



ACADEMIC YEAR 2025-2026, SEMESTER – V
STUDY MATERIAL FOR B.COM AND BANKING FINANCE
BANKING LAW AND PRACTICE



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BANKING LAW AND PRACTICE

SEMESTER – V



ACADEMIC YEAR 2025-26

PREPARED BY

COMMERCE DEPARTMENT



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UNIT - I

INTRODUCTION TO BANKING

HISTORY OF BANKING: -

Banking in India forms the base for the economic development of the country. Major changes in the banking system and management have been seen over the years with the advancement in technology, considering the needs of people.

The History of Banking in India dates back to before India got independence in 1947.

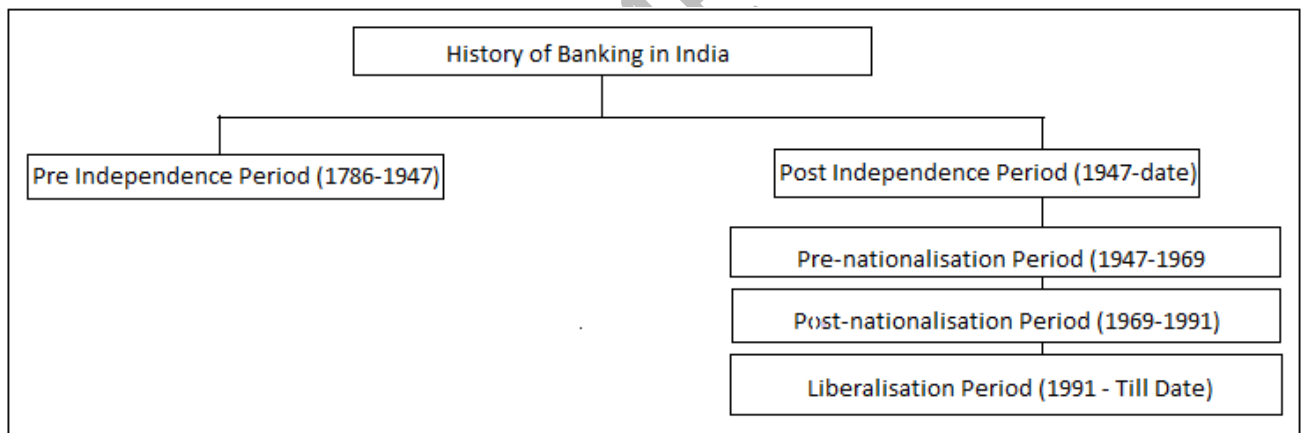
The banking sector development can be divided into three phases:

Phase I: The Early Phase which lasted from 1770 to 1969

Phase II: The Nationalisation Phase which lasted from 1969 to 1991

Phase III: The Liberalisation or the Banking Sector Reforms Phase which began in 1991 and continues to flourish till date

Given below is a pictorial representation of the evolution of the Indian banking system over the years:



Candidates can get details about the functions of Banks at the linked article.

Further below in this article, we shall discuss the different phases of Bank industry evolution.

Pre Independence Period (1786-1947)

The first bank of India was the “Bank of Hindustan”, established in 1770 and located in the then Indian capital, Calcutta. However, this bank failed to work and ceased operations in 1832.

During the Pre Independence period over 600 banks had been registered in the country, but only a few managed to survive.



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Following the path of Bank of Hindustan, various other banks were established in India. They were:

- The General Bank of India (1786-1791)
- Oudh Commercial Bank (1881-1958)
- Bank of Bengal (1809)
- Bank of Bombay (1840)
- Bank of Madras (1843)

During the British rule in India, The East India Company had established three banks: Bank of Bengal, Bank of Bombay and Bank of Madras and called them the Presidential Banks. These three banks were later merged into one single bank in 1921, which was called the “Imperial Bank of India.”

The Imperial Bank of India was later nationalised in 1955 and was named The State Bank of India, which is currently the largest Public sector Bank.

Post-Independence Period (1947-1991):

At the time when India got independence, all the major banks of the country were led privately which was a cause of concern as the people belonging to rural areas were still dependent on money lenders for financial assistance.

With an aim to solve this problem, the then Government decided to nationalise the Banks. These banks were nationalised under the Banking Regulation Act, 1949. Whereas, the Reserve Bank of India was nationalised in 1949.

Candidates can check the list of Banking sector reforms and Acts at the linked article.

Following it was the formation of State Bank of India in 1955 and the other 14 banks were nationalised between the time duration of 1969 to 1991. These were the banks whose national deposits were more than 50 crores.

Given below is the list of these 14 Banks nationalised in 1969:

1. Allahabad Bank
2. Bank of India
3. Bank of Baroda
4. Bank of Maharashtra
5. Central Bank of India
6. Canara Bank



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7. Dena Bank
8. Indian Overseas Bank
9. Indian Bank
10. Punjab National Bank
11. Syndicate Bank
12. Union Bank of India
13. United Bank
14. UCO Bank

In the year 1980, another 6 banks were nationalised, taking the number to 20 banks. These banks included:

1. Andhra Bank
2. Corporation Bank
3. New Bank of India
4. Oriental Bank of Comm.
5. Punjab & Sind Bank
6. Vijaya Bank

Apart from the above mentioned 20 banks, there were seven subsidiaries of SBI which were nationalised in 1959:

1. State Bank of Patiala
2. State Bank of Hyderabad
3. State Bank of Bikaner & Jaipur
4. State Bank of Mysore
5. State Bank of Travancore
6. State Bank of Saurashtra
7. State Bank of Indore

All these banks were later merged with the State Bank of India in 2017, except for the State Bank of Saurashtra, which merged in 2008 and State Bank of Indore, which merged in 2010.

Note: The Regional Rural Banks in India were established in the year 1975 for the development of rural areas in India. Candidates can get the list of RRBs in India at the linked article.



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PROVISIONS OF BANKING REGULATION ACT 1949

The following points highlight the eleven provisions of banking regulation act. They are: (1) Prohibition of Trading (2) Non-Banking Assets (3) Management (4) Minimum Capital and Reserves (5) Capital Structure (6) Payment of Commission, Brokerage etc. (7) Reserve Fund/Statutory Reserve (8) Cash Reserve (9) Liquidity Norms (10) Restrictions on Loans and Advances and (11) Accounts and Audit .

1. Prohibition of Trading (Sec. 8):

According to Sec. 8 of the Banking Regulation Act, a banking company cannot directly or indirectly deal in buying or selling or bartering of goods.

But it may, however, buy, sell or barter the transactions relating to bills of exchange received for collection or negotiation.

2. Non-Banking Assets (Sec. 9):

According to Sec. 9 “A banking company cannot hold any immovable property, howsoever acquired, except for its own use, for any period exceeding seven years from the date of acquisition thereof. The company is permitted, within the period of seven years, to deal or trade in any such property for facilitating its disposal”. Of course, the Reserve Bank of India may, in the interest of depositors, extend the period of seven years by any period not exceeding five years.

3. Management (Sec. 10):

Sec. 10(a) states that not less than 51% of the total number of members of the Board of Directors of a banking company shall consist of persons who have special knowledge or practical experience in one or more of the following fields:

(a) Accountancy; (b) Agriculture and Rural Economy; (c) Banking; (d) Cooperation; (e) Economics; (f) Finance; (g) Law; (h) Small Scale Industry.

4. Minimum Capital and Reserves (Sec. 11):

Sec. 11 of the Banking Regulation Act, 1949, provides that no banking company shall commence or carry on business in India, unless it has minimum paid-up capital and reserve of such aggregate value as is noted below:

(a) Foreign Banking Companies:

In case of banking company incorporated outside India, its paid-up capital and reserve shall not be less than Rs. 15 lakhs and, if it has a place of business in Mumbai or Kolkata or in both, Rs. 20 lakhs. It must deposit and keep with the R.B.I, either in Cash or in unencumbered approved securities (i) the amount as required above, and (ii) after the expiry of each calendar year, an amount equal to 20% of its profits for the year in respect of its Indian business.



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(b) Indian Banking Companies:

In case of an Indian banking company, the sum of its paid-up capital and reserves shall not be less than the amount stated below:

- (i) If it has places of business in more than one State, Rs. 5 lakhs, and if any such place of business is in Mumbai or Kolkata or in both, Rs. 10 lakhs.
- (ii) If it has all its places of business in one State, none of which is in Mumbai or Kolkata, Rs. 1 lakh in respect of its principal place of business plus Rs. 10,000 in respect of each of its other places of business in the same district in which it has its principal place of business plus Rs. 25,000 in respect of each place of business elsewhere in the State. No such banking company shall be required to have paid-up capital and reserves exceeding Rs. 5 lakhs and no such banking company which has only one place of business shall be required to have paid-up capital and reserves exceeding Rs. 50,000.
- (iii) If it has all its places of business in one State, one or more of which are in Mumbai or Kolkata, Rs. 5 lakhs plus Rs. 25,000 in respect of each place of business outside Mumbai or Kolkata. No such banking company shall be required to have paid-up capital and reserve excluding Rs. 10 lakhs.

5. Capital Structure (Sec. 12):

According to Sec. 12, no banking company can carry on business in India, unless it satisfies the following conditions:

- (a) Its subscribed capital is not less than half of its authorised capital, and its paid-up capital is not less than half of its subscribed capital.
- (b) Its capital consists of ordinary shares only or ordinary or equity shares and such preference shares as may have been issued prior to 1st April 1944. This restriction does not apply to a banking company incorporated before 15th January 1937.
- (c) The voting right of any shareholder shall not exceed 5% of the total voting right of all the shareholders of the company.

6. Payment of Commission, Brokerage etc. (Sec. 13):

According to Sec. 13, a banking company is not permitted to pay directly or indirectly by way of commission, brokerage, discount or remuneration on issues of its shares in excess of 2½% of the paid-up value of such shares.

Payment of Dividend:

According to Sec. 15, no banking company shall pay any dividend on its shares until all its capital expenses (including preliminary expenses, organisation expenses, share selling commission, brokerage, amount of losses incurred and other items of expenditure not represented by tangible assets) have been completely written-off.



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Floating Charges:

A floating charge on the undertaking or any property of a banking company can be created only if RBI certifies in writing that it is not detrimental to the interest of depositors — Sec. 14A. Similarly, any charge created by a banking company on unpaid capital is invalid — Sec. 14.

7. Reserve Fund/Statutory Reserve (Sec. 17):

According to Sec. 17, every banking company incorporated in India shall, before declaring a dividend, transfer a sum equal to 20% of the net profits of each year (as disclosed by its Profit and Loss Account) to a reserve fund. The Central Government may, however, on the recommendation of RBI, exempt it from this requirement for a specified period.

8. Cash Reserve (Sec. 18):

Under Sec. 18, every banking company (not being a Scheduled Bank) shall, if Indian, maintain in India, by way of a cash reserve in Cash, with itself or in current account with the Reserve Bank or the State Bank of India or any other bank notified by the Central Government in this behalf, a sum equal to at least 3% of its time and demand liabilities in India.

The Reserve Bank has the power to regulate the percentage also between 3% and 15% (in case of Scheduled Banks). Besides the above, they are to maintain a minimum of 25% of its total time and demand liabilities in cash, gold or unencumbered approved securities. But every banking company's asset in India should not be less than 75% of its time and demand liabilities in India at the close of last Friday of every quarter.

9. Liquidity Norms (Sec. 24):

According to Sec. 24 of the Act, banking companies must maintain sufficient liquid assets in the normal course of business. The section states that every banking company has to maintain in cash, gold or unencumbered approved securities, an amount not less than 20% of its demand and time liabilities in India. This percentage may be changed by the RBI from time to time according to economic circumstances of the country. This is in addition to the average daily balance maintained by a bank.

10. Restrictions on Loans and Advances (Sec. 20):

After the Amendment of the Act, 1968, a bank cannot:

- (i) Grant loans or advances on the security of its own shares, and
- (ii) Grant or agree to grant a loan or advance to or on behalf of:
 - (a) Any of its directors;
 - (b) Any firm in which any of its directors is interested as partner, manager or guarantor;
 - (c) Any company of which any of its directors is a director, manager, employee or guarantor, or in which he holds substantial interest; or



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(d) Any individual in respect of whom any of its directors is a partner or guarantor.

11. Accounts and Audit (Sec. 29 to 34A):

The above Sections of the Banking Regulation Act deal with the accounts and audit. Every banking company, incorporated in India, at the end of financial year expiring a period of 12 months as the Central Government may by notification in the Official Gazette specified, must prepare a Balance Sheet and a Profit and Loss Account as on the last working day of that year or according to the Third Schedule or as circumstances permit.

It is interesting to note that a new set of forms have been prescribed for Balance Sheet and Profit and Loss Account of the banking company and RBI has also issued guidelines to follow the new forms with effect from 31st March 1992.

COMPONENTS OF THE INDIAN BANKING SYSTEM:

It has five major components:

1. Financial Institution:

- Their role is to mediate between the lender and the borrower.
- The lender's savings are gathered through various commercial markets.
- These can turn risky financings into safe investments.
- A liability that is for a short duration can be turned into an investment for a longer duration.
- These can make comparable large deposits and loans with small deposits and loans due to uniform denominations.
- These provide a balance between the loan taker and the amount depositor.

Financial Institutions have two major types:

a. Banking Institutions or Depository Institutions

- Their role is to acquire money from the public.
- Interests are paid on these deposits made by the people.
- The lent money is then provided as loans to those who need it.
- Interests are charged on these loans given to those who require it.
- Examples include banks and other credit unions.

b. Non-banking Institutions or Non-depository Institutions

- Their role is to sell commercial and financial goods and products to those who visit them.



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- These are based on offering insurance, mutual funds, brokerage deals, etc.
- Examples of these majorly include companies.

These further have three categories:

- **Regulatory:** Those managements and institutions which regulate and overlook the commercial and financial market. Example – RBI, IRDA, SEBI, etc.
- **Intermediates:** Those institutions which provide financial counselling and help by offering loans etc. Example – PNB, SBI, HDFC, BOB, Axis Bank.
- **Non – Intermediates:** These institutions help corporate visitors with their finances. Examples – NABARD, SIDBI, etc.

2. Financial Assets:

- The objective of these is to provide convenient trade of securities in the commercial and financial market based on the requirements of those who seek credit.
- These are the goods or products which are sold in the financial market.

Financial Assets include:

- **Call Money:** Without any assurance, this is a loan lent for just a day which is repaid the next day.
- **Notice Money:** Without any assurance, this is a loan rent for more than a day but less than a duration of 14 days.
- **Term Money:** When the duration of the maturity of a particular amount deposited is more than 14 days.
- **Treasury Bills:** With the duration of maturity of less than a year, these belong to the government in the bond or debt security format. These are bought in the form of government T– Bills which are taken as loans from the government.
- **Certificate of Deposit:** This works on the format of electronic funds that remain deposited in a particular bank for a fixed period of time.
- **Commercial Paper:** Used by corporates, it is an instrument that is not secured even though for a short duration of debt.

3. Financial Services:

- The major objective of these is to provide counselling to their visitors regarding the purchase or selling of a property, permitting transactions, deals, lending, and investments.
- These make sure the effectiveness of the investment and arrangement of the fund source too.



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- These are usually taken up by asset and liability management companies.

Financial services also include in them:

- **Banking Services:** Functions performed by a bank such as the provision of loans, accepting debits, giving out credit or debit cards, account opening, granting cheque books, etc are a part of these services.
- **Insurance Services:** These include services of offering insurance, selling policies, brokerage deals, etc.
- **Investment Services:** These services include overlooking and management of investment, assets, and deposits.
- **Foreign Exchange Services:** These include currency exchanges, foreign exchanges, and foreign fund transfers.

4. Financial Markets:

The markets where trade and exchange of bonds, shares, money, investments, and assets take place between buyers and purchasers are these.

Financial markets have four major types:

a. Capital Market:

- These deal with trades and transactions which take place in the market.
- These take place for a period of one year.

These are of three major types:

- Corporate Securities Market
- Government Securities Market
- Long Term Loan Market

b. Money Market:

- These are for short-duration investments.
- They are denominated by the government, banks, and other institutions.
- This market is based on wholesale debt having a low-risk factor with transparent instruments and formats used.

It has two main types:

1. Organized Money Market
2. Unorganized Money Market



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c. Foreign Exchange Market

- A highly developed market dealing with several currencies.
- It is responsible for the foreign transfer of funds.
- This takes place on the basis of foreign currency rates.

d. Credit Market

- This involves both short-duration loans and long-duration loans.
- It can be given to both individuals and organizations.
- These are granted by several banks, financial institutions, non – financial institutions, etc.

5. Money

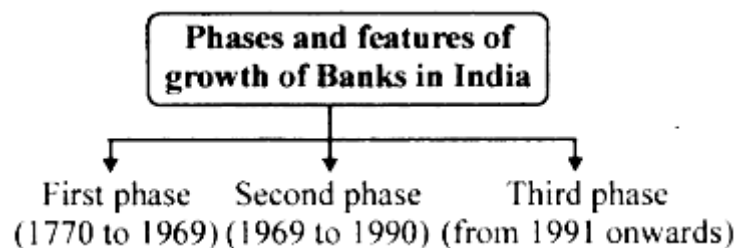
It is an important medium of exchange that can be used to purchase goods and services. It can also act as a store of value. It is uniformly accepted everywhere.

It eases transactions especially impromptu daily purchases. It makes the goods and services easily exchangeable. It acts as a verifiable record in the socio-economic context.

INDIAN BANKING SYSTEM:

India's banking system is dominated by government-owned 'public sector banks' (PSBs), which account for around 60 per cent of commercial banking system assets. Since the mid-2010s, these banks have been beset by problems with non-performing loans (NPLs) and low capital levels (RBA 2019). Over the past two decades, private sector banks have become more prominent and generally have healthier balance sheets with lower NPL ratios, although some private banks have failed in recent years. Foreign banks are in the strongest financial position but comprise only 7 per cent of commercial banking system assets. Outside the commercial banking system, there are a number of smaller banks that serve the needs of narrower groups of borrowers, including rural cooperative banks, small finance banks, local area banks and payment banks. Top of Form

PHASES OF DEVELOPMENT:





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First phase (1770 to 1969) :

- **English East India Company established three Presidency Banks:** Bank of Bengal, Bank of Bombay and Bank of Madras.
- The operations and growth of banks were slow.

Second phase (1969 to 1990) :

- Witnessed a speedy development of banks.
- The awareness that banks should operate with the objective of social progress became prevalent.
- This view led to the Bank nationalization of 1969 and 1980.

Third phase (From 1991 onwards) :

- Banks started rendering services other than the basic functions.
- Introduced new trends in banking like ATM, credit card, phone banking, net banking, core banking, etc.
- Emergence and operations of New Generation Banks.

STRUCTURE OF INDIAN BANKING SYSTEM:

The structure of Indian banking system is a complex network of institutions that provide financial services to customers. The Reserve Bank of India (RBI) is the apex body responsible for regulating and supervising the Indian banking system. The Indian banking system comprises the following components:

1. Reserve Bank of India (RBI)

The Reserve Bank of India (RBI) is a crucial component of India's banking structure. It is an autonomous body that operates as the country's central bank, and its primary objective is to ensure financial stability in India. The RBI also acts as a regulatory body and formulates monetary policies that impact the economy.

Here are some key points about the RBI's structure and functions:

- The RBI was established on April 1, 1935, and its headquarters are located in Mumbai.
- The RBI is governed by a central board of directors that is appointed by the government of India.
- The central board of directors is responsible for formulating policies related to currency, credit, and monetary management.



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- The RBI is responsible for managing India's foreign exchange reserves, which are among the largest in the world.
- The RBI regulates and supervises all commercial banks in India, including foreign banks, co-operative banks, and non-banking financial companies.
- The RBI also acts as a banker to the government and manages the government's borrowing program.
- Overall, the RBI's structure and functions are critical to India's banking system and economic stability.

2. Scheduled Commercial Banks (SCBs) –

Scheduled Commercial Banks (SCBs) form an integral part of the Indian banking system. They are licensed to operate under the Banking Regulation Act, 1949, and are required to maintain a minimum level of capital adequacy, as specified by the Reserve Bank of India (RBI). The three types of SCBs in India are:

A. Public Sector Banks:

These banks are owned and controlled by the government of India. Public sector banks provide essential banking services to the public, especially in rural and semi-urban areas. Some of the popular public sector banks in India are State Bank of India (SBI), Bank of Baroda, Punjab National Bank, etc.

B. Private Sector Banks:

These banks are owned and managed by private individuals or corporations. Private sector banks offer personalized banking services to customers and are known for their customer-centric approach. Some of the popular private sector banks in India are ICICI Bank, HDFC Bank, Axis Bank, etc.

C. Foreign Banks:

These banks have their headquarters in a foreign country but operate in India. Foreign banks in India are subject to the same regulations and restrictions as Indian banks. Some of the popular foreign banks in India are Citibank, Standard Chartered Bank, HSBC, etc.

2. Co-operative Banks –

Co-operative banks are an integral part of the Indian banking system and play a crucial role in serving the banking needs of the rural and semi-urban areas. These banks operate on the principle of cooperation and are owned and managed by their members, who are also their customers.



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Here are some key points about Co-operative Banks in India:

- Co-operative banks are registered under the Co-operative Societies Act, 1912 or 1965, depending on the state in which they operate.
- These banks cater to the financial needs of small and marginal farmers, agricultural laborers, small traders, and artisans in rural and semi-urban areas.
- Co-operative banks provide a range of financial services such as deposits, loans, remittances, and insurance to their members.
- The governance structure of co-operative banks is democratic, with members having a say in the management and operations of the bank.
- The Reserve Bank of India (RBI) regulates co-operative banks in India and has prescribed guidelines for their functioning and supervision.
- Co-operative banks are classified into two categories – urban co-operative banks (UCBs) and rural co-operative banks (RCBs), depending on their location and customer base.

4. Non-Banking Financial Companies (NBFCs) –

Non-Banking Financial Companies (NBFCs) play a crucial role in India's financial system by catering to the needs of underserved segments of the population. They provide a range of financial products and services that complement those offered by traditional banks.

Features and functions of NBFCs in India:

- NBFCs are regulated by the Reserve Bank of India (RBI) under the Reserve Bank of India Act, 1934.
- They are not allowed to accept demand deposits (deposits that can be withdrawn on demand, such as savings accounts).
- They can accept time deposits (deposits that are held for a fixed period of time, such as fixed deposits).
- NBFCs can provide loans and advances, and invest in various financial instruments such as stocks and bonds.
- They can also offer services like leasing, hire purchase, and insurance.
- NBFCs are often more flexible than banks in terms of lending norms, making them attractive to borrowers who may not meet the strict eligibility criteria of banks.
- NBFCs often focus on specific niche areas, such as microfinance, agriculture, or housing finance.



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PUBLIC SECTOR OR NATIONALISED BANKS:

Public sector banks or nationalised banks are those in which the government has retained a majority of its share with the primary aim of public interest.

After independence, the government of India started the nationalisation of the Imperial Bank of India in 1955 to enter the banking business. The Reserve Bank of India took 60% of the share and renamed it the State Bank of India.

In 1969, the government of India nationalised 14 more banks. In the last decade of the 20th century, the public sector banks achieved huge growth.

Many political changes in the early 21st century affected the growth of the public sector banks, and these banks reported huge losses. In 2002-03, these banks returned to the growth track and posted a profit of ₹7780 crores.

The Indian government merged ten public sector banks into four to restructure them and optimise functionality, significantly increasing profits. The State Bank of India is one of the biggest banks in India and worldwide.

The public sector banks of India

There are 12 public sector banks in India currently. Listed below are all the Indian public sector banks with their headquarters and year of establishment.

S. No	Bank Name	Headquarter	Establishment Year
1	Bank of Baroda	Vadodara, Gujarat	1908
2	Bank of India	Mumbai, Maharashtra	1906
3	Bank of Maharashtra	Pune, Maharashtra	1935
4	Central Bank of India	Uttar Pradesh	1911
5	Canara Bank	Bengaluru, Karnataka.	1906
6	Indian Bank	Chennai, Tamil Nadu	1907
7	Indian Overseas Bank	Chennai, Tamil Nadu	1937
8	Punjab National Bank	New Delhi, Delhi	1894
9	Punjab and Sind Bank	New Delhi, Delhi	1908
10	State Bank of India	Mumbai, Maharashtra	1955
11	Union Bank of India	Mumbai, Maharashtra	1919
12	UCO Bank	Kolkata, West Bengal	1943



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PRIVATE SECTOR BANKS:

Private banks are financial institutions owned and operated by private shareholders, driven by a profit motive. Private Banking provides professional, transparent management to a diverse clientele and operates according to state regulations and legal provisions.

A key aspect of private banking involves offering clients economic advice to effectively manage and grow their assets. Services provided encompass financial services, estate and tax planning, loans, credit cards, and investment services.

In the competitive landscape of private sector banks, institutions vie for customers by presenting superior interest rates, reduced fees, and innovative products and services. Private banks exhibit agility in adapting to dynamic market conditions and meeting customer needs promptly, a characteristic that sets them apart from public sector banks subject to government regulations and bureaucratic processes.

Top Ten Private Banks in India 2024 List

1. HDFC Bank
2. Axis Bank
3. Kotak Mahindra Bank
4. IndusInd Bank
5. Yes Bank
6. Federal Bank
7. RBL Bank
8. South Indian Bank
9. J&K Bank (Jammu and Kashmir Bank)
10. ICICI Bank

FOREIGN BANKS:

Foreign banks are a kind of International Bank that are obligated to follow the regulations of the home country as well as the host country. These foreign banks are classified as banks from a foreign country that is working in India through its branches. Foreign banks have presence in India either as a representative office or as a branch.

Foreign banks in India:

There are a total of 46 foreign banks in India as of now as per the RBI. The list includes American Express Banking Corporation, Barclays Bank Plc, Bank of America, Bank of Bahrain &



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Kuwait BSC, Citibank N.A, Deutsche Bank, DBS Bank India Limited, Emirates Bank NBD, HSBC Ltd, Industrial & Commercial Bank of China Ltd., Standard Chartered Bank, and others.

1. Citi Bank
2. HSBC India
3. Deutsche Bank
4. Royal Bank of Scotland (NatWest Markets PLC)
5. DBS Bank
6. Barclays Bank
7. Bank of America
8. Bank of Bahrain and Kuwait
9. Doha Bank

REGIONAL RURAL BANK (RRB)

Regional Rural Banks were established under the provisions of an Ordinance passed on 26 September 1975 and the RRB Act 1987 to provide sufficient banking and credit facility for agriculture and other rural sectors. RRB are Indian Scheduled Commercial Banks (Government Banks) operating at regional level in different states of India. They have been created with a view of serving primarily the rural areas of India with basic banking and financial services. However, RRBs may have branches set up for urban operations and their area of operation may include urban area too.

The area of operation of RRBs is limited to the area as notified by Government of India covering one or more districts in the State. RRBs perform various functions in following heads:

- Providing banking facilities to rural and semi –urban areas.
- Carrying out government operations like disbursement of wages of MGNREGA workers, distribution of pension etc.
- Providing Para-Banking facilities like locker facilities, debit and credit cards, mobile banking, internet banking, UPI etc.

UNIFIED PAYMENTS INTERFACE (UPI):

Unified Payments Interface (UPI) is a system that powers multiple bank accounts into a single mobile application (of any participating bank), merging several banking features, seamless fund routing & merchant payments into one hood. It also caters to the “Peer to Peer” collect request which can be scheduled and paid as per requirement and convenience.



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With the above context in mind, NPCI conducted a pilot launch with 21 member banks. The pilot launch was on 11th April 2016 by Dr. Raghuram G Rajan, Governor, RBI at Mumbai. Banks have started to upload their UPI enabled Apps on Google Play store from 25th August, 2016 onwards.

Unique OF UPI:

- Immediate money transfer through mobile device round the clock 24*7 and 365 days.
- Single mobile application for accessing different bank accounts.
- Single Click 2 Factor Authentication – Aligned with the Regulatory guidelines, yet provides for a very strong feature of seamless single click payment.
- Virtual address of the customer for Pull & Push provides for incremental security with the customer not required to enter the details such as Card no, Account number; IFSC etc.
- QR Code
- Best answer to Cash on Delivery hassle, running to an ATM or rendering exact amount.
- Merchant Payment with Single Application or In-App Payments.
- Utility Bill Payments, Over the Counter Payments, QR Code (Scan and Pay) based payments.
- Donations, Collections, Disbursements Scalable.
- Raising Complaint from Mobile App directly.

PAYMENTS BANK:

A Payments Bank is a bank that does not offer loans or credit cards. It takes deposits up to Rs 1 lakh from its customers. It provides various other financial services such as remittance transfer services, selling of financial products of other banks etc. So a payment bank does not offer loans such as gold loans, business loans, and personal loans. But they can sell the loan products and insurance products etc. of other NBFCs and banks.

Another source of revenue of payments banks is the transaction charges. Suppose you have an account with a payments bank. You deposit Rs 10,000 in this account. A small transaction fee of between 0.2% and 0.7% may be charged by the payments bank as transaction fee. You also pay transaction charges when you use the remittance services of a payments bank or use their debit cards. Payments Banks cannot issue credit cards, but they can issue debit cards.

Payments bank also earns revenues from selling the products of other banks and NBFCs, through it. So a payments bank can sell the gold loan product of another NBFC- such as IIFL Finance- or bank. It will charge a fee and commission from that NBFC or bank for doing so.



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SMALL FINANCE BANKING:

Small finance banks are those banks that operate in rural sections or sections of society that are excluded from the urban section. To help farmers, small business owners the small finance banks help Like all other banking organisations these types of banks i.e small finance banks also perform major tasks such as deposits and withdrawals.

Small finance banks are registered under public limited companies under the Companies Act 2013. The main significance of small finance banks is to provide inclusion to underdeveloped areas. These banks provide provisions for saving vehicles to underserved or unserved sections of society.

These banks provide financing to the small business units in rural sections.

BRANCH BANKING:

Branch banking is the operation of storefront locations away from the institution's home office for the convenience of customers.

Since the 1980s, branch banking in the U.S. has gone through significant changes in response to a more competitive and consolidated financial services market. One of the most significant changes is that, since 1999, banks have been permitted to sell investments and insurance products—as well as banking services—under the same roof.

- Branch banking refers to the operation of storefront spinoffs that offer the same key services as the institution's flagship home office.
- Since the 1980s, branch banking has undergone significant changes in response to a more competitive national market, deregulation of financial services, and the growth of internet banking.
- If you use a branch bank today, it is most likely to be one of the “big four” banks: JPMorgan Chase & Co., Bank of America, Wells Fargo, or Citibank.

UNIT BANKING:

In Unit banking, the banking operations are carried on through a single office rather than through a network of branches under the control of a single bank. The single office is both the controlling and the operating unit. Each banking unit is a separate company with a separate entity, with its capital, shareholders, and board of directors.

Unit banking is a system of banking under which a single banking organization provides banking services. Such a bank has a single office or place of work. It has its own governing body or board of directors.

The area of operations and the bank size is small under the unit banking system compared to the branch banking system. However, a few unit banks may have branches operating in a limited area; thus, it is a localized banking system.



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UNIVERSAL BANKING:

Universal banking is a system in which banks provide a wide variety of comprehensive financial services, including those tailored to retail, commercial, and investment services. Universal banking is common in some European countries, including Switzerland.

Universal banking became more common in the United States starting in 1999 when the Gramm-Leach-Bliley Act (GLBA) repealed the restrictions preventing commercial banks from offering investment banking services. Proponents of universal banking argue that it helps banks better diversify risk. Detractors think dividing up banking operations is a less risky strategy.

- Universal banking is a term for banks that offer a variety of comprehensive financial services, including both commercial banking and investment banking services.
- Commercial banks typically offer consumer and business services, such as checking and savings accounts, business and personal loans (including mortgages and auto loans), and certificates of deposits (CDs).
- Investment banks provide merger and acquisition services for corporations, underwriting services, and brokerage services for institutional and private clients.
- Banks in a universal system may still choose to specialize in a subset of commercial or investment banking services, even though they technically can offer much more to their client base.

FINANCIAL INCLUSION:

Financial inclusion is the availability and equality of opportunities to access financial services. It refers to a process by which individuals and businesses can access appropriate, affordable, and timely financial products and services which include banking, loan, equity, and insurance products. It is a path to enhance inclusiveness in economic growth by enabling the unbanked population to access the means for savings, investment, and insurance towards improving household income and reducing income inequality.

Financial inclusion efforts typically target those who are unbanked and under banked and direct sustainable financial services to them. Financial inclusion entails going beyond merely opening a bank account. Banked individuals can be excluded from financial services. Having more inclusive financial systems has been linked to stronger and more sustainable economic growth and development, thus achieving financial inclusion has become a priority for many countries across the globe.

In 2018, about 1.7 billion adults were estimated to lack a bank account. Among those who are unbanked a significant number are women and poor people in rural areas and often those who are excluded from financial institutions, face discrimination and belong to vulnerable or marginalized populations.



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Due to the lack of financial infrastructure and financial services many underserved and low-income communities suffer. Specifically, the lack of proper information can harm low-income communities and expose them to financial risks. For instance, payday loans target low-income persons who are not adequately informed about interest rates and compound interest. They become trapped and indebted to these predatory institutions.

KAMARAJ WOMEN'S COLLEGE



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UNIT – II

CENTRAL BANK AND COMMERCIAL BANK

CENTRAL BANK DEFINITION:

Central banks are institutions responsible for overseeing a nation's currency, money supply and interest rates. Central banks were first established in England during 1694 as the Bank of England and they gradually took on additional responsibilities over time such as lending as lender of last resort or regulating commercial banks to help smooth business cycle fluctuations and stabilize financial system fluctuations in an economy.

Central banks remain integral components of modern economies today, and their powers and responsibilities have changed depending on experiences, crises or political pressures over time.

Central banks first emerged during the 17th century in England and were officially established as fully functioning central banks by 1694. Over subsequent centuries, central banks proliferated around the globe and assumed more responsibilities, such as issuing currency, controlling interest rates and acting as lenders of last resort to commercial banks regulated by central banks. Their roles and powers continued to expand post-2008 global financial crisis.

Central banks help ensure financial system stability during times of crisis by acting as lenders of last resort and controlling inflation and interest rates. They also aim to foster sustainable economic development by maintaining low inflation rates and interest rates while simultaneously managing the money supply and implementing monetary policy more effectively than private sector banks with access to more information and tools.

NEED OF CENTRAL BANKING:

A central bank is a public institution that is responsible for implementing monetary policy, managing the currency of a country, or group of countries, and controlling the money supply. Some of the main responsibilities central banks have are:

1. Monetary Policy:

Controlling Inflation:

Central banks use monetary policy tools like interest rates and reserve requirements to manage inflation and keep prices stable.

Stimulating Economic Growth:

During economic downturns, central banks may lower interest rates or implement quantitative easing to encourage borrowing and spending.



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2. Financial Stability:

Lender of Last Resort:

Central banks provide emergency funding to banks that are struggling, preventing widespread financial crises and maintaining public confidence in the banking system.

Supervision and Regulation:

Central banks oversee the banking system to ensure banks are operating responsibly and not taking excessive risks.

3. Managing the Currency:

Currency Issuance:

Central banks are responsible for issuing the national currency (banknotes and coins) and managing its circulation.

Managing Foreign Exchange Reserves:

Central banks hold foreign currency reserves to stabilize the exchange rate and facilitate international trade.

4. Other Important Functions:

Providing Advice to the Government: Central banks often advise the government on economic policy and fiscal policy.

Managing Payment Systems: Central banks ensure the smooth functioning of payment systems for banks and other financial institutions.

Economic Research and Analysis: Central banks conduct research on the economy to inform policy decisions.

FUNCTIONS OF CENTRAL BANK

Central banks serve as the primary financial institution within any given nation to ensure financial system stability and efficiency. Here are its eight primary duties.

Functions of the Central Bank

1. Procures the last resort - The Central Bank provides emergency financial support to banks and financial institutions experiencing liquidity issues, thus maintaining stability within the financial system and preventing their collapse during a crisis.

Banks and financial institutions experience a sudden surge in depositor cash withdrawal requests at times of financial distress. To meet this increased cash withdrawal demand, these institutions turn to their central bank as lender of last resort for short-term loans at higher



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interest rates than market rates in order to remain solvent and ensure stability within their financial systems.

2. Credit Control - The central bank plays an essential role in controlling credit supply by employing monetary policy instruments like interest rates, reserve requirements, and open market operations to manage inflation and promote economic growth. This function must remain intact for this function to succeed effectively.

3. Currency Regulator - The central bank is accountable for issuing and overseeing national currencies. This involves making sure there is enough currency in circulation while protecting its value from fluctuation or counterfeit currency entering the financial system.

4. Bank to the Government - The central bank functions as a government bank by offering banking services and managing accounts of government departments and agencies, such as managing their debt, implementing monetary policy decisions and offering advice regarding economic and financial matters.

5. Custodian of Cash Reserves - The central bank holds onto some deposits held by commercial banks as cash reserves, providing essential insurance against banking system instability and solvency, and helping it control monetary policy within its economic impact.

6. Custodian of International Currency - Central banks oversee their respective country's foreign exchange reserves, consisting of foreign currencies, gold and other assets held overseas. These reserves play an essential role in maintaining currency stability as well as supporting international trade and investment activities.

7. Safeguarding depositor interests - The central bank plays an essential role in safeguarding depositor interests by supervising and regulating the banking system. This involves setting prudential regulations, monitoring compliance by banks and taking corrective actions when necessary to maintain the safety and soundness of banking system operations.

8. Preparing to Transfer or Settle the House - The central bank serves as a central clearing house to facilitate and settle payments between banks and other financial institutions, helping ensure transactions are carried out efficiently and securely. This is an integral component of financial system health; transactions that don't settle efficiently or securely would disrupt it significantly.

The above-mentioned functions make central banks a critical aspect of any economy.

CENTRAL BANKING PRINCIPLES

The principles on which a central bank is run are quite different from the ordinary banking principles:

(i) An ordinary bank is run for profit. A central bank, on the other hand, is primarily meant to shoulder the responsibility of safe guarding the financial and economic stability of the country. "The guiding principle of a central bank," says De Kock, "is that it should act only in the public



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interest and for the welfare of the country as a whole and without regard to profit as primary consideration.”! Earning of profit for a central bank is thus a secondary consideration.

(ii) Since the central bank is not a profit or dividend- hunting institution, it does not act as a rival of other banking institutions. That is why it seldom allows interest on deposits nor can it advance money against the security of immovable property or grant unsecured overdrafts. It is primarily concerned with the maintenance of the solvency of the entire banking system of the country. It must, therefore. Keep its own assets as liquid as possible.

(iii) The central bank is a reservoir of credit and a lender of last resort. All other bank and financial houses can look to it for accommodation. Of course, at a price. But the central bank cannot rely on any other institution to come to its aid and give it cash or take bills and securities off its hands.

(iv) The central bank must follow an active policy. It should not be merely all idle spectators when something goes wrong with the credit machinery of the nation. It must take active steps to remedy the situation.

(v) For the efficient discharge of its functions, the central bank is provided with special equipment: (i) It is given the monopoly of the note issue.

(vi) It is made a banker to the government.

(vii) Finally, a central bank should not be subservient to any political party. It must be independent of all political influence, so that it can act freely, without fear or favour, in the best interests of the nation as a whole, However, there is usually very close co-operation between the government and the bank.

DIFFERENCE BETWEEN THE CENTRAL BANK AND COMMERCIAL BANKS:

	Central Bank	Commercial Bank
Definition	Central bank is the apex financial institution of the country that is concerned with formation of monetary policies and the way money should be regulated in the economy	It is a type of financial institution that is concerned with providing banking services to the general public and businesses by facilitating deposit, offering loan facilities
Ownership	Central bank is always having public ownership	Commercial banks can be either public or private in their ownership
Number of Banks	There is only one central bank in a country	There can be many commercial banks in a country
Profit Motive	There is only one central bank in	Commercial banks operate with



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	a country	the motive of earning profit
Clients	Commercial banks and the government	Individuals and businesses
Policy creator	Central banks create monetary policy to regulate interest rates in an economy	Commercial banks do not create any policies that are essential for the functioning of an economy
Source of Money Supply	Central banks are the source of money supply in an economy	Commercial banks run on the deposits obtained from the individuals and hence they perform no such function

CREDIT CREATION

Demand deposits are an important constituent of money supply and the expansion of demand deposits means the expansion of money supply. The entire structure of banking is based on credit. Credit basically means getting the purchasing power now and promising to pay at some time in the future. Bank credit means bank loans and advances.

A bank keeps a certain part of its deposits as a minimum reserve to meet the demands of its depositors and lends out the remaining to earn income. The loan is credited to the account of the borrower. Every bank loan creates an equivalent deposit in the bank. Therefore, credit creation means expansion of bank deposits.

Basic Concepts of Credit Creation

- **Bank as a business institution** – Bank is a business institution which tries to maximize profits through loans and advances from the deposits.
- **Bank Deposits** – Bank deposits form the basis for credit creation and are of two types:
 - **Primary Deposits** – A bank accepts cash from the customer and opens a deposit in his name. This is a primary deposit. This does not mean credit creation. These deposits simply convert currency money into deposit money. However, these deposits form the basis for the creation of credit.
 - **Secondary or Derivative Deposits** – A bank grants loans and advances and instead of giving cash to the borrower, opens a deposit account in his name. This is the secondary or derivative deposit. Every loan creates a deposit. The creation of a derivative deposit means the creation of credit.
- **Cash Reserve Ratio (CRR)** – Banks know that all depositors will not withdraw all deposits at the same time. Therefore, they keep a fraction of the total deposits for meeting the cash demand of the depositors and lend the remaining excess deposits. CRR is the percentage of



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total deposits which the banks must hold in cash reserves for meeting the depositors' demand for cash.

- **Excess Reserves** – The reserves over and above the cash reserves are the excess reserves. These reserves are used for loans and credit creation.
- **Credit Multiplier** – Given a certain amount of cash, a bank can create multiple times credit. In the process of multiple credit creation, the total amount of derivative deposits that a bank creates is a multiple of the initial cash reserves.

COMMERCIAL BANK

DEFINITION:

As per the commercial bank definition, it is a financial institution whose purpose is to accept deposits from people and provide loans and other facilities. Commercial banks provide basic services of banking to their customers and small to medium-sized businesses.

FUNCTIONS OF COMMERCIAL BANKS

1. Primary Functions of Commercial Bank

- Accepting the Deposits
- Advancing the Loans
- Credit Creation
- A Cheque for paying the funds
- Paying and Collecting the Credit
- Purchasing and Selling of the Securities
- Bullion Trading
- Money Remittance
- Information Banks
- Locker Facilities
- Dealings in Foreign Exchange
- Banking services for Merchant

1. Accepting the Deposits

The major source of funds in the bank's deposits. This deposit consists only of money and not of any assets. For these deposits held, the commercial banks provide the interest.



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Thus, it helps in the mobilizing of the savings. For the deposits, there are a variety of options available. These include current account, savings account, recurring accounts, and fixed deposit accounts.

2. Advancing the Loans

This is another primary function of commercial banks. When a bank receives the money, a certain part of it is deposited in the reserves. While the remaining is dispatched in the form of loans.

There are two types of loans advanced by the banks. These are money at call and discounting of the bills. Money at call is a loan given for a very short period of time. This generally varies from 1 to 14 days. Discounting of the bills means the advance payment of loan reflected against repayment in the future.

3. Credit Creation

Whenever a loan or credit is provided to the customer, he/she is not given any cash. In fact, a bank account is opened in the name of that person and amount is transferred to that account. Through this process, the bank is able to create money.

4. A Cheque for paying the funds

A customer uses cheque as a negotiable instrument at the times of payment. This is one of the functions of the bank. So, in this, the bank offers a facility of having the cheques to the customer. It is also a main credit instrument in the banking world.

2. Secondary Functions

Apart from performing the primary functions, banks use a number of useful services for their customers. They act as an agent for the following functions. The other functions of commercial banks include utility functions and agency functions.

5. Paying and Collecting the Credit

The commercial banks use various instruments like a bill of exchange, cheques, promissory notes and many more. As this is used as a negotiable instrument in the bank.

6. Purchasing and Selling of the Securities

For this function, banks give you a facility for purchasing and selling the securities.

8. Bullion Trading

The commercial banks trade with many countries in the world. They trade in gold and silver and provides the same facility for their customers.



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8. Money Remittance

This is the function that the commercial banks provide. Thus, they remit the funds on behalf of their customers from one place to another.

In addition to agency services, banks also provide utility functions.

9. Information Banks

Commercial banks are primarily an information bureau, that collects the economic, statistical, and financial data related to the trade, commerce, and industry.

10. Locker Facilities

Lockers are provided to the customers by banks. In these lockers, people can keep their jewellery and other important documents. For this, the banks charge a very nominal annual fee.

11. Dealings in Foreign Exchange

Many commercial banks deal with their foreign exchange via their main branches. These commercial banks are the main dealers of foreign exchange in the country.

12. Banking services for Merchant

Commercial banks also provide the facility of merchant banking services to the customers. Thus, they are authorized to avail the loans for non-banking firms under this.

PERSONAL BANKING:

Commercial Bank of Dubai Consumer Banking manages the personal retail portfolio of accounts and is split into the following units:

- Wealth Management
- Personal Banking
- E-Banking
- Product Management
- Card Services Centre
- Marketing and Corporate Communications
- Market Intelligence and Customer feedback
- Contact Centre



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- 1. Wealth Management** is a programme exclusively tailored to suit the requirements of the bank's high net worth customers and provide them with a variety of innovative investment funds to manage their wealth and achieve their financial goals.
- 2. Personal Banking** is responsible for sales of consumer products related to Personal and Personal Plus segments and the quality of customer services provided.
- 3. Electronic Banking** looks after all CBD electronic channels (Online, SMS, ATM and Phone Banking). It takes advantage of new technology to service our customers and provides them with the high security ability to transact online at their convenience (in terms of timing, service and location).
- 4. Product Management** develops new consumer banking products based on customer needs and requirements, manages on-going product campaigns and promotions to enhance sales and monitors competition products under the three main areas of Cards, Liabilities and Mortgages.
- 5. Card Services Centre's (CSC)** role and responsibility is to manage and run payment card related business. CSC is also responsible for supporting branch customers applying for CBD payment cards. CSC's two core activities are Card Issuing and Merchant Acquiring (e-Commerce only), which includes, for example: application processing, authorisation, customer service, fraud monitoring and overall payment system reconciliation and settlement.
- 6. CBD Contact Centre** is where calls are received in high volume to be handled by specialised call centre agents to service CBD's customers. At the same time the Contact Centre is not restricted to inbound calls but will also proactively conduct outbound calling to promote bank's products and conduct quality service surveys. Our main objective is to deliver superior services to the bank's customers through qualified and well-trained Agents and Representatives; this makes the Contact Centre a good source of future skilled and experienced Branch Customer Service staff.

CORPORATE BANKING:

Corporate Banking is a division of a bank responsible for putting together loans to corporations, financial institutions, and governments.

Corporate banking, or "institutional banking", usually falls under the Investment Banking umbrella of the bank and is often perceived as a "loss leader" for other investment banking products such as M&A, bond and equity underwriting.

CORPORATE BANKING ROLES

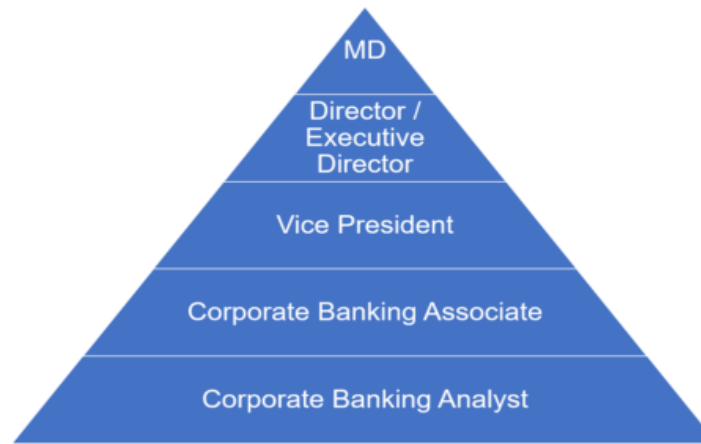
Although corporate banking is broadly considered an investment banking product, it is large enough so that there will be sub-divisions split across industry verticals and a loan syndications team. Similar to other divisions within the investment bank, the career trajectory begins at an analyst and ends with a managing director role.



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Corporate Banking Career Trajectory



At some banks, corporate bankers will also be in charge of credit underwriting that interfaces with the risk management function. At others, credit underwriting will be handled by a mid-office counterparty credit team.

DIGITAL BANKING:

Digital banking is part of the broader context for the move to online banking, where banking services are delivered over the internet. The shift from traditional to digital banking has been gradual, remains ongoing, and is constituted by differing degrees of banking service digitization. Digital banking involves high levels of process automation and web-based services and may include APIs enabling cross-institutional service composition to deliver banking products and provide transactions. It provides the ability for users to access financial data through desktop, mobile and ATM services.

A study conducted in 2015 revealed that 47% of bankers see the potential to improve customer relationships through digital banking, 44% see it as a means to generate competitive advantage, 32% see it as a channel for new customer acquisition. Only 16% emphasized the potential for cost saving.

The major benefits of digital banking are:

- **Business efficiency** - Not only do digital platforms improve interaction with customers and deliver their needs more quickly, they also provide methods for making internal functions more efficient. While banks have been at the forefront of digital technology at the consumer end for decades, they have not completely embraced all the benefits of middleware to accelerate productivity.
- **Cost savings** - One of the keys for banks to cut costs is automated applications that replace redundant manual labor. Traditional bank processing is costly, slow and prone to human error, according to McKinsey & Company. Relying on people and paper also takes up office



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space, which runs up energy and storage costs. Digital platforms can further reduce costs through the synergies of more qualitative data and a faster response to market changes.

- **Increased accuracy** - Traditional banks that rely mainly on paper processing can have an error rate of up to 40%, which requires reworking. Coupled with a lack of IT integration between branch and back office personnel, this problem reduces business efficiency. By simplifying the verification process, it's easier to implement IT solutions with business software, leading to more accurate accounting. Financial accuracy is crucial for banks to comply with government regulations.
- **Improved competitiveness** - Digital solutions help manage marketing lists, allowing banks to reach broader markets and build closer relationships with tech savvy consumers. CRM platforms can track customer history and provide quick access to email and other forms of online communication. It's effective for executing customer rewards programs that can improve loyalty and satisfaction.
- **Greater agility** - The use of automation can speed up both external and internal processes, both of which can improve customer satisfaction. Following the collapse of financial markets in 2008, an increased emphasis was placed on risk management. Instead of banks hiring and training risk management professionals, it's possible for risk management software to detect and respond to market changes more quickly than even seasoned professionals.
- **Enhanced security** - All businesses, big or small, face a growing number of cyber threats that can damage their reputations. In February 2016 the Internal Revenue Service announced it had been hacked the previous year, as did several big tech companies. Banks can benefit from extra layers of security to protect data.

CORE BANKING SYSTEM (CBS):

A core banking system is the software that banks use to manage their most critical processes, such as customer accounts, transactions and risk management. It is the central nervous system of a bank, and it is essential for providing a seamless customer experience (CX) and maintaining compliance with regulations.

A core banking system typically includes the following modules:

- **Accounting.** This module tracks all a bank's financial transactions, including deposits, withdrawals, loans and payments.
- **Customer relationship management (CRM).** The CRM module helps banks manage their relationships with customers by storing customer data, tracking interactions and generating reports.
- **Risk management.** This module helps banks identify and mitigate risks, such as fraud and credit risk.



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- **Operations.** This module supports day-to-day operations, such as processing transactions and managing accounts.
- **Reporting.** This module generates reports that help banks track performance and make decisions.

Core banking systems can be either on premises or cloud-based. On-premises systems are installed and maintained on the bank's own servers, while cloud-based systems are hosted by a third-party provider.

There are many different core banking systems available, and the best choice for a particular bank depends on its size, needs and budget. Some of the most popular core banking systems are the following:

- **Finacle:**

This system is developed by Infosys and is used by over 1 billion customers in over 100 countries.

- **Oracle Banking Cloud Services:**

This system is developed by Oracle and is used by over 130 banks in over 70 countries.

Core banking systems are a critical part of any bank's operations. By choosing the right system and implementing it effectively, banks can improve their efficiency, reduce costs and provide better CX.

ROLE OF BANKING IN ECONOMIC DEVELOPMENT:

Banking plays a big role in the development of the economy of India. It is the backbone of any country's economy, and its well-functioning is essential for nation-building.

The banking system of a country performs functions like:

Advancement of Credit: Indian banking sector is one of the most active sectors in advancing loans to individuals and institutions. It plays an important role in providing funds to different priority sectors like Agriculture, Small scale industries, trading enterprises, real estate, etc.

Business Development: Indian banking sector helps a lot in business development by developing strong ties with foreign countries through establishing branches. Indian banks also facilitate trade and commerce by providing payment facilities to various local and international business houses.

Financial Security: Indian banking system provides financial security to the people by providing loans at competitive rates, paying reliable remittance services, etc. It helps people save their money and invest it in different financial instruments like Government securities, long-term bonds, etc.



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Cash Management: Cash management plays a crucial role in the banking system. It allows banks to provide quick cash and money transfer. It helps banks manage money transfers carried out by various business houses and a large number of industrial units.

Financial stability: The Indian banking sector provides safe and secure financial services through Money orders, Cash deposits, and cash card services.

KAMARAJ WOMEN'S COLLEGE



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UNIT – III

BANKING PRACTICE

TYPES OF ACCOUNTS CASA:

CASA (CURRENT ACCOUNT SAVING ACCOUNT DEPOSITS):

CASA Deposits refers to Current Account Saving Account Deposits. As an aggregate the CASA deposits are low interest deposits for the Banks when compared to other types of the deposits. So banks tend to increase the CASA deposits and for this they offer various services such as salary accounts to companies, encouraging merchants to open current accounts, and use their cash-management facilities.

With a high CASA ratio, (CASA deposits as % of total deposits) banks are said to be in a more comfortable position than the Banks with low CASA ratios, which are more dependent on term deposits for their funding, and are vulnerable to interest rate shocks in the economy, plus lower spread they earn.

$$\text{CASA Ratio} = \text{CASA Deposits} \div \text{Total Deposits}$$

IMPORTANT OF CASA FOR BANKING:

CASA (Current Account and Savings Account) is important for banks for several reasons –

- **Low-cost deposits** – CASA deposits are considered to be low-cost deposits as they usually do not pay as much interest as other types of deposits like fixed deposits. Banks can use these deposits to lend to borrowers at a higher interest rate, thus increasing their profit margin.
- **Stable source of funds** – CASA deposits provide a stable source of funds for banks. Unlike other deposits like fixed deposits that have a fixed maturity period, CASA deposits are available on demand. This allows banks to meet their short-term funding requirements and manage their liquidity effectively.
- **Reduced cost of funds** – Since CASA deposits are low-cost deposits, a high CASA ratio can help banks reduce their cost of funds. This, in turn, can help banks offer competitive interest rates on loans and deposits and improve their profitability.
- **Lower risk** – CASA deposits are considered to be less risky than other types of deposits as they are usually held by customers who have a long-term relationship with the bank. This reduces the risk of deposit flight during times of economic uncertainty or market volatility.
- **Indication of customer loyalty** – A high CASA ratio indicates that customers have a long-term relationship with the bank and are loyal to it. This can help banks build customer loyalty and trust and improve their brand image.



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TYPES OF ACCOUNTS/DEPOSITS:

On the basis of purpose they serve, bank deposit accounts may be classified as follows:

- Savings Bank Account
- Current Deposit Account
- Fixed Deposit Account
- Recurring Deposit Account
- Special Term Deposits

1. Saving Accounts:

Savings accounts are meant for encouraging savings habit among the customers and also giving a protected environment to their savings. A nominal rate of interest is given to all savings account holders for their savings which is varying from one bank to another and calculated on daily balance method. Less number of cash withdrawals is allowed in savings accounts compared to current account.

2. Current Accounts:

Current accounts are normally maintained by business people who are keeping their business earnings which are huge values and banks are not offering any interest to such current accounts. Numbers of withdrawals from current accounts are not restricted to current account holders which is different from bank to bank.

3. Term Deposits:

Term Deposits are maintained for the depositors who want to earn fixed return by way of interest, to keep their money in the banks for long duration and also meant for those who do not have urgent cash requirements. Term deposits are normally divided into short term deposits, medium term deposits and long term deposits. They are otherwise called Fixed Deposits kept for fixed term starting from 15 days to 60 months. The rate of interest on fixed deposits is also different from one bank to another. Nowadays, some banks are offering additional $\frac{1}{2}\%$ more interest to senior citizens. If the deposit holders want to withdraw their deposits before the due date, they can withdraw them provided banks may charge penal interest from them. In India, maximum numbers of banks are conducting most of their banking business such as lending loans and advances out of funds mobilized from fixed deposits only.

4. Recurring Deposits:

Recurring Deposits are other types of deposits which are also considered as a term deposits in which a fixed sum of money is regularly deposited at fixed interval but the same is allowed to withdraw on completion of the contracted period with attractive interest rates. If the



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depositor is failed to make the agreed amount in Recurring Deposit account, the banker may charge penalty at the time of making the consecutive deposit.

5. Special Term Deposits:

This can be opened in the same way as the term deposit accounts. The interest on this account is compounded at quarterly intervals and the principal and interest are paid on maturity. The minimum and maximum period of deposits is normally 7 days to 120 months subject to change from one bank to another and the minimum amount of deposit is Rs.1000/- in multiple of Rs.100/-. The depositor can avail loan from this account upto 90% of the principal amount with accrued interest.

OPEN A BANK ACCOUNT

Once you have all your documents ready, follow these four steps to open your account:

1. Visit Bank Branch or Apply Online

To open any type of bank account, you need to visit the bank's branch or visit the bank's website to procure the bank account opening form.

This form requires you to fill personal details such as your name, permanent address, date of birth, the names of parents or spouse, along with your signatures to commit to basic terms and conditions of the bank.

2. Submit Documents of Proof for KYC

Indian banks have been mandated by the central bank Reserve Bank of India to authorise the opening of a bank account only when certain documents are produced as proof of identity.

In the case of opening a new account, customers need to submit mandatory documents such as an Aadhaar Card or PAN Card, and submit two recent photos of themselves. Other documents of proof will vary from one bank to another.

3. Wait for Bank to Assess Documents

Banks usually take one to two days for new account approvals. Once you've submitted your documents, wait for the bank to reach out to you for verification or clarifications on any errors they see in your KYC document submissions.

4. Collect Your Account Details, Debit Card and Internet Banking Details

Once the bank approves your account-opening documents by analyzing the proofs submitted, new account opening is sanctioned and the bank issues you your bank account number, along with a customer ID to enable online banking. Online banking is a way to carry out banking transactions electronically using the internet, instead of making in-person transactions at a physical bank branch.



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You are also provided a debit card to start accessing your bank account and conducting financial transactions. A debit card is a plastic card issued by your bank to enable you to make payments using the card instead of paying in cash.

As a mandatory requirement, you are expected to change your ATM pin by visiting a bank ATM and selecting a new pin for your debit card. You are also provided a cheque book, which helps you sign cheques to transfer funds from one bank account to another. Cheques are paper documents that instruct a bank to carry out a fund transfer from one account to another on whose name the cheque is issued.

JAN DHAN YOJANA:

Definition of 'Jan Dhan Yojana':

“In India a government scheme established in 2014 to allow widespread access to financial services”

Full name: Pradhan Mantri Jan Dhan Yojana

Pradhan Mantri Jan Dhan Yojana (PMJDY), one of the biggest financial inclusion initiatives in the world, was announced by Prime Minister, Shri Narendra Modi on 15th August 2014 from the ramparts of the Red Fort. While launching the programme on 28th August, the Prime Minister had described the occasion as a festival to celebrate the liberation of the poor from a vicious cycle. Shri Narendra Modi had referred to the ancient Sanskrit verse: Sukhasya Moolam Dharma, Dharmasya Moolam Artha, Arthasya Moolam Rajyam – which puts the onus on the state to involve people in economic activity. “This Government has accepted this responsibility,” the Prime Minister said & the Government has fulfilled its promise in record time.

Pradhan Mantri Jan Dhan Yojana is a National Mission on Financial Inclusion which has an integrated approach to bring about comprehensive financial inclusion and provide banking services to all households in the country. The scheme ensures access to a range of financial services like availability of basic savings bank account, access to need based credit, remittances facility, insurance and pension.

Against the original target of opening bank accounts for 7.5 crore uncovered households in the country by 26th January, 2015, banks have already opened 12.54 crore accounts as on 31st January 2015 after conducting survey of 21.06 crore households with deposits exceeding Rs 10,000 crores. The target was set after conducting a survey of 21.02 crore households in the country. Today, a coverage of almost 100% has been achieved. Out of the accounts opened, 60% are in rural areas and 40% are in urban areas. Share of female account holders is about 51%.

Pradhan Mantri Jan Dhan Yojana provides a platform for universal access to banking facilities with at least one basic banking account for every household, financial literacy, and access to credit, insurance and pension facility. It covers both urban and rural areas and those who open account would get indigenous Debit Card (RuPay card). Account can be opened in any bank branch or Business Correspondent (Bank Mitr) outlet at zero balance. Every bank account is on



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Core Banking System (CBS) of banks. Mobile banking using USSD facility available on even basic feature phones is also being supported. A facility of call centre and toll free number is available nationwide.

PMJDY brings about the objective of financial inclusion for all by providing basic banking accounts with a debit card with inbuilt accident insurance. The main features of PMJDY include Rs. 5,000 overdraft facility for Aadhar-linked accounts and a RuPay debit card with inbuilt Rs. 1 lakh accident insurance cover. In addition, for accounts opened between 15th August 2014 and 26th January 2015, a Life Insurance cover of Rupees 30,000 is available to the eligible beneficiaries. One of the salient features of Pradhan Mantri Jan Dhan Yojana is that after remaining active for 6 months, the account holder will become eligible for an overdraft of up to Rs 5,000.

ACCOUNT STATEMENT:

An account statement is a periodic summary of account activity with a beginning date and an ending date. The most commonly known are checking account statements, usually provided monthly, and brokerage account statements, which are provided monthly or quarterly. Monthly credit card bills are also considered account statements.

An account statement is a periodic statement summarizing account activity over a set period of time.

Account statements can be thought of as a summary of the account and include statements of services provided, fees charged, and money owed.

Account statements should be scrutinized for accuracy, and historical statements are critical for budgeting.

Account statements may often be received electronically, as distributors may charge fees for paper copies.

Account statements usually contain a unique identifier, starting information, ending information, and transactions.

PASS BOOK:

Pass Book is a record of transactions taken place between a banker and customer. It is called "Pass Book" as it passes between the banker and customer, whenever transactions are taking place. It is a conclusive evidence of banking transactions. Customer depends on the Pass Book entries to know his account balance and act for further transactions. Customer should bring the Pass Book to the bank at time of each transaction. Banker will update the Pass Book, by entering the transaction taken place. Customer has a right to point out the mistake in the Pass Book at any time.

According to Sir John Paget "The proper functioning of a Pass Book is to constitute a conclusive and unquestionable record of transactions between the banker and the customer and it should be recognized as such".



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A passbook or bankbook is a paper book used to record bank or building society transactions on a deposit account.

The Post Office Savings Bank introduced passbooks to rural 19th century Britain.

E-STATEMENTS

E-statements are the electronic delivery of your regular statements. They are much more environmentally friendly as they replace your current paper statements you receive in the mail.

You can still print your statements if you need to. They are absolutely free and you can register by contacting us.

Advantages of e-statements

E-statements will reduce paper wastage - no more paperwork which is good for the environment. They will also make your life easier by storing all your statement information in a single secure environment within Internet Banking. Never lose a statement again! It's also faster than a traditional paper statement as there is no postage required. We will send you an email as soon as your statement is ready for viewing.

DIFFERENCE BETWEEN ACCOUNT STATEMENT VS PASS BOOK:

Passbook is mainly related to saving account & bank statement is related to current account. Both are the same. Look wise there is some difference. Passbook is diary type and statement is printed on piece(s) of paper. Statement is usually given to current account/ cash credit holders whereas the passbook is given to savings banks account holders.

On the basis of Purpose:

Both are same as both serve same purpose i.e. tracking transactions done in account

On the basis of issuer:

Passbook (book format) is mainly issued by government owned or public sector nationalised (like OBC, Vijaya Bank, canara bank, etc) banks whereas the bank statement which is in paper format generally sent by Private Banks.

On the basis of Updation:

For transaction updation, you need to go personally to get updation of transaction till that date whereas the Bank statement which is periodically (monthly) sent is the detail transaction for a particular month for which it pertains to. Tried to incorporate new point.

DIFFERENCE BETWEEN PASS BOOK VS E-STATEMENT:

A bank passbook is a document that records financial transactions made through a bank account. It can be accessed in both physical and digital form. The traditional version is typically provided in a banking kit, while the digital version can be accessed through a mobile banking app.



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The main difference between the two is how transactions are recorded: traditional passbooks must be updated in person at a bank branch, while digital passbooks are automatically updated after each transaction.

In this blog, we will guide you through the process of obtaining a bank passbook statement both online and offline.

Bank Passbook Statement Offline:

A bank passbook statement can be submitted as proof of an active bank account. A user must follow the instructions below to obtain an offline bank passbook statement.

- Visit the bank in person.
- Request to have the bank passbook updated.
- The updated bank passbook will include a record of various transactions.
- The user can then choose the desired bank passbook statement for future reference.

E-Statement (Online bank passbook statement)

- Log in to your bank's mobile app or internet banking portal.
- Look for the option to view your bank passbook. This may be labelled as "Bank Passbook," "Transactions," or something similar.
- Click on this option to access your bank passbook statement, which will display all of your transactions on the screen.

BANKER CUSTOMER RELATIONSHIP:

The relationship between a banker and a customer comes into existence when the banker agrees to open an account in the name of the customer. The relationship between a banker and a customer depends on the activities, products, or services provided by the bank to its customers or availed by the customer. Thus the relationship between a banker and customer is the transaction relationship. Bank's business depends much on the strong bondage with the customer. Trust plays an important role in building a healthy relationship between a banker and a customer.

MEANING OF BANKING

Banking includes a wide variety of financial institutions that store the money of individuals, businesses and other entities. Banks provide financial services that help people save, manage and invest their money.

DEFINITION – BANKING

"Banking is the business of accepting for the purpose of lending or investment, of deposits of money from the public repayable on demand or otherwise and withdraw-able by cheque, draft,



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and order or otherwise.” Indian Banking Regulation Act, 1949. The term “bank” can refer to many different types of financial institutions — including bank and trust companies, savings and loan associations, credit unions or any other type of institution that accepts deposits.

DEFINITION OF CUSTOMER

The term Customer has not been defined by any act. In simple words, a customer is such a person to whom you extend your services in return for consideration. A customer is a person who maintains an account with the bank without taking into consideration the duration and frequency of operation of his account. To be a customer for any bank the individual should have an account with the bank. The individual should deal with the bank in its nature of regular banking business.

BANKER AND CUSTOMER RELATIONSHIP

I General Relationship

1. Debtor and creditor relationship:

When the banker accepts deposits from the customer then the bank becomes the debtor and the customer is the creditor. If a customer takes loans from a bank then the customer becomes a debtor and the bank becomes a creditor. Pledger and Pledgee relationship: when customer pledges (promises) certain assets or security with the bank in order to get a loan. In this case, the customer becomes the Pledger, and the bank becomes the Pledgee. Under this agreement, the assets or security will remain with the bank until a customer repays the loan.

2. Lessor (Lessor) and Licensee (Lessee) relationship:

The relationship between banker and customer can be that of a Lessor and Licensee. This happens when the banker gives a safe deposit locker to the customer. So, the banker will become the Lessor, and the customer will become the Licensee.

3. Relationship of Trustee and Beneficiary:-

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

4. Relationship of Bailor and Bailee:

The relationship between banker and customer can be that of Bailor and Bailee. A bailment is a contract for delivering goods by one party to another to be held in trust for a specific period and returned when the purpose is ended. Bailor is the party that delivers property to another. Bailee is the party to whom the property is delivered. So, when a customer gives a sealed box to the bank for safekeeping, the customer becomes the bailor, and the bank becomes the bailee.



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5. Relationship of Advisor and Client:-

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

5. Relationship of Agent and Principal:-

The banker acts as an agent of the customer (principal) by providing the following agency services: Buying and selling securities on his behalf, Collection of cheques, dividends, bills or promissory notes on his behalf.

II Special Relationships

1. Statutory Obligation to honour cheques:

When a customer opens an account there arises a contractual relationship between the banker and the customer. As long as there is sufficient balance in the account of the customer, the banker must honour all his cheques. However, the banker can refuse to honour the cheques only in certain cases like wrong details.

2. Secrecy of customer's account:

When a customer opens an account in a bank, the banker must not give information about the customer's account to others. It is one of the principal duties of the banker. There are certain circumstances in which the banker is entitled to or required to make disclosures about a customer's account.

3. Banker's right to claim incidental charges:

A banker has a right to charge a commission, interest or other charges for the various services given by him to the customer. For e.g. an overdraft facility.

4. Law of limitation on bank deposits:

Under the law of limitation, generally, a customer gives up the right to recover the amount due at a banker if he has not operated his account for the last 10 years. When a customer opens an account there arises a contractual relationship between the banker and the customer.

SPECIAL TYPES OF CUSTOMERS:

I INDIVIDUALS:

The banker should ensure that the initial credit in the account is made by cash. Only in such a case the bank gets protection as a collecting banker for subsequent credits by way of cheque / drafts collection.



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Special Types of Individual Customers:

Certain persons lack the legal capacity to make valid agreement - Minors, Drunkards, etc. The position of the banker in regard to these persons and the precautions to be taken in dealing with this category of persons is given below:

1. Minors:

According to Section 3 of Indian Majority Act, a person attains majority at the age of 18, except in cases where a guardian is appointed by a Court where the age of majority is 21. According to the Indian Contract Act, a minor is not under a legal capacity to enter into a contract and therefore any contract with a minor is void. Thus, the minor has a guardian to maintain his / her property. Section 6(a) of Hindu Minority and Guardianship Act, 1956 recognizes that either of the parents, father or mother, can be the natural guardian. Normally, bankers do not open accounts in the name of the minor individually, but open accounts in the joint name of the minor and the natural guardian.

The account opening form should contain details,

- Name of the Minor
- Age of the Minor
- Date of birth of the Minor
- Date of attaining majority
- Name of the Guardian
- Signature of the Guardian

When the minor attains the age of majority, he/she alone can operate the account and the guardian should not be allowed to operate the account.

2. Illiterate Persons:

A person who cannot read or write is considered as an illiterate person. The banker while opening an account in favour of an illiterate person, should adopt the following procedures:

The illiterate person will have to be introduced by an existing literate account holder of the branch. The left hand thumb impression has to be attested by a judicial officer or by any witness who is also the account holder of the bank. The illiterate person should not be given cheque book

Illiterate persons are the people who cannot either read or write, A banker can always open an account in the name of the illiterate person. The banker however needs to observe following precautions.



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- a. **Thumb impression** - As the illiterate person cannot sign, it is necessary for the banker to obtain the thumb impression of such a customer. The thumb impression has to be compared with the thumb found on the cheques drawn by him.
- b. **Photograph** - The banker should obtain the photograph of the illiterate customer. The photograph will help identify the illiterate easily. 2.3 Identification Mark Besides the photograph, the banker should also obtain brief details of the physical identification marks of the illiterate customer.

3. Married Woman:

An account can be opened in the name of a married woman. She has the power to draw cheques and give discharge. But if a loan is given to a married woman, the banker will have no remedy against her if she has no separate means. Bank must insist for the guarantee of her husband, because the married woman can plead for and get validated that her debts to the bank are void if the explicit written consent of the husband is not recorded by the lending bank. This is possible by virtue of provisions in Married Women's Property Act.

4. Lunatics:

Under Section 1 of the Indian Contract Act, persons of unsound mind are disqualified from contracting. But the disqualification does not apply to contracts entered into during the periods of sanity. However, no banker would knowingly open an account in the name of a person of unsound mind because he then would have to face the difficulty of choosing whether cheque was made during a period of sanity and pay it or it was made during a period when it was not and so dishonour it.

If a banker receives notice and is sure that an account – holder has become a lunatic, he should stop all operations in the account till such time the customer becomes normal. The banker should obtain a Certificate of Sanity from a competent authority after which such a person is allowed to operate on the account.

- a. **Return Cheques** - On coming to know of the unsound nature of mind of the customer, the banker must immediately return all the cheques drawn by him with the remark 'refer to drawer'.
- b. **Lunacy Order**- The order of lunacy on being received from the Court should be entered in the proper records of the banker.
- c. **Account operation** - The banker may allow the operation of the account of the lunatic customer only on the basis of the guidance of the Court Of Law. The customer should not be allowed to operate the account in any manner.

5. Drunkards:

Generally, drunkenness does not affect a person's capacity to contract. However, no one should take advantage of a person who is drunk. The drunkard may evade responsibility for an instrument if the Court is satisfied that he was compelled to sign the instrument when he was



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under influence or liquor. If a customer tenders a self cheque for cash payment when he is drunk, it is prudent for the banker to secure witness to the signature and the payment.

II JOINT ACCOUNTS:

A Joint Account is an account opened by two or more persons.

a. Opening of Joint Account:

The Account Opening Forms should be signed by all the joint account holders. The names, addresses and other details of all of them should be obtained on the Account Opening Form. The account – holders should also indicate how the account is to be operated the banker should obtain specific directions as to one or more of them will operate on the account. When a joint account is in the name of two persons, the operations may be by,

- a. both survivor
- b. both jointly
- c. Either or survivor
- d. Former or survivor e. Latter or survivor

III LIMITED COMPANY (JOINT STOCK COMPANY)

Limited Companies (also known as Joint Stock Companies) are governed by the Companies Act 1956. While a company is normally incorporated under the Companies Act, a company can also be brought into existence by means of a statute by the Parliament or the State Legislature. While the company consists of share- holders, its entity is separate from that of the share- holders. For all practical purposes, the company is just like a person and can sue or be sued in its own name.

Companies can be broadly divided into three categories:

a) Public Limited Company:

Should have a minimum of at least 7 members (Share holders), but there is no maximum limit.

b) Private Limited Company:

Must have at least 2 members (share holders), but not more than 200 members excluding those who are in the employment of the company at the time of share allotment.

c) Government Company:

These are companies where at least 51% of the total number of shares are held by the Government.



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IV CLUB AND ASSOCIATION:

Clubs and Associations, Committees, Funds etc. are non – trading organizations. They have no legal entity, unless they are incorporated under the Companies act. As they have no contractual powers, they cannot be used. The individual members of such organizations are not liable for any overdraft as long as the members are signing the cheques in their representative capacity and not in their personal capacity

V SOCIETIES:

These entities are established under Co-operative Societies Act in various States. They are governed by their respective rules and by- laws. Before opening the accounts, these rules have to be scrutinized to see if there are any restrictions on opening of bank accounts. In some states , the co-c-operative Societies cannot open the accounts with commercial banks without prior permission from the Registrar of Co-operative Societies and the Registrar may also impose certain conditions like maximum balances. All such conditions should be observed while opening the accounts.

KYC NORMS:

KYC is an acronym for "Know your Customer" a term used for Customer identification process. It involves making reasonable efforts to determine, the true identity and beneficial ownership of accounts, source of funds, the nature of customer's business, reasonableness of operations in the account in relation to the customer's business,etc which in turn helps the banks to manage their risks prudently.

The objective of the KYC guidelines is to prevent banks being used, intentionally or unintentionally by criminal elements for money laundering.

KYC Policy:

As per RBI guidelines issued vide their circular dated 29/11/2004, all banks are required to formulate a KYC Policy with the approval of their respective boards. The KYC Policy consists of the following four key elements.

1. Customer Acceptance Policy
2. Customer Identification Procedures
3. Monitoring of Transactions
4. Risk Management.

LOAN AND ADVANCE LENDING SOURCES:

1. Finance against gold / Jewellery:

Most Indian households do have some amount 'invested' in gold and/or jewellery. In circumstances when you need money, liquidating this gold/jewellery could be a superior option.



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Though many have sentimental values attached with their family gold/ jewellery, perhaps its best use is when it brings real money for you in times of need. One more option is obtain loan against gold/ jewellery from banks and NBFCs.

2. Loan Against Securities:

When you are in need of money, it may make better sense to avail a loan against shares or mutual fund units rather than liquidating them. Apart from being easy to execute, what makes this facility attractive to individuals is that you continue to retain ownership of your investments. Cost of this option is relatively less as the lender gets some comfort in form of collateral and hence has to carry lesser credit risk.

3. Credit Cards:

This plastic money can help you in a lot of tight corners you may find yourself in. Compared to using cash for daily transactions, you can just swipe your card and you are done. Credit cards can be used to defer the payment required by as much as 50 days and you may get some reward points also. Many credit card issuer banks do offer facility to pay the amount of bigger purchases in instalments without any extra cost. If used correctly, credit cards can help you to build a good credit score. One needs to take due care like not sharing the OTP, PIN, credit card CVV number, verifying the SMS alerts sent for each transaction etc. to avoid any possible misuse of credit card information.

4. Borrowing from friends and family:

This type of borrowing is perhaps the most flexible option for personal as well as business loans and there are several benefits associated with it. Apart from being fast to execute, flexible on repayment terms and credit period, the arrangement may be completely informal, not requiring any paper work, depending upon the comfort of parties involved. On the other hand, the benefits associated with this borrowing option are balanced out by some red flags. You sometimes have to face the social and financial ramifications after accepting loans from your friends or relatives. One of the biggest disadvantages of a loan of this nature is lack of clarity surrounding the terms and conditions. It is certainly a good practice to make sure that the person lending you money knows all the possible risks and rewards. The possible tax implications are another area which needs to be considered by lender as well as borrower. Setting clear payment terms and sticking to them will also help in avoiding uncomfortable discussions later. This can help you to avoid disagreements down the line.

5. Borrowing from Sahukars / Unauthorized Money Lenders:

Advantages notwithstanding, it is best for most of us to avoid this option of borrowing. Sahukars and unauthorized moneylenders are always looking for people who are in a crunch for cash. Generally the rate of interest associated with this option of borrowing is not only exorbitant but many elements of cost of borrowing are not transparent to the borrower. More than often, borrower is found to have paid a substantially higher amount to the lender over years, still unable



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to clear the loan fully; all thanks to arbitrary nature of financing arrangement, drawn completely in favour of the lender. As they operate out of any specific regulatory framework, there is no formal grievance redressal mechanism, other than litigation.

6. Reverse Mortgage Loan:

Reverse Mortgage Loan (RML) is a great way for supplementing present income / pension income in the form of regular stream of cash inflows to cover genuine expenses of senior citizens. This is very good option for asset rich – cash poor category of senior citizens who have a clear title of their residential house property. In this option, the bank or lender provides money against mortgage of the residential property in its favour for a specified period. Borrower gets either a lump sum amount or in instalments. If one of the borrowers spouse dies during the tenure of the loan, the other can stay in the home until the loan tenure. If any of the spouse continues to live beyond loan tenure, they can stay in the home until death but will not receive payments. The lender is compensated upon the death of the borrower in form of transfer of title of the property to its favour or repayment by legal heirs of borrower. This option though quite prevalent in western countries, is not popular in India due to many reasons including lack of understanding and awareness of this option.

LENDING PRINCIPLE:

1. General :

a. Banking is both an art and science, which cannot be guided by merely a set of rules. It is to be guided by general principles only. Even then there is no rigidity in the application of the set of principles in banking.

b. The banker has to shift good things out of the elements which he comes across and, in it lies his skill and diligence.

c. The banker should take into consideration the following aspects while dealing with a lending proposition.

2. Safety of fund:

a. Safety is the first and foremost thing that the banker has to consider, especially because he has to disburse depositors' money. As it is his primary duty to safeguard the monies of others, he has to exercise caution, prudence and tact.

b. The banker ensures that the money advanced by him go to the right type of borrowers and is utilized in such a way that it will not only be safe at the time of lending but remains so throughout and is repaid with interest after serving an useful purpose in trade, industry and agriculture etc. for which the money is lent.



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3. Identification of borrower:

a. The lending banker should satisfy himself by using all available sources of information as regards the prospective borrower's character, integrity and business acumen. The usual sources are :

- i. observation,
- ii. market enquiry and if possible,
- iii. study his past connections with any other institution

b. Generally, the banker should not be carried away by the appearance of the borrower. The banker should tap other sources to know on the character and integrity at all times and not merely at the time of taking the loan.

c. Branches should apply the parameters prescribed by the Bank under the Customer Acceptance Policy and Customer Identification Procedures before opening an account. The KYC norms as envisaged in the Bank's Anti-Money Laundering Standard should strictly be adhered to since the borrower customers are treated as low risk category.

d. In the case of partnership firms, the banker should collect extensive material and record comments regarding the integrity, worth, etc. of all the partners.

4. Purpose :

a. Purpose for which the loan is required is very important. The banker should be clear about the purpose for which the loan is required and the sources wherefrom the borrower is expected to repay the loan.

b. The borrower may require stop-gap finance till the money from other sources flows in. Such proposals may be favourably considered for good parties depending upon merits of each case and subject to RBI guidelines from time to time.

c. After nationalisation financing of agriculture, small scale industries and rural economy had gathered momentum.

d. Bank's lending has to be purpose oriented and the purpose shall be socially and economically desirable.

5. Liquidity / Repayment:

a. Due emphasis on repayment should be there. The sources and method of repayment should be decided upon while disbursing credit and the borrower should adhere to it. The security offered should be preferably easily realizable and/or self-liquidating.

b. In short term loans, there is more liquidity than in medium or long term advances. Although much of the credit extended by the banks is in the forms of CC/OD/loans repayable on



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demand and mostly for the purpose of Working Capital, they also evince interest in providing Term Loans for asset creation etc.

c. In recent times, commercial banks have been increasing their term lendings either singly or in participation with financial institutions. Banks should ensure that such increased participation in term 2 loans does not result in any asset liability mismatch.

6. Security:

a. The banker should take into consideration the security aspect also. It can be compared to the lifeboat in a ship, where the passenger takes recourse to it in times of emergency and extreme difficulty.

b. Security may be classified as personal and tangible as well as primary and collateral.

(i) Personal security means personal liability of the borrower and or guarantor. The banker has got a right of action against the borrower and it is not a tangible security.

(ii) Tangible security is something that can be realised by sale or transfer (example: shares, stocks, lands and goods).

(iii) Primary security is that which is regarded as the main cover for an advance; generally, the assets created out of the credit disbursed and against which the advance is made, e.g .. Stocks for cash credits, machinery for term loans.

(iv) Additional/Collateral security is the security other than the primary security created out of the advance and lodged by the borrower or by a third party.

c. Characteristics of Securities :

(i) **Marketability:** The main consideration which weighs with the banker is the ready marketability of the security. Articles of necessity, primary commodities, seasonal goods, raw materials etc., are generally in good demand.

(ii) **Ascertainment of title:** The borrower's title to the security must be clear and undisputed. It has to be verified; if there are any prior charges or encumbrances.

(iii) **Stability:** The banker must make sure that the value of the security does not fluctuate violently over short periods.

(iv) **Storability:** Certain securities such as Life Policies, Government Promissory Notes (GPNs), can be easily stored even in the smallest place. Large logs of timber, iron girders etc., present peculiar problems of storage.

(v) Transferability:

Physical Transfer: The security must be transferable from one place to another without much difficulty.



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Legal Transfer: The title to the security should be easily transferable. In case of LIC policy, shares etc. the transfer formalities are simple/quick. In case of immovable properties the transfer is comparatively cumbersome.

(vi) Yield : Certain securities are a source of income (example: shares and Government Promissory Notes (GPN) yield dividend and interest).

(vii) Durability: Vegetables, mutton, fruits, etc., are perishables. cement require special care. Otherwise, they deteriorate in quality. Grains and oil seeds last for one or two seasons. In other words, the goods stored should not be perishable during the period of advance.

7. Remuneration / Profitability :

a. Equally important is the principle of profitability in bank's advance. Banks have to pay interest on deposits, incur expenses on establishment, rent, stationery, make provision for depreciation of fixed assets and Non-Performing Assets. After meeting all these items of expenditure which enter the running cost of banks, a reasonable profit must be made.

b. Different rates are charged depending upon the borrower's Credit Rating, nature of security, mode of charge, etc. The Term Loan and other Working Capital limits of the borrower including those under Priority Sector shall be aggregated and the applicable interest rate be determined.

8. Risk Management:

a. Another important principle of good lending is the diversification of advances. An element of risk is always present in every advance and the banking business is one of taking calculated risks.

b. A successful banker is keen on mitigating the risks, by lending to a large number of borrowers in a number of industries and areas and against different types of securities.

9. National Interest:

a. Even if the advance satisfies all the aforesaid principles, it