the customer's background, financial status, occupation, and source of income to evaluate risk.
- c. **Risk Profiling** – Customers are classified as low, medium, or high risk based on factors like transaction patterns, occupation, and business type.
- d. **Verification of Documents** – The bank verifies the authenticity of identity, address, and financial documents submitted by the customer.
- e. **Ongoing Monitoring** – The bank continuously monitors customer transactions to detect any suspicious or unusual activity.
- f. **Record Keeping** – The bank maintains accurate records of all customer documents, verification reports, and transactions for regulatory compliance.

TYPES OF KYC

- a. **Simplified KYC** – A basic verification process used for **low-risk customers** or accounts with small deposits, requiring minimal documentation. *Example:* Opening a small savings account with basic ID and address proof.
- b. **Regular/Full KYC** – A detailed verification process for **normal or high-risk customers**, involving full identity, address, and financial verification. *Example:* Opening a current account for a business with PAN, Aadhaar, address proof, and business registration documents.
- c. **Enhanced Due Diligence (EDD)** – A thorough verification for **high-risk customers or large transactions**, involving background checks, source of funds, and monitoring. *Example:* Opening a foreign remittance account or accounts for politically exposed persons (PEPs).
- d. **Digital KYC (e-KYC)** – Verification done **online using digital methods** such as Aadhaar-based OTP, video verification, or biometric authentication. *Example:* Opening a savings account through a bank's mobile app using Aadhaar e-KYC.

NON-COMPLIANCE OF KYC

- a. **Account Restrictions** – The bank may restrict transactions or freeze the account until KYC is completed.
- b. **Loan Denial** – Customers who have not completed KYC may not be eligible for loans or credit facilities.

- c. **Penalties for Bank** – Banks failing to comply with KYC regulations can face fines or legal action from regulatory authorities like the RBI.
- d. **Risk of Fraud** – Non-compliance increases the risk of money laundering, identity theft, and financial fraud.
- e. **Closure of Account** – Persistent failure to complete KYC may **result in permanent account closure** by the bank.

NON-PERFORMING ASSET



NPA (Non-Performing Asset) refers to a loan or advance granted by a bank or financial institution on which the borrower fails to pay interest or principal for a specified period, usually 90 days or more. In simple terms, an asset becomes non-performing when it stops generating income for the bank because the borrower is unable or unwilling to meet the repayment obligations. NPAs affect the profitability and financial health of banks and are closely monitored by regulatory authorities like the RBI.

IMPACT OF NON-PERFORMING ASSET

- a) **Profitability** – NPAs reduce the interest income of banks, directly affecting profits and increasing the cost of operations.
- b) **Asset Contraction** – The value of non-performing assets is written down or provisioned, shrinking the bank's total asset base.
- c) **Liability Management** – Banks may face difficulties in raising funds or managing deposits due to reduced income and higher risk.
- d) **Capital Adequacy** – NPAs weaken the bank's capital, requiring higher provisions and impacting compliance with regulatory capital requirements.
- e) **Shareholders' Confidence** – Rising NPAs reduce investor confidence, lowering share prices and affecting market valuation.
- f) **Public Confidence** – NPAs harm the bank's reputation, leading to reduced trust among depositors and the public.

CAUSES OF OVERDUE OF NON-PERFORMING ASSET

Financial Difficulties of Borrower – Borrowers may face cash flow problems, losses, or unemployment, which reduces their ability to repay loans on time.

- a. **Poor Credit Appraisal by Bank** – If the bank fails to properly assess the borrower's creditworthiness, income, and repayment capacity, risky loans may be sanctioned.
- b. **Diversion of Loan Funds** – Borrowers may misuse the loan amount for non-productive purposes instead of the intended business or project, leading to repayment problems.
- c. **Inefficient Business Management** – Poor planning, lack of skills, or mismanagement in business operations can result in low profits and inability to repay loans.
- d. **Economic and Market Conditions** – Economic slowdown, inflation, market competition, or changes in government policies can negatively affect the borrower's income and repayment capacity.
- e. **Wilful Default** – Some borrowers deliberately avoid repayment even though they have the capacity to pay, which increases overdue loans.
- f. **Legal and Procedural Delays** – Delays in obtaining court orders, legal enforcement, or recovery procedures can extend the time for repayment, causing loans to become overdue.
- g. **Weak or Inadequate Collateral** – If the security provided is insufficient or of low value, banks may face difficulty recovering dues in case of default, leading to NPAs.
- h. **Political and Social Pressure** – Borrowers sometimes exploit political influence or social obligations to delay repayment, affecting the bank's recovery process.
- i. **Natural Calamities or Disasters** – Floods, earthquakes, or other unforeseen events can disrupt the borrower's business or income, making it difficult to repay loans on time.

PROBLEMS OF DEBT RECOVERY

- a. **Wilful Default by Borrowers** – Some borrowers intentionally do not repay loans even though they have the financial capacity to pay, making recovery difficult.
- b. **Legal and Procedural Delays** – Court cases, legal formalities, and lengthy recovery procedures delay the process of debt recovery for banks.
- c. **Weak or Inadequate Collateral** – If the security provided is insufficient or loses value, banks cannot recover the full loan amount.
- d. **Economic and Business Uncertainty** – Economic slowdown, market fluctuations, and business failures reduce the borrower's ability to repay loans.
- e. **Poor Credit Appraisal and Monitoring** – Inadequate assessment of borrowers and lack of continuous monitoring led to granting loans to risky customers.

- f. **Political and Social Pressure** – Political influence and social considerations may prevent banks from taking strict recovery actions against certain borrowers.

PROCEDURE TO DEBT RECOVER

- a. **Identification of Default** – The bank first identifies borrowers who have failed to repay interest or principal on time and classifies the account as overdue or NPA.
- b. **Issue of Reminder and Demand Notice** – The bank sends reminder letters and formal demand notices requesting the borrower to repay the outstanding amount.
- c. **Personal Contact and Follow-Up** – Bank officials personally contact the borrower, visit the business or residence, and negotiate for repayment or restructuring of the loan.
- d. **Initiation of Legal Action** – If the borrower does not respond, the bank may file a legal case under laws like SARFAESI Act or approach debt recovery tribunals.
- e. **Sale of Assets** – The bank may seize and sell the pledged or mortgaged assets to recover the outstanding loan amount.
- f. **Closure of Account** – After recovery of dues or settlement, the bank closes the loan account and updates records.

DEBT RECOVERY TRIBUNAL



The Debt Recovery Tribunal (DRT) is a specialized judicial body established in India to handle cases related to the recovery of debts by banks and financial institutions. It was created under the Recovery of Debts and Bankruptcy Act, 1993 (earlier called the Recovery of Debts Due to Banks and Financial Institutions Act, 1993) to ensure speedy and efficient resolution of loan recovery cases. DRTs reduce the burden on civil courts and provide a faster legal mechanism for banks and financial institutions to recover non-performing assets (NPAs) and outstanding loans from borrowers.

FUNCTIONS OF DEBT RECOVERY TRIBUNAL:

1. **Recovering Bank Loans:** DRT helps banks and financial institutions to recover unpaid loans from borrowers.
2. **Hearing Debt Cases:** It listens to disputes between banks and borrowers related to loan repayment.

3. **Giving Recovery Orders:** After deciding a case, DRT gives an order to recover money from the borrower.
4. **Taking Borrower's Property:** It can allow banks to take and sell mortgaged property or assets to recover the loan amount.
5. **Helping in Settlement:** DRT encourages banks and borrowers to settle the case by mutual agreement.
6. **Handling SARFAESI Complaints:** It hears complaints from borrowers against bank actions under the SARFAESI Act.
7. **Speedy Justice:** DRT provides faster decisions and reduces the burden on regular courts.

CORPORATE DEBT RESTRUCTURING



Corporate Debt Restructuring (CDR) is a system introduced in India to help financially weak companies repay their loans by changing the terms and conditions of their debt. It allows banks and financial institutions to restructure corporate loans by reducing interest rates, extending repayment periods, or converting debt into equity. The main aim of CDR is to revive sick companies, reduce non-performing assets (NPAs), and protect the interests of both lenders and borrowers.

OBJECTIVES OF CORPORATE DEBT RESTRUCTURING (CDR)

- a) To revive financially troubled companies.
- b) To reduce NPAs of banks and financial institutions.
- c) To improve the repayment capacity of corporate borrowers.
- d) To protect the interests of lenders and investors.
- e) To avoid liquidation of companies.

SARFESI ACT 2002



SARFAESI Act, 2002 stands for Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002. It is an Indian law that allows banks and financial institutions to recover their loan money without going to court by taking possession of the borrower's secured assets like land, buildings, or machinery.

FUNCTIONS OF SARFESI ACT 2002

- a) **Seizure of Secured Assets:** Banks can take possession of property or assets given as security when the borrower fails to repay the loan.
- b) **Sale of Assets:** Banks can sell the seized assets to recover the outstanding loan amount.
- c) **Issuing Notice to Borrower:** Banks must give a **60-day notice** to the borrower before taking action.
- d) **Securitisation of Financial Assets:** Banks can convert loans into marketable securities and sell them to investors.
- e) **Role of Asset Reconstruction Companies (ARCs):** ARCs can buy bad loans from banks and recover money from borrowers.
- f) **Borrower's Right to Appeal:** Borrowers can file a complaint against bank action in the Debt Recovery Tribunal (DRT).
- g) **Reducing NPAs:** The Act helps banks reduce Non-Performing Assets and improve financial stability.

CHAPTER-2

THE NEGOTIABLE INSTRUMENT ACT 1881

INTRODUCTION:

The word negotiable means ***transferable by delivery*** and the word instrument means ***a written document by which a right is created in favour of some person***. Thus the term negotiable instrument means ***written document transferable by delivery***.

The Negotiable Instrument Act 1881 came into force on 1st March 1882.

MEANING OF NEGOTIABLE INSTRUMENT:

A Negotiable Instrument is a written document that represents money or some other form of value and can be transferred from one person to another in exchange for payment. It creates a legal obligation on the part of the issuer to pay the holder of the instrument.

Meaning: Negotiable Instrument is a transferable, signed document that promises to pay to a certain person or to the bearer of the instrument, a certain sum of money at a future date or on demand. Examples: Cheque's, Bills of exchange and Promissory notes.

Definitions: According to Section 13 (a) of the Negotiable Instruments Act 1881, "Negotiable instrument means a promissory note, bill of exchange or cheque payable either to order or to bearer, whether the word "order" or "bearer" appear on the instrument or not."

CHARACTERISTICS OR FEATURES OF NEGOTIABLE INSTRUMENTS

1. Writing:

One of the conditions for a negotiable instrument to be valid is that it must be in writing. This rule is followed to ensure that the terms of the instrument are clear and legally binding.

2. Signature:

The instrument must be signed by the maker (for promissory notes) or the drawer (for bills of exchange or cheques). The signature serves as proof of authenticity and indicates the commitment of the party to fulfill their obligations under the instrument.

3. Definite and Unconditional Order or Promise to Pay:

A negotiable instrument is that must contain a definite and unconditional order or promise to pay a certain sum of money. This means that the instrument must clearly state the amount of money to be paid, the person or entity to whom it is payable, and the time or conditions under which payment is to be made.

4. Payment by Money:

One of the requirements for a negotiable instrument is that payment must be made in terms of legal tender money, and not in kind or through the performance of work. This means that the instrument must specify a certain sum of money to be paid, and that payment must be made in cash or its equivalent.

5. Certain Sum:

A negotiable instrument is that the sum payable must be certain or capable of being made certain, and not indefinite. This means that the instrument must specify a definite amount of money to be paid, or provide a method for determining the amount.

6. Drawer's Identity:

One of the requirements for a bill of exchange or cheque to be considered a negotiable instrument is that the instrument must clearly identify the person who is issuing the instrument and who will be responsible for making payment.

7. Transferability:

A negotiable instrument must be transferable by delivery or by endorsement and delivery. This means that the instrument must be capable of being transferred from one person to another in a way that is legally recognized.

8. Holder in Due Course:

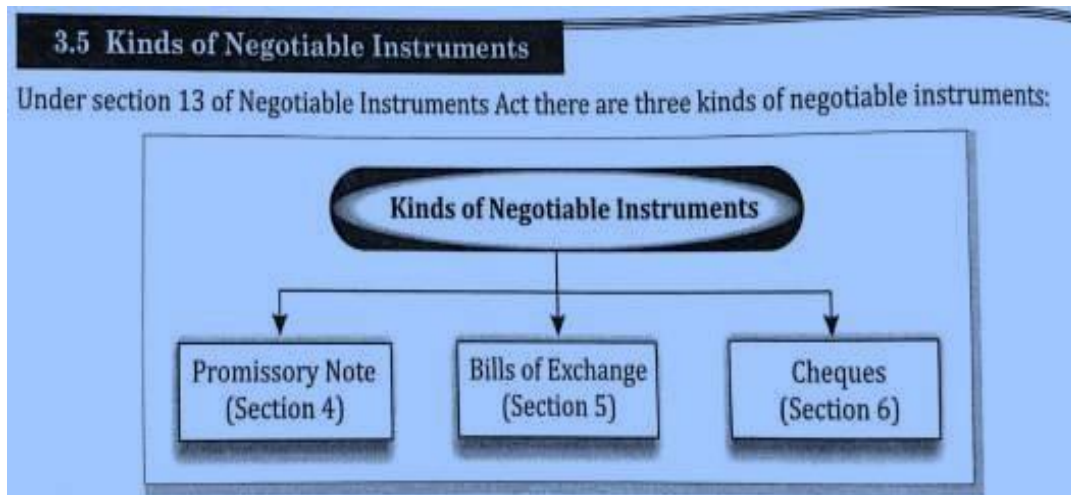
A special feature of negotiable instruments is the concept of "Holder in Due Course." A person who receives the instrument for value, in good faith, and without notice of any defect in title gets a better right over it. Even if there was a defect in the previous holder's title, the holder in due course can claim the amount.

9. Presumptions under Law:

Negotiable instruments enjoy certain legal presumptions. For example, it is presumed that the instrument was made for consideration, that it was drawn on the date mentioned, and that it was transferred before maturity. These presumptions make legal enforcement easier unless proved otherwise.

10. Easy Negotiation:

A negotiable instrument can circulate in the market like money. It passes from one person to another easily and is widely accepted in business transactions, which increases its usefulness.

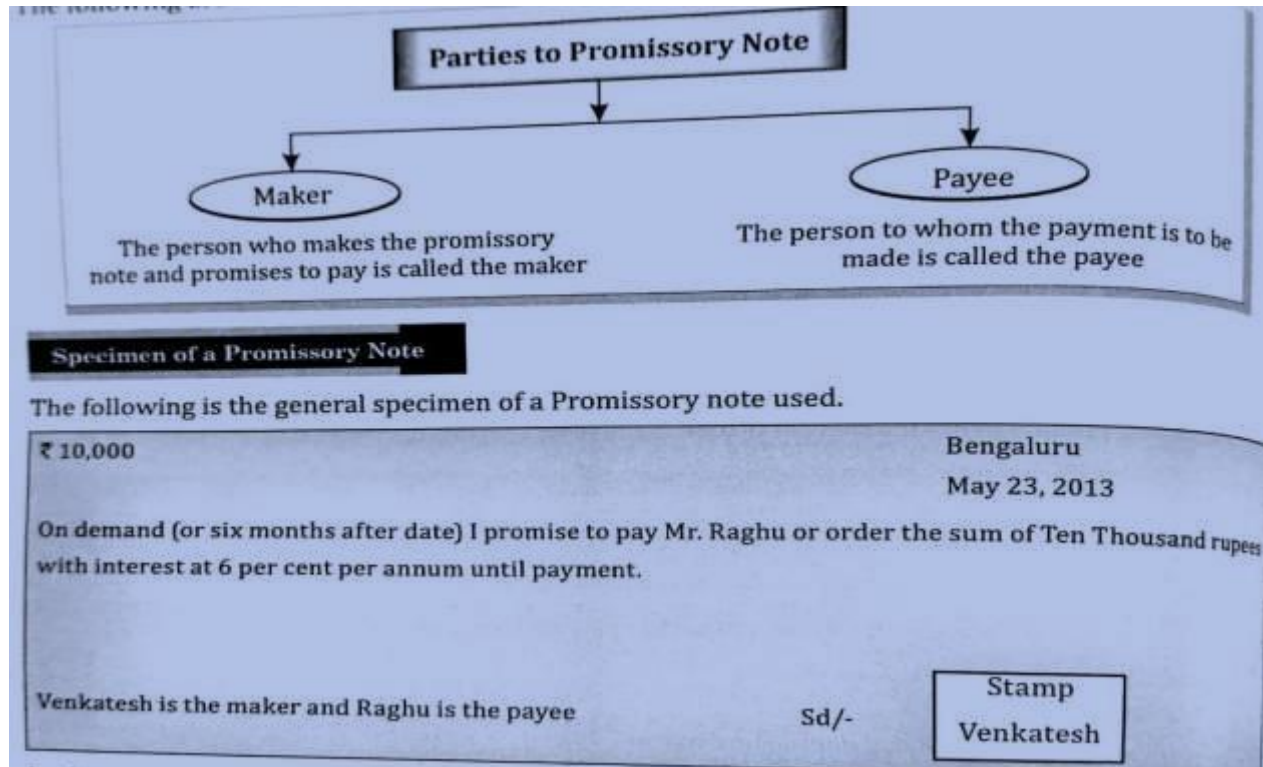


1. PROMISSORY NOTE

Promissory note is a written and signed document that contains an unconditional promise by one party (the maker) to pay a specific sum of money to another party (the payee) at a future date or on demand.

Definition of Promissory Note:

According to Section 4 of Negotiable Instrument Act, 1881, “A promissory note is an instrument in writing containing an unconditional undertaking signed by the maker to pay certain sum of money only to, or to the order of a certain person, or to the bearer of the instrument”.



THE MAIN CHARACTERISTICS OF A PROMISSORY NOTE:

1. *Written and Signed Instrument:*

A promissory note must be a written document. It can't be a verbal agreement or promise. The maker of the note, the person who owes the money, must also sign the document. The written form ensures clarity of terms and avoids misunderstandings, while the signature makes the maker legally bound to repay the amount mentioned in the note.

2. *Promise to Pay:*

The note must include an explicit promise to repay the money. It's not enough to simply acknowledge the debt; the maker must clearly state their intention to repay it. This clear promise creates a legal obligation and shows that the maker accepts full responsibility for payment.

3. *Payable to a Specific Person:*

The promissory note is payable to a specific person or to the order of a specified person. This person is known as the payee. Clearly mentioning the payee ensures that the right to receive payment is certain and prevents confusion or disputes about who is entitled to the money.

4. *Unconditional Payment:*

The payment must be unconditional. If it is subject to conditions, then it is not a valid promissory note. An unconditional promise ensures that payment does not depend on any uncertain event and guarantees certainty of payment.

5. Fixed Amount:

The note must state a precise amount of money that will be paid. It can't be a range or an estimate. A definite amount avoids ambiguity and ensures that both parties clearly understand the exact financial obligation.

6. Payment in Legal Currency:

The amount must be payable in legal tender, not in kind of goods or services. This ensures that the payment is recognized by law and can be legally enforced in a court if necessary.

7. Payable on Demand or at a Determinable Future Time:

A promissory note can be payable on demand or at a determinable future time. This means the note must clearly mention when the payment is due, so that there is certainty regarding the time of repayment.

8. No Requirement for Acceptance:

Unlike a bill of exchange, a promissory note does not require acceptance by another party. This is because the maker himself makes the promise to pay, and therefore no further approval is needed to make it legally valid.

9. Transferability

A promissory note is transferable from one person to another. If it is payable to order, it can be transferred by endorsement and delivery. If it is payable to bearer, it can be transferred by mere delivery. This feature makes it easy to use in business transactions, as the holder can transfer the right to receive payment to someone else.

10. Maker's Signature

A promissory note must be signed by the maker (the person who promises to pay). The signature is very important because it shows the maker's consent and acceptance of liability. Without the maker's signature, the promissory note is not valid. The signature acts as proof that the maker is legally responsible to pay the amount mentioned in the note.

11. Legality and Enforceability

A promissory note must be made for a lawful consideration and lawful purpose. It should not be for illegal activities. If all legal requirements are fulfilled, the holder has the legal right to enforce payment through a court of law in case of non-payment. This makes the promissory note a legally binding and enforceable document.

PROCEDURE OF PROMISSORY NOTE:

1. Drafting the Promissory Note

The first step in the procedure is drafting the promissory note in writing with all necessary details clearly mentioned. It must state the amount borrowed, the date of issue, the name of the payee, and the time of repayment. The terms of repayment, such as interest rate (if any) and due date, should be properly specified to avoid any confusion in the future. Proper drafting ensures that the document is clear, legally valid, and free from ambiguity or misunderstanding between the parties.

2. Writing an Unconditional Promise

The promissory note must contain a clear and unconditional promise to pay a certain sum of money. The promise should not depend on any uncertain event or condition, as conditional promises make the note invalid. It is not enough to merely acknowledge that money is owed; there must be a definite commitment to repay it. This unconditional promise creates a binding legal obligation on the maker to pay the stated amount.

3. Mentioning the Parties

The names of both the maker and the payee must be clearly mentioned in the promissory note. The maker is the person who promises to pay, and the payee is the person who is entitled to receive the payment. Proper identification of the parties prevents disputes and confusion regarding the rights and responsibilities under the instrument. Clearly mentioning the parties also ensures that the note can be legally enforced in case of default.

4. Signing by the Maker

The promissory note must be signed by the maker to make it valid and enforceable. The signature indicates the maker's consent and acceptance of liability for repayment. Without the signature, the document has no legal value and cannot be treated as a valid promissory note. The signature acts as evidence in court that the maker has agreed to the terms mentioned in the note.

5. Delivery to the Payee

After the note is drafted and signed, it must be delivered to the payee. Delivery is essential because the instrument becomes complete only when it is handed over to the payee. Until delivery, the promissory note has no legal effect even if it is properly written and signed. Once delivered, the payee obtains the legal right to claim the amount mentioned in the note.

6. Payment on Due Date

The maker is required to make payment either on demand or on the specified future date mentioned in the note. If the note is payable on demand, the payee can ask for payment at any time. If it is payable at a fixed future time, the maker must pay on the maturity date. Timely payment discharges the maker from liability and completes the transaction.

7. Dishonour of Promissory Note

A promissory note is said to be dishonoured when the maker fails to pay the amount on demand or on the due date. Dishonour may occur due to refusal to pay or inability to pay the amount. In such cases, the payee has the legal right to file a suit against the maker to recover the money along with interest and other expenses. Dishonour damages the credibility of the maker and may also affect his financial reputation.

BILL OF EXCHANGE

Meaning of bill of exchange:

Bill of exchange is an instrument writing containing an unconditional order, signed by the maker (drawer) directing a certain person to pay a certain sum of money only to, or order of a certain person, or to the bearer of the instrument.

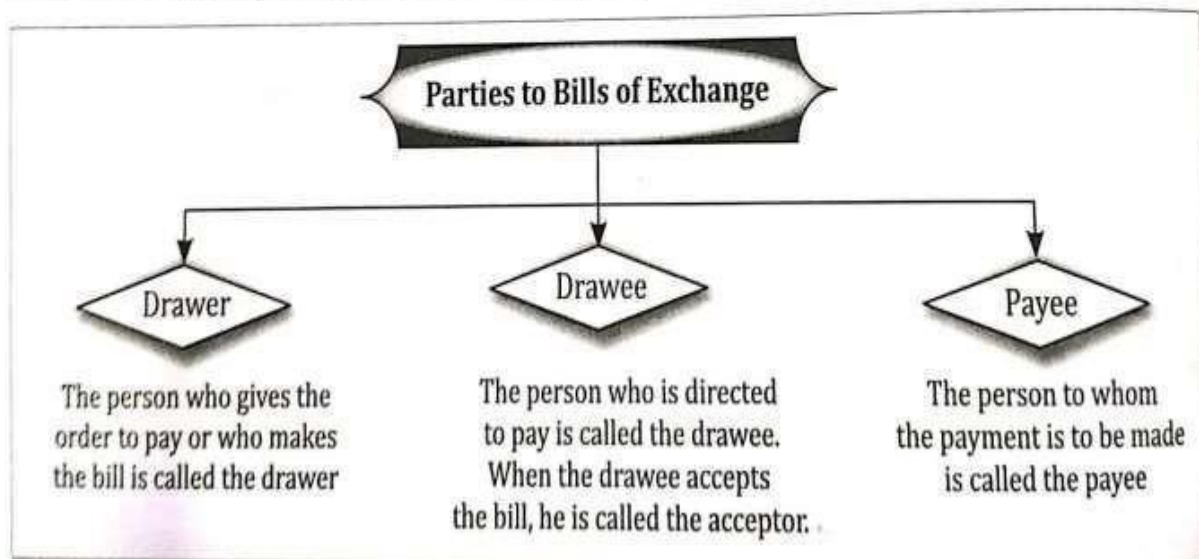


Definition: Bill of Exchange

As per Section 5 of Negotiable instrument act 1881, 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

Parties to Bills of Exchange

There must be three parties to the bill of exchange i.e., Drawer, Drawee and Payee.



Specimen of Bills of Exchange:

Bills of Exchange	
<div style="border: 1px solid black; width: 40px; height: 20px; margin: 0 auto; text-align: center; padding: 2px;">Stamp</div>	
Amount: \$ 50,0000	Date: 01 Jan 202X
Term: one month after the date pay to Mr. A or order the sum of \$ 50,000, for value receive.	
Accepted (Signed) Drawee name & address	Drawer (Signed) Drawer name & address

Features of Bill of Exchange:**1. It must be in writing:**

A bill of exchange must always be in written form, whether handwritten, typed, or printed, because a written document provides clear legal proof of the transaction between the parties. An oral or verbal order to pay money cannot be treated as a valid bill of exchange since it lacks documentary evidence and legal enforceability. Therefore, writing is an essential requirement to ensure clarity, certainty, and authenticity of the instrument.

2. It must contain an order to pay:

A bill of exchange must contain a clear, definite, and unconditional order to pay a specified sum of money. The instruction given by the drawer to the drawee should be mandatory and not a mere request, suggestion, or expression of desire. If the order is conditional or uncertain, the document will not qualify as a valid bill of exchange.

3. It must be signed by the drawer:

The bill of exchange must be signed by the drawer, who is the person making the order to pay the amount. The signature confirms the authenticity of the document and shows that the drawer accepts responsibility for issuing the bill. Without the signature of the drawer, the instrument has no legal validity and cannot be enforced.

4. The parties to the bill:

A bill of exchange generally involves three parties: the drawer, the drawee, and the payee. The drawer is the person who draws the bill and orders the payment, the drawee is the person directed to pay, and the payee is the person who receives the payment. In some cases, the drawer and the payee may be the same person, but all three roles must be clearly mentioned.

5. Sum payable must be certain:

The amount mentioned in a bill of exchange must be certain, fixed, and clearly stated in the document. An order such as "Pay Rs.2000 or Rs.1000" is not valid because it creates confusion and uncertainty about the exact liability. Certainty of the sum ensures that the instrument is legally enforceable and easily negotiable.

6. Payment must be in money:

A bill of exchange must direct the payment of money only and not goods, property, or services. If the order includes payment in kind or any other form instead of money, it will not be considered a valid bill of exchange. This requirement ensures uniformity and makes the instrument simple to transfer and negotiate.

7. It requires acceptance:

A bill of exchange must be accepted by the drawee in order to become legally binding on him. Acceptance usually means that the drawee signs the bill, agreeing to pay the specified amount on the due date. Without such acceptance, the drawee is not legally obligated to make the payment.

8. It must be stamped according to Stamp Act:

According to the Indian Stamp Act, 1899, a bill of exchange must be properly stamped to be legally valid and enforceable. The amount of stamp duty depends on the value and nature of the instrument mentioned in the bill. If the bill is not adequately stamped, it may not be admitted as evidence in a court of law.

9. It must be payable on demand or at a fixed time:

A bill of exchange must clearly specify the time of payment, either on demand or after a certain period. If the time of payment is uncertain or dependent on an indefinite event, the bill will not be valid. The due date must be clearly mentioned so that the drawee knows when the payment has to be made. Certainty regarding time of payment makes the instrument reliable and legally enforceable.

10. It must be unconditional:

A bill of exchange must contain an unconditional order to pay and should not depend on any uncertain event. If the payment is subject to a condition that may or may not happen, the instrument will not qualify as a valid bill. The obligation to pay must arise immediately upon acceptance without any external requirements. This ensures certainty and strengthens the negotiable nature of the bill.

Procedure in bill of exchange:**1. Drawing the Bill**

The drawer prepares the bill by clearly stating the amount to be paid, the must be unconditional and precise to be legally enforceable. This ensures clarity in the drawee's name, the pavee's name, and the due date or period after sight. The bal transaction, avoids disputes, and forms the foundation of [a valid negotiable instrument recognized under the Negotiable Instruments Act, 1881.

2. Signing the Bill

The drawer signs the bill to confirm authenticity and legal enforceability. The signature indicates the drawer's intent to bind the drawee and ensures the bill can be legally acted upon. Without the signature, the bill is invalid and cannot be presented for payment or transfer. Signing establishes the drawer's responsibility and protects the holder's right to demand payment.

3. Presenting the Bill

The drawer delivers the bill to the payee or holder. The payee may then present it to the drawee for acceptance, particularly in trade transactions. Presentation ensures that the drawee is informed about the obligation and confirms the transaction. It also marks the beginning of the bill's circulation and allows the holder to legally enforce payment on the due date.

4. Acceptance by Drawee

The drawee may accept the bill by signing it on the face of the instrument, indicating their willingness to pay the stated amount on the due date. Acceptance makes the drawee legally liable to honor the bill. Without acceptance, the bill may still be valid, but the holder cannot legally enforce payment against the drawee in case of refusal.

5. Endorsement and Delivery

The payee can transfer the bill to another person through endorsement and delivery, making it a negotiable instrument. Endorsement may be blank (payable to bearer) or special (payable to a named person). Delivery completes the transfer of ownership and allows the new holder to claim payment on the due date. This facilitates liquidity and commercial credit in business.

6. Presentation for Payment

On the due date, the bill is presented to the drawee for payment in cash, cheque, or through the bank. Proper presentation ensures that the holder has fulfilled the legal requirement of notifying the drawee. Payment may be made directly or via the banking system. Timely presentation protects the holder's right and avoids delays or dishonor due to procedural lapses.

7. Dishonor and Notice

If the drawee refuses to pay, the bill is dishonored. The holder must give notice of dishonor to the drawer and endorsers to protect legal rights. Notice may be delivered personally, by post, or through authorized agents. It ensures that all parties are informed and preserves the holder's right to claim payment or take legal action under the Negotiable Instruments Act.

DIFFERENCE BETWEEN PROMISSORY NOTE AND BILL OF EXCHANGE

S.no	Basis	Promissory Note	Bill of Exchange
1.	Definition	"A Promissory Note" is an instrument in writing (not being a banknote or a currency note) containing an unconditional undertaking signed by the maker, to pay a certain sum of money only to, or to the order of, a certain person, or to the bearer of the instrument.	"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.
2.	Nature of Instrument	In a promissory note, there is a promise to pay money.	In a bill of exchange, there is an order for making payment.
3.	Parties	In a promissory note, there are only 2 parties namely: i. the maker and ii. the payee	In a bill of exchange, there are 3 parties which are as under: i. the drawer ii. the drawee iii. the payee
4.	Acceptance	A promissory note does not require any acceptance, as it is signed by the person who is liable to pay.	A bill of exchange needs acceptance from the drawee.
5.	Payable to bearer	A promissory note cannot be made payable to bearer.	On the other hand, a bill of exchange can be drawn payable to bearer. However, it cannot be payable to bearer on demand.

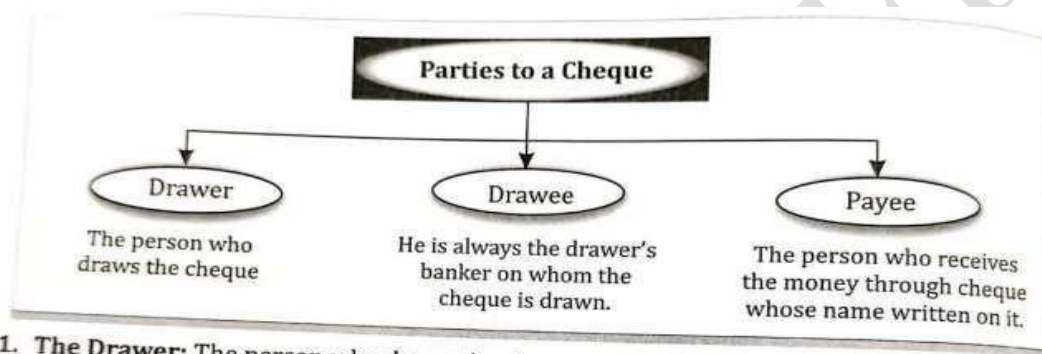
CHEQUE

MEANING OF CHEQUE:

A Cheque is a written order form an account holder (the drawer) to their bank (the drawee) to pay a specified amount of money to a named recipient (the payee).

DEFINITION OF CHEQUE:

As per Section 6 of Negotiable Instrument act, 1881, “A cheque is a bill of exchange drawn on a specified banker and not expressed to be payable otherwise on demand.”



1. **The Drawer:** The person who draws the cheque.
2. **The Drawee:** He is always the drawer's banker on whom the cheque is drawn.
3. **The Payee:** The person who receives the money through cheque whose name written on it.

Specimen of a Cheque

In a specimen cheque, the following parts are included.

- The drawee, the financial institution where the cheque can be presented for payment.
- Payee
- Date of issue
- Amount of currency
- Drawer, the person or entity making the cheque.
- Signature of drawer
- Machine readable routing and account information.

The proforma of a cheque is as under:

The specimen cheque form is as follows:

- Date :**
- pay** **or Bearer**
- Rupees**
- Rs.** []
- A/C No.** []
- HDFC Bank Ltd.**
726, 1st Cross
Kasturba Road
Bangalore
- Machine readable routing**
- Authorized Signature**

Features or Characteristics of Cheque:

1. Written Order:

A cheque is a bill of exchange that is a writing order but not an oral one, it must be in written format & specified by the bank.

2. Unconditional Order:

A cheque is an order but not a request to pay, thus, once a cheque is issued, the drawer or the bearer of the cheque has to be dispensed with amount by the bank as specified in the cheque provided there are sufficient amounts to the credit of the account.

3. Specified Banker:

A cheque is always drawn on a particular banker only, usually the name and address of the banker is clearly printed on the cheque itself, under the core banking system, a cheque of one branch may be encashed at another branch, anywhere, of the same bank.

4. Certain Payee:

For the validation of any cheque, it must be made payable to the order of a certain specified person or to his agent or to the bearer there-of, a payee must be a certain person either a real person or an artificial person such as bank, company, businesses etc.

5. Specified Sum of Money:

A cheque is drafted for specific value of amount only, any cheques with the words such as at least, above, below values may be outrightly rejected by the banker however, and the customer may have to write the value in figures and words.

6. Payable on Demand:

A cheque is always payable on demand. It is not necessary to use the word "On Demand" like in case of the demand bill.

7. Specimen Signature:

The cheque must be signed by the drawer on the bottom of the right hand side cheque of the bank where his name as mentioned in the account opening form would be printed, the signed must be specimen signature of the customer and must be matched for the genuineness of the signature.

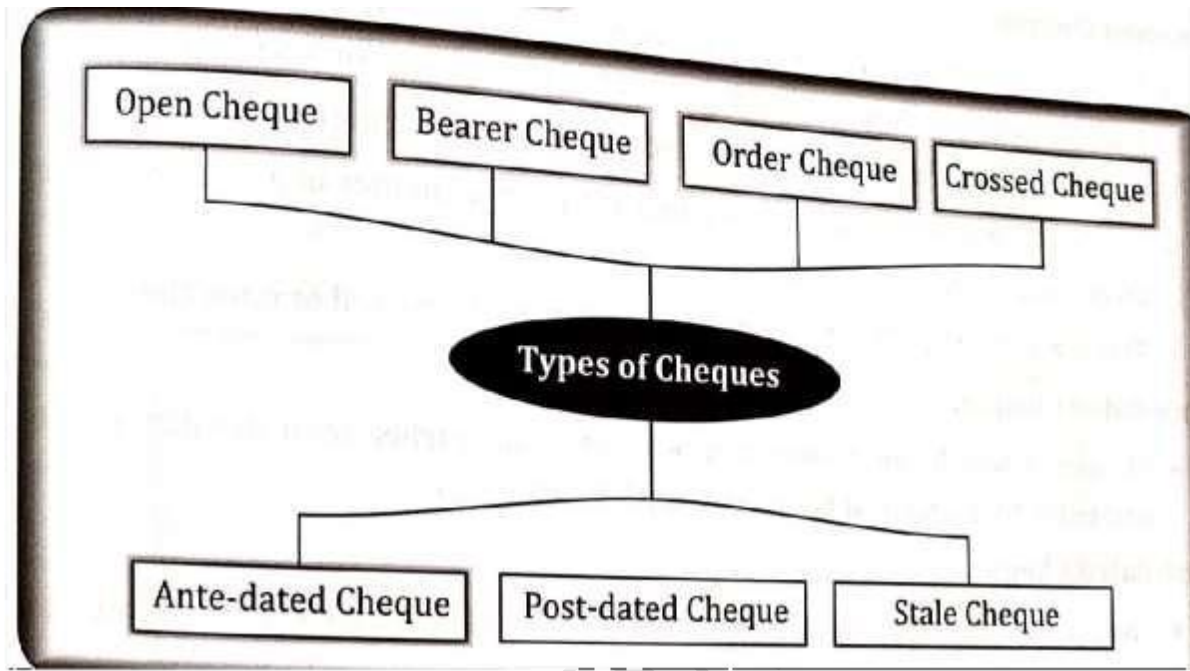
8. Transferability:

A cheque can be transferred by delivery if it is payable to bearer, which means that it can be transferred simply by delivering it to the next person.

9. Dishonour:

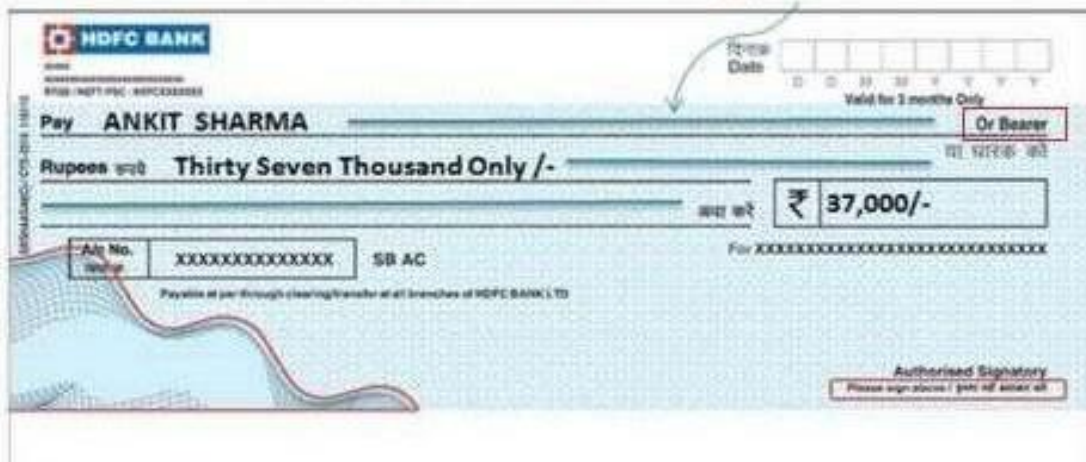
A cheque can be dishonoured due to various reasons, such as insufficient funds in the account, a mismatch in signature, overwriting, or if the cheque is stale (ie, it is presented 6 months after the date on the cheque).

Types of Cheques:

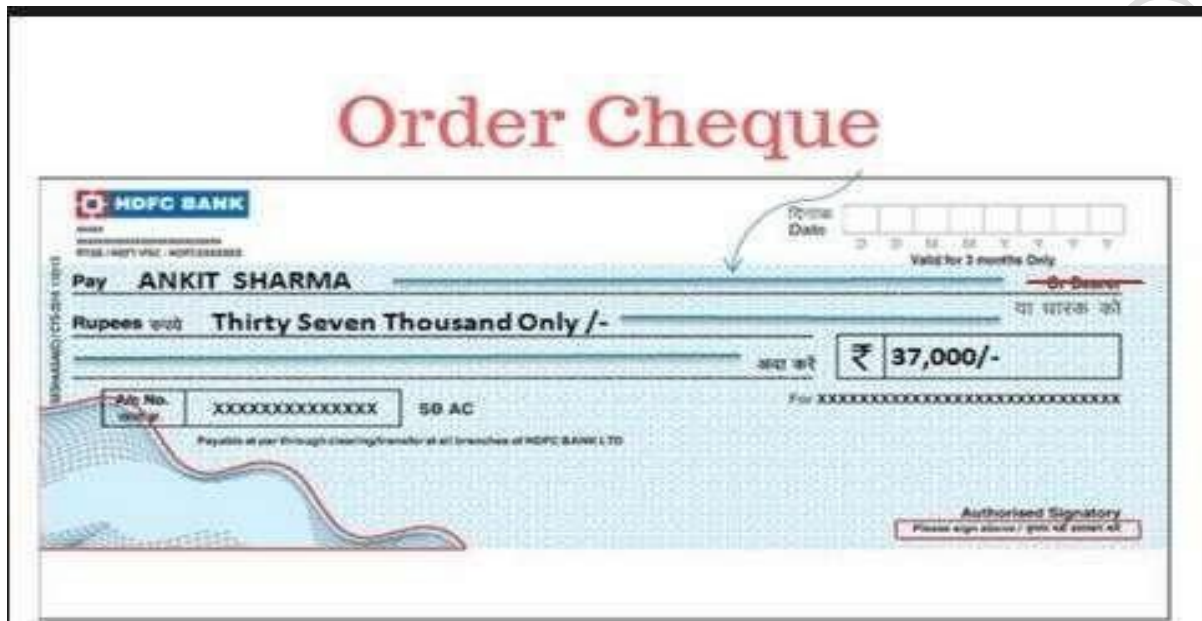


1. **Bearer Cheque:** when a particular cheque includes “or bearer” on the face of the cheque and which is not cancelled, the cheque is called a Bearer Cheque. This type of cheques are payable to the person specified therein or to any other else who presents it to the bank for payment.

Bearer Cheque



2. **Order Cheque:** when a particular cheque in which the word “bearer” appearing on the face of a cheque is cancelled and when in its place the “or order” is written on the face of the cheque, the cheque is called an order cheque. Such a cheque is payable to the person specified therein as the payee, or to any one else to whom it is endorsed (transferred).



3. **3. Uncrossed/Open Cheque:** when a particular cheque is not crossed, it is known as an “open cheque” or an „uncrossed cheque”. The payment of such cheque can be obtained at the counter of the bank. An open cheque may be a bearer or an order cheque.
4. **Crossed Cheque:** when a particular cheque in which two parallel lines are drawn on the face of the cheque. A crossed cheque cannot be encashed at the cash counter of a bank but it can only be credited to the payee’s account.
5. **Ante-Dated cheque:** when a particular cheque which bears a date earlier than the date on which it is presented to the bank, it is called as “ante-dated cheque”. Such a cheque is valid up to 3 months from the date of the cheque.
6. **Post-dated cheque:** if a cheque bears a date which is yet to come (future date) then it is known as Post-dated cheque. A postdated cheque cannot be honoured earlier than the date on the cheque.
7. **Stale Cheque:** if a cheque is presented for payment after 3 months from the date of the cheque, it is called stale cheque. A stale cheque is not honoured by the bank.

PARTIES OF CHEQUE:**•Drawer**

The **drawer** is the person who writes and signs the cheque. This person has a bank account and orders the bank to pay a certain amount of money to another person.

•Drawee

The **drawee** is the bank where the drawer has the account. The bank receives the cheque and pays the money mentioned in the cheque. So, the drawee is responsible for making the payment from the drawer's account.

•Payee

The **payee** is the person who receives the money mentioned in the cheque. The drawer writes the payee's name on the cheque, and the bank pays the amount to that person or to their bank account.

•Endorser:

The **endorser** is the person who signs on the back of the cheque to transfer it to another person.

Endorsee:

The **endorsee** is the person who receives the cheque from the endorser and gets the right to receive the money.

DISHONOUR OF CHEQUES:

Dishonour of a cheque means the bank refuses to pay the amount written on the cheque when it is presented for payment. This usually happens when there is not enough money in the drawer's bank account or when the cheque has some problem like a wrong signature or expired date.

REASONS FOR DISHONOUR OF CHEQUES**1. Insufficiency of Funds**

A cheque is dishonoured when the drawer's bank account does not have enough balance to pay the amount written on the cheque. In such a situation, the bank refuses to make the payment because the available funds in the account are less than the cheque amount.

2. Notice of the Customer's Death

If the bank receives official information that the account holder has died, it immediately stops allowing any payments from that account. Therefore, any cheque issued by the customer before death but presented later may be dishonoured by the bank.

3. Notice of Customer's Insanity

When the bank is informed that the customer has become mentally unsound, it will stop honoring cheques issued from that account. This is done to protect the customer's money and prevent misuse of the account.

4. Notice of Customer's Insolvency

If a customer is legally declared insolvent by a court, the bank will not allow payments through cheques from that account. This is because the control of the customer's assets is transferred to an official receiver appointed by the court.

5. Receipt of Garnishee Order

A garnishee order is a court order directing the bank to stop payment from the customer's account to recover a debt. Once the bank receives this order, it must freeze the account and dishonour any cheque presented for payment.

6. Suspicion About the Title of the Cheque

If the bank doubts whether the person presenting the cheque is the rightful holder, it may refuse to make the payment. This is done to prevent fraud or unauthorized use of the cheque.

7. Presentation of Post-Dated Cheque

A post-dated cheque is one that carries a future date written by the drawer. If such a cheque is presented before that date, the bank will dishonour it because it is not yet payable.

8. Material Alterations

Material alteration means any important change made in the cheque, such as changes in the date, amount, or payee's name. If these changes are not confirmed with the drawer's signature, the bank will refuse to honour the cheque.

9. Stale Cheques

A cheque becomes stale when it is presented after a long period, usually after three months from the date written on it. Banks generally do not accept such cheques because they are considered outdated.

10. Drawer's Signature

The bank always verifies whether the signature on the cheque matches the specimen signature kept in the bank records. If the signature is missing or does not match, the cheque will be dishonoured.

11. Difference Between Words and Figures

If the amount written in words and the amount written in numbers on the cheque are different, the bank may refuse payment. This is because such differences create confusion about the correct amount to be paid.

12. Endorsement

When a cheque is transferred to another person, proper endorsement must be made on the back of the cheque. If the endorsement is incomplete, incorrect, or missing, the bank may dishonour the cheque.

13. Proper Form of the Cheque

A cheque must be filled correctly with all required details such as date, amount, payee name, and signature. If the cheque is not written properly or important details are missing, the bank may refuse to honour it.

CROSSING OF CHEQUES:

Crossing of a cheque means drawing two parallel lines across the face of the cheque. It indicates that the cheque cannot be encashed directly at the bank counter and the amount must be deposited into a bank account. Crossing provides safety and security because the payment is made only through a bank and not in cash.

TYPES OF CROSSING OF CHEQUES**1. GENERAL CROSSING:**

A General Crossing is when a cheque bears two parallel lines across it, with or without the words “& Co. or Account Payee.” When a cheque possesses General Crossing the payee bank can only pay the said cheque to a banker. This protects the issuer of the cheque as the amount can only be credited to the bank account of either the named payee or an endorsee.

General Crossing

& CO. Bank Logo No. 1 2 3 4

FULL NAME
COMPLETE ADDRESS, TOWN
123-4567

DATE:

PAY: ₹

TO THE
ORDER OF:

RE:

PAYER'S SIGNATURE:

SECURITY
FEATURED
INCLUDED

|:0000000000:| 00000000 0000

The image shows a sample of a cheque with the following details:

- Title: Account Payee Crossing
- Bank Logo: [Bank Logo]
- Serial Number: No. 1234
- Fields: FULL NAME COMPLETE ADDRESS, TOWN PIN CODE; DATE; PAY TO THE ORDER OF; PAYER'S SIGNATURE
- Stamp: SECURED PAYMENT DECLARATION
- MICR Line: | : 000000000000 | 00000000 0000

Features of General Crossing:

1. Payment through Bank

In general crossing, the cheque cannot be paid in cash at the bank counter. The money is paid only through a bank account.

2. Security

General crossing provides safety because the cheque amount must go through a bank. This reduces the risk of loss, theft, or misuse.

3. No Specific Bank

In general crossing, no particular bank name is written on the cheque. The cheque can be deposited in any bank account.

4. Optional Wording

Words like “& Co.” or “Not Negotiable” may be written between the crossing lines, but they are not compulsory.

2. SPECIAL CROSSING:

Special crossing means the name of a **specific bank** is written between the two crossing lines on the cheque. This means the cheque can be deposited **only in that particular bank** and not in any other bank.

Example:

If a cheque is crossed with “**ABC Bank**”, the payment will be made only through **ABC Bank**. The person receiving the cheque must deposit it in an account in **ABC Bank**.

Special Crossing

Features of Special Crossing

1. Payment through a Specific Bank

In special crossing, the cheque must be deposited through the specific bank whose name is written on the cheque. Payment will be made only through that bank.

2. Enhanced Security

Special crossing provides more safety because the cheque is restricted to a particular bank. This helps prevent misuse of the cheque.

3. Mandatory Bank Name

The name of a bank must be written between the crossing lines. Without the bank name, it cannot be called a special crossing.

4. Cannot be Encased Over the Counter

A specially crossed cheque cannot be paid in cash directly at the bank counter. The amount must be credited to a bank account.

3. DOUBLE CROSSING:

Double crossing means a cheque that is already specially crossed to one bank is **crossed again to another bank**, usually when the first bank sends it to another bank for collection.

Example:

For example, the cheque may first be deposited in **Sonali Bank Limited**. Then that bank may send the cheque to **Pubali Bank Limited** for collecting the payment. Since the cheque is crossed to **two banks**, it is called **Double Crossing**, which gives **extra safety in payment**.



Features of Double Crossing Cheques

1. Two Banks Involved

In double crossing, the cheque is crossed to two banks. Usually, the first bank sends the cheque to another bank for collection.

2. Used for Collection

Double crossing is mainly done when one bank asks another bank to collect the cheque amount on its behalf.

3. More Security

Double crossing provides extra safety because the cheque passes through two banks before payment is made.

4. Payment Through Bank Only

The cheque cannot be encashed directly at the bank counter. The amount is paid only through the bank accounts involved.

ENDORSEMENT OF NEGOTIABLE INSTRUMENTS:

Endorsement is the process by which the holder of a negotiable instrument signs the back of the instrument, thereby transferring their rights to another person or entity.

DEFINITION OF ENDORSEMENT:

According to Negotiable Instrument Act, 1881, "Endorsement means the signature, with or without additional words, made on the back of a negotiable instrument by the holder by which he transfers his rights in the instrument to another person."

TYPES OF ENDORSEMENT:**1. Blank Endorsement**

Blank endorsement occurs when the endorser signs their name on the back of the instrument without mentioning the name of the person to whom it is transferred. After this endorsement, the instrument becomes payable to the bearer and can be transferred simply by delivery.

Example: If Rahul receives a cheque and signs his name on the back without writing anyone's name, the cheque becomes a bearer instrument and anyone holding it can present it for payment.

2. Full/Special Endorsement

Full endorsement occurs when the endorser signs the instrument and clearly mentions the name of the person to whom the payment should be made. This makes the instrument payable only to the person whose name is written in the endorsement.

Example: Rahul writes on the back of the cheque, "Pay to Ramesh" and signs below it. In this case, only Ramesh has the right to receive the payment.

3. Restrictive Endorsement

Restrictive endorsement limits the further transfer of the instrument by adding specific instructions such as "Pay to X only" or "For deposit only." It allows the endorsee to receive the payment but prevents them from transferring the instrument to another person.

Example: Rahul writes "Pay to Ramesh only" and signs the cheque. Ramesh can receive the payment but cannot transfer the cheque to someone else.

4. Conditional Endorsement

Conditional endorsement happens when the endorser adds a condition that must be fulfilled before payment is made. The payment will be made only if the condition mentioned in the endorsement is satisfied.

Example: Rahul writes “Pay to Ramesh if he completes the work” and signs the cheque. The payment will be made only after the condition is fulfilled.

5. Sans Recourse Endorsement

Sans recourse endorsement means the endorser transfers the instrument but does not want to take responsibility if the instrument is dishonoured. By writing “sans recourse,” the endorser avoids liability for non-payment.

Example: Rahul writes “Pay to Ramesh, sans recourse” and signs the cheque. If the cheque is dishonoured, Ramesh cannot hold Rahul responsible.

6. Sans Frais Endorsement

Sans Frais endorsement means that the endorser transfers the negotiable instrument but requests that no extra expenses or charges should be incurred if the instrument is dishonoured. The words “**Sans Frais**” mean “**without expenses,**” so the holder cannot charge the endorser for noting or protest charges if the instrument is not paid.

Example:

Rahul writes on the back of the cheque “**Pay to Ramesh, Sans Frais**” and signs it. If the cheque is dishonoured, Ramesh cannot claim any additional expenses such as noting or protest charges from Rahul.

7. Facultative Endorsement

Facultative endorsement occurs when the endorser gives up certain rights, such as the right to receive notice of dishonour. This means the endorser remains liable even if they do not receive formal notice that the instrument has been dishonoured. **Example:** Rahul writes “Pay to Ramesh, notice of dishonour waived” and signs the cheque. Even if Rahul does not receive notice of dishonour, he will still be liable for payment.

EFFECTS OF ENDORESMENT:**1. Transfer of Ownership**

Endorsement results in the transfer of ownership of the negotiable instrument from the endorser to the endorsee. This means the person who receives the instrument through endorsement becomes the new holder and gets the right to receive the payment.

2. Liability of Endorser

When a person endorses a negotiable instrument, they become liable if the instrument is dishonoured by the drawee or acceptor. In such a situation, the holder has the right to demand payment from the endorser.

3. Right to Sue

Endorsement gives the endorsee the legal right to sue the parties involved if the instrument is dishonoured. This allows the holder to take legal action against the drawer, acceptor, or previous endorser to recover the amount.

4. Negotiability

Endorsement helps maintain the negotiable nature of the instrument by allowing it to be transferred from one person to another. This makes negotiable instruments easy to circulate in business transactions like cash.

5. Modes of Endorsement

Endorsement provides different ways through which a negotiable instrument can be transferred, such as blank endorsement or full endorsement. These different modes allow flexibility in transferring the instrument depending on the situation and requirement.

6. Rights of Holder in Due Course

When a negotiable instrument is endorsed properly, the holder in due course gets special legal protection under the law. This means the holder can claim payment even if there were some defects in the previous transactions, provided they received the instrument honestly and for value.

UNIT-3: MODERN TECHNOLOGY AND TRENDS IN BANKING

Real Time Gross Settlement (RTGS):

RTGS or Real Time Gross Settlement is a fund transfer method through which money is sent in real time basis without any delays. This electronic fund transfer system allows the money sent by the remitter to immediately reach the payee/beneficiary as and when the money transfer transaction is initiated.

Gross Settlement refers to the processing of transactions on an individual basis and not in a batch wise system.

Features of RTGS

Transaction here are the main features of an RTGS transaction that one should be aware of before using it:

1. Real-time online fund transfer
2. Used for high value transactions
3. Safe and secure
4. Reliable and backed by RBI
5. Immediate clearing
6. Funds credited on a one-on-one basis
7. Transactions executed on an individual and gross basis

There are two modes to perform RTGS:

- a. **Internet banking:** Many banks offer the facility to add beneficiary online using the internet banking facility. Upon successfully adding beneficiaries, you can transfer funds to the beneficiary. In addition to individuals, corporate account holders can also utilize internet banking to make RTGS transfers.
- b. **Branch:** Visit the nearest bank branch and fill the RTGS form to initiate a fund transfer.

National Electronic Funds Transfer (NEFT):

National Electronic Funds Transfer (NEFT) is a mode of online funds transfer that is introduced by the Reserve Bank of India (RBI).

It quickly transfers money between banks throughout India. A bank branch must be NEFT-enabled for a customer to be able to transfer the funds to another party.

The benefits of NEFT given to the consumers are as follows:

Safe and Effective: For a flawless transfer of funds on the Internet, NEFT helps you to transfer any amount of money quickly.

Low Processing Charges: NEFT is flexible payment options which are very economical. To utilize this facility, you don't have to pay a huge sum of money to your bank. The processing charges are economical, and you can transfer any amount of money without any difficulty.

Highly Dependable: NEFT, an integral aspect of Internet banking, is a highly dependable method of making payments and receiving funds online. In India, most of the banks are regulated under the norms set by RBI and, hence, the Internet banking facility too is quite safe.

Rapid Settlement: Unlike the regular banking methods of fund transfer, NEFT transfer is really quick, and you can enjoy rapid settlement of accounts, thereby improving the overall functionality of your business.

Electronic Clearing Service

ECS is an electronic mode of payment / receipt for transactions that are repetitive and periodic in nature. ECS is used by institutions for making bulk payment of amounts towards distribution of dividend, interest, salary, pension, etc., or for bulk collection of amounts towards telephone / electricity water dues, cess tax collections, loan installment repayments, periodic investments in mutual funds, insurance premium etc

Advantages

1. Banks handling ECS get freed from paper handling
2. Work load of destination branches is reduced
3. The customer get immediate credit in respect of interest and dividend on securities held by them.
4. There is no need for issuing cheque by the person for making payments because debit in his or her bank account will be made automatically .

Disadvantages

1. The scheme covers the amounts exceeding one lakh rupees
2. The scheme is available only in big cities

Mobile banking:

Mobile banking (m-banking) refers to the use of a mobile device to access banking and financial services offered by banks. It enables customers to check their bank account balance, conduct online transactions, transfer funds, pay bills, etc., without visiting banks.

- Mobile banking (m-banking) refers to the use of a mobile device like a smart phone or tablet to perform banking activities. It is done through a mobile app, USSD, or SMS.
- It enables customers to access banking services easily, quickly, and conveniently anytime, anywhere.
- Customers utilize mobile banking to view and monitor account details, transfer funds, apply or repay a loan, make investments, lodge complaints, deposit checks, etc.
- The key difference between mobile and internet banking is that the former uses a mobile device while the latter employs a desktop or PC.
- M-banking is susceptible to online frauds but safety features like two-step OTP verification, biometric login, and antivirus help to secure transactions.

Advantages

- Offers 24-hour accessibility to banking
- Saves time
- Provides a convenient way of making fund transfers and payments
- Enables easy tracking and monitoring of bank accounts
- Facilitates quick reporting of any illegal transaction or fraudulent activity

- Allows swift redressal of consumer complaints
- Increase request processing speed
- Makes online shopping possible
- Allows trouble-free management of investments
- Sends notification of bill or loan payments
- Encourages customers to stay indoors during a pandemic
- Eliminates the need to carry cash all the time
- Reduces chances of theft

Disadvantages

- Causes inconvenience for less tech-savvy account holders
- Removes human touch from banking
- Raises security concerns and online fraud
- Results in delays or losses in transactions due to mistakes
- Gives rise to comprehension issues due to the app interface
- Makes follow up on fraud reports difficult
- Delays service requests in case of internet issues

Internet Banking:

Introduction to Internet Banking:

Internet banking allows a user to conduct financial transactions via the Internet. Internet banking is also known as online banking or web banking. Internet banking offers customers almost every service traditionally available through a local branch including deposits, transfers, and online bill payments. Virtually every banking institution has some form of online banking, available both on desktop versions and through mobile apps.

Features of Internet Banking:

The customer using this facility can conduct transactional and non-transactional tasks including: The customer can view account statements.

- It is 24 x 7 services.
- The customer can check the history of the transactions for a given period by the concerned bank.
- Bank, statements, various types of forms, applications can be downloaded.
- The customer can transfer funds, pay any kind of bill, recharge mobiles, DTH connections, etc. The customer can buy and sell on e-commerce platforms.
- The customer can invest and conduct trade.
- The customer can book, transport, travel packages, and medical packages.

Advantages of Online Banking:

- An online account is simple to open and easy to operate.
- It's convenient, because you can easily pay your bills and transfer your funds between accounts from nearly anywhere in the world.
- It is available all the time. You can perform your tasks from anywhere and at any time, even at night or on holidays when the bank is closed. The only thing you need to have is an active internet connection.
- It is fast and efficient. Funds get transferred from one account to the other very fast. You can also manage several accounts easily through internet banking.
- It's a excessive medium for the banks to endorse their products and services.
- More online services include loans and investment options.

Convenience is a major advantage of online banking: Basic banking transactions such as paying bills and transferring funds between accounts can easily be done 24 hours a day, seven days a week, wherever a consumer wishes.

Online banking is fast and efficient: Funds can be transferred between accounts almost instantly, especially if the two accounts are held at the same institution. Consumers can open and close a number of different accounts online, from fixed deposits to recurring deposit accounts that typically offer higher rates of interest.

Consumers can also monitor their accounts regularly: By allowing them to keep their accounts safe. Around-the-clock access to banking information provides early detection of fraudulent activity, thereby acting as a guardrail against financial damage or loss.

Disadvantages of Online Banking:

- Understanding the usage of internet banking might be difficult at the first. A person who is new to technology might face some difficulty.
- Password security is a must. After receiving your password, change it and memorize it. Otherwise, your account may be misused.
- If the bank's server is down, then you cannot access your accounts.

Technology Issues

In many ways, an online bank is only as good as your or their internet connection. If there's a power outage, or if servers go down, you might not have any access to your account whatsoever. While some banks offer a phone number for customer service, it might be overwhelmed if online access is down. With a real bank, you can always find someone to talk to in the branch.

Security Issues

While many online banks are reputable and well-established, sometimes it can be hard to feel comfortable with a bank that doesn't have a physical presence, particularly when large sums of money are involved.

Inefficient at Complex Transactions:

Online banks might be able to transfer money between accounts or pay bills, but you might be more comfortable with an International, bricks-and-mortar bank if you have complex transactions.

No Relationship with Personal:

Banker Over time, you can develop a relationship with a personal banker if you visit a traditional bricks-and mortar location. If you're dealing with an online bank, on the other hand, you're typically handed off to an anonymous customer service agent who is unlikely to know you from the next customer.

Electronic Fund Transfer (EFT):

An electronic funds transfer (EFT) is a transaction that takes place over a computerized network, either among accounts at the same bank or to different accounts at separate financial institutions. Electronic funds transfer (EFT) are electronic transfer of money from one bank account to another, either within a single financial institution or across multiple institutions, via computer-based systems, without the direct intervention of bank staff.

Benefits of EFT

- Electronic funds transfer provides an easy, cheaper and faster method of transferring money.
- It helps individuals and organizations to save on costs such as printing checks as well as the time to deliver or collect checks and deposit them in the banks for processing.
- The money moves to the recipient's account much faster since there is no manual moving of checks from one bank to the other.
- It is more efficient
- less administrative procedures, hence reduced labor and staff costs An electronic funds transfer is much safer and secure. For instance, it eliminates the need to carry huge amounts of money.

APSEC-COMM

Definition of Crypto currency

In simplistic terms, Crypto currency is a digitized asset spread through multiple computers in a shared network. The decentralized nature of this network shields them from any control from government regulatory bodies.

The term “crypto currency in itself is derived from the encryption techniques used to secure the network.

As per computer experts, any system that falls under the category of crypto currency must meet the following requirements.:

1. Absence of any centralized authority and is maintained through distributed networks
2. The system maintains records of crypto currency units and who owns them
3. The system decides whether new units can be created and in case it does, decided the origin and the ownership terms
4. Ownership of crypto currency units can be proved exclusively cryptographically.
5. The system allows transactions to be performed in which ownership of the cryptographic units is changed.

Types of Crypto currency

The first type of crypto currency was Bitcoin, which to this day remains the most-used, valuable and popular. Along with Bitcoin, other alternative crypto currencies with varying degrees of functions and specifications have been created. Some are iterations of bitcoin while others have been created from the ground up

Bitcoin was launched in 2009 by an individual or group known by the pseudonym “Satoshi Nakamoto. As of March 2021, there were over 18.6 million bitcoins in circulation with a total market cap of around \$927 billion.

The competing cryptocurrencies that were created as a result of Bitcoin’s success are known as altcoins. Some of the well known altcoins are as follows:

1. Litecoin
2. Peercoin
3. Namecoin
4. Ethereum
5. Cardana

Advantages and disadvantages of Cryptocurrency

Cryptocurrency has the following advantages

- Funds transfer between two parties will be easy without the need of third party like credit/debit cards or banks
- It is a cheaper alternative compared to other online transactions

- Payments are safe and secured and offer an unprecedented level of anonymity
- Modern crypto currency systems come with a user “wallet” or account address which is accessible only by a public key and private key. The private key is only known to the owner of the wallet
- Funds transfer are completed with minimal processing fees.
-

Crypto currencies have the following disadvantages.

- The almost hidden nature of crypto currency transactions makes them easy to be the focus of illegal activities such as money laundering, tax-evasion and possibly even terror-financing
- Payments are not irreversible
- Crypto currencies are not accepted everywhere and have limited value elsewhere
- There is concern that crypto currencies like Bitcoin are not rooted in any material goods. Some research, however, has identified that the cost of producing a Bitcoin, which requires an increasingly large amount of energy, is directly related to its market price.

ATM (Automated Teller Machine):

An Automated Teller Machine (ATM) is a computerized, self-service banking kiosk that allows users to withdraw cash, deposit funds, transfer money, and check balances without visiting a bank branch. ATMs provide 24/7 access to financial services, offering convenience and global access, but carry risks of technical failures, security threats, and transaction fees.

Advantages of ATMs

- **24/7 Availability:** Provides access to cash and banking services anytime, regardless of bank operating hours.
- **Convenience & Speed:** Reduces long waiting lines at bank branches, making transactions faster and more efficient.
- **Global Access:** Allows users to withdraw money while traveling, often with network connectivity worldwide.
- **Multiple Services:** Offers diverse functions beyond cash withdrawal, including deposits, PIN changes, and utility payments.
- **Reduced Human Error:** Minimizes the need for manual paperwork (like withdrawal slips) as transactions are digitized.

Disadvantages of ATMs

- **Security Risks:** Users face risks of robbery, card skimming, and PIN theft at ATMs, particularly at unattended locations.
- **Transaction Fees:** Banks often charge fees for using ATMs from other banks or exceeding a certain number of free transactions.
- **Technical Failures:** ATMs may go offline, break down, or run out of cash, causing inconvenience.
- **Withdrawal Limits:** Banks enforce daily cash withdrawal limits, which may restrict large, urgent cash needs.
- **Card/PIN Issues:** Risk of the machine retaining your card, or forgetting the PIN, which restricts access to funds.

SWIFT :

SWIFT (Society for Worldwide Interbank Financial Telecommunication) is a secure, global messaging network used by over 11,000 banks in 200+ countries to facilitate cross-border payments. It provides a standardized system for transferring funds, ensuring high security and reliability, typically completing international transfers within 1–5 days.

Advantages of SWIFT:

- **Global Reach & Standardization:** Connects almost all major financial institutions, allowing consistent, secure, and accurate international money transfers.
- **Security & Reliability:** Operates a highly secure network that facilitates encrypted messaging to protect confidential financial information, reducing the risk of fraud.
- **Unified Identification:** Uses a unique BIC/SWIFT code for every member institution, ensuring payments reach the correct bank and branch.

Disadvantages of SWIFT:

- **Slower Transaction Times:** Unlike instant local payments, SWIFT transfers can take 1–5 business days to complete due to the need for intermediary bank involvement.
- **High Fees:** Fees can be high and unpredictable. Both sending and recipient banks, along with intermediary banks, may charge fees, resulting in hidden costs.
- **No Direct Money Transfer:** SWIFT only sends messages, not money itself. It relies on a network of correspondents, which can lead to delays.
The Electronic Clearing Service (ECS) is an electronic, automated, and secure, fund transfer system in India used for bulk and repetitive transactions, such as salary payments, dividends, or loan EMIs. It enables automatic debits/credits on specified dates without physical checks.

Key Advantages:

- **Convenience & Automation:** Automates recurring payments, removing the need for manual checks.
- **Safety & Security:** Reduces risk associated with physical documents (e.g., lost checks) and ensures timely payments.
- **Efficiency:** Streamlines bulk transactions, reducing paperwork and processing time.

Key Disadvantages:

- **Insufficient Funds Penalty:** Failure to maintain a sufficient balance in the account results in charges/penalties.
- **Low Flexibility:** Canceling or changing a mandate involves lengthy processes.
- **Risk of Fraud/Errors:** Irreversible transactions mean incorrect data entry can lead to improper deductions.

Types of ECS

- **ECS Credit:** Used for bulk credits like salaries, pensions, and interest.
- **ECS Debit:** Used for bulk debits like EMIs, electricity bills, and insurance premiums.

UPI (Unified Payments Interface):

UPI stands for **Unified Payments Interface**. It is a real-time digital payment system that links multiple bank accounts into a single mobile application. Developed by the National Payments Corporation of India (NPCI), it allows you to instantly send and receive money 24/7 without needing to share sensitive bank details.

IMPS (Immediate Payment Service):

IMPS is a real-time, 24/7 interbank electronic fund transfer service in India. It enables instant money movement via mobile, net banking, or ATMs, even on holidays. Managed by NPCI, it requires only a beneficiary's mobile number/MMID or account number/IFSC, typically with a maximum limit of ₹5 Lakhs.

Key Advantages of IMPS:

- **Instant Transfers:** Funds are credited in seconds.
- **24/7 Availability:** Operates 365 days a year, including Sundays and public holidays.
- **Multiple Channels:** Accessible via mobile apps, net banking, SMS, and ATMs.
- **Convenience:** Simple to use, requiring only mobile number/MMID or account/IFSC.
- **Secure:** High security with strong authentication.

Key Disadvantages of IMPS

- **Transaction Charges:** Banks often charge fees, generally ranging from ₹1 to ₹25, unlike the free NEFT service.
- **Lower Limits:** While safe, it has lower maximum transaction limits compared to RTGS (usually ₹5 lakh per day, according to).
- **Irreversibility:** Once transferred, it is difficult to recover money if sent to the wrong account.
- **Dependency on Technology:** Requires stable internet connectivity and mobile apps to work.

Meaning of Digitization:

Digitization represents the shift from physical, manual processes to automated digital workflows. It involves using Artificial Intelligence (AI), data analytics, and electronic documentation to automate customer data entry, loan approvals, and daily transactions. This includes mobile apps, online banking platforms, and digital wallets.

Advantages:

- **24/7 Access & Convenience:** Customers can access banking services anytime, anywhere, eliminating the need to visit physical branches.
- **Operational Efficiency & Speed:** Automation reduces the time required for transactions, such as loan processing or funds transfers (e.g., NEFT/IMPS), which can be done instantly.
- **Lower Costs:** Banks save on infrastructure costs (rent, staff), often leading to lower fees and better interest rates for customers.
- **Improved Customer Experience:** Digital tools provide personalized financial management, budgeting aids, and tailored insights.
- **Better Data Accuracy:** The reduction of manual data entry reduces human error, ensuring higher accuracy in record-keeping.

Disadvantages:

- **Cybersecurity Threats:** The rise in online transactions makes banks and customers vulnerable to hacking, phishing, identity theft, and fraudulent activities.
- **Technical Issues:** Reliance on technology means system downtimes or server outages can lock customers out of their accounts, hindering access to funds.
- **Lack of Personal Interaction:** The removal of face-to-face interaction can hinder complex problem-solving and reduce trust among customers who prefer human service.
- **Digital Divide:** Vulnerable populations or those with limited digital literacy may face exclusion from banking services.
- **High Initial Implementation Cost:** While it saves money long-term, transitioning legacy systems to digital is expensive and time-consuming for banks.

MEANING OF BLOCKCHAIN IN BANKING:

Blockchain in banking is a decentralized, digital ledger technology (DLT) that securely records transactions across a network of computers without intermediaries. It offers faster, cheaper, and transparent transactions by eliminating manual processes and middlemen, though it faces challenges with scalability, regulatory uncertainty, and high energy consumption.

ADVANTAGES OF BLOCKCHAIN IN BANKING:

- **Decentralized Ledger:** Instead of a single bank controlling a database, the record is distributed among many participants, enhancing security and reducing single points of failure.
- **Immutability:** Once transactions are added to a block and verified by the network, they cannot be changed or deleted, ensuring data integrity.
- **Cryptography:** Uses advanced codes (hashes) to secure data, protecting against fraud and tampering.
- **Smart Contracts:** Self-executing contracts with terms written directly into code, automating complex processes like clearing and settlement.

Advantages of Blockchain in Banking

- **Lower Costs:** By cutting out intermediaries (intermediary banks), transaction fees and operational costs are significantly reduced.
- **Increased Speed:** Enables near real-time transactions, speeding up cross-border payments which currently take days.
- **Enhanced Security:** Cryptographic security and distributed validation make it highly resistant to fraud and tampering.
- **Transparency:** All parties with access to the permissioned blockchain can view transactions, reducing the risk of fraud.
- **Improved Efficiency:** Reduces the need for manual reconciliation and manual errors.

DISADVANTAGES OF BLOCKCHAIN IN BANKING:

- **Scalability Issues:** Blockchain networks, particularly public ones, can struggle with processing high volumes of transactions quickly compared to centralized banking systems.
- **Regulatory Uncertainty:** The lack of a clear, uniform regulatory framework for blockchain technology makes adoption complex.
- **High Energy Consumption:** Some blockchain networks require substantial computing power for validation, leading to high energy costs.
- **Irreversibility:** Once a transaction is validated, it cannot be reversed, which is problematic if an error occurs.
- **Integration Challenges:** Banks face difficulties integrating new blockchain solutions with legacy IT infrastructures.
- **Security Risks (Private Keys):** While the blockchain itself is secure, the loss of private keys by users can lead to the permanent loss of funds.

Meaning Artificial Intelligence in Banking:

Artificial Intelligence (AI) in banking refers to the use of intelligent machines, algorithms, and software to perform complex tasks, analyze data, and mimic human cognitive functions to improve financial services. Unlike physical robots, these are primarily "software robots" or digital agents that enhance efficiency, security, and customer experience.

Advantages of AI in Banking:

- **Operational Efficiency & Cost Reduction:** Automation of routine tasks reduces manual errors and minimizes operating costs.
- **24/7 Availability:** AI bots provide customer service and monitor systems round-the-clock without fatigue.

- **Advanced Security:** Enhanced, real-time detection of fraudulent activity and cyber threats.
- **Improved Decision Making:** Data-driven insights from AI help in better credit assessment and risk management.
- **Personalization:** Ability to offer tailored financial advice and personalized product recommendations to users.

Disadvantages and Challenges of AI in Banking:

- **Job Displacement:** Automation of roles could lead to reduced employment opportunities for human staff.
- **High Implementation Cost:** Significant investment is required in technology, infrastructure, and training.
- **Ethical and Algorithmic Bias:** AI systems may unintentionally perpetuate biases in decision-making, such as in loan approvals.
- **Data Security & Privacy:** Over-reliance on AI can create vulnerabilities if not properly secured.
- **Lack of Human Touch/Empathy:** AI cannot handle complex, sensitive situations requiring human empathy.
- **Dependency on Data Quality:** AI models need huge, clean datasets to work; weak data leads to poor outcomes.

BIOMETRIC AUTHENTICATION:

Biometric authentication in banking is a security process that uses unique biological characteristics—such as fingerprints, facial recognition, iris scans, or voice patterns—to verify a user's identity, replacing traditional passwords or PINs. It enhances security and convenience for logging in or authorizing transactions.

Key Advantages:

- **Enhanced Security:** Unique traits are difficult to steal, phish, or replicate, providing strong defense against fraud.
- **Superior Convenience:** Users do not need to remember passwords or PINs; authentication is fast and seamless.
- **Liveness Detection:** Advanced systems ensure the physical presence of the account owner, reducing identity theft.

Key Disadvantages:

- **Privacy & Security Concerns:** If biometric data is stolen, it cannot be changed like a password, leading to permanent security compromises.
- **False Rejections/Positives:** Systems may occasionally fail to recognize a user (dirty fingerprint) or mistakenly authorize another person.
- **High Implementation Costs:** Banks face expensive upfront hardware and software costs to deploy secure systems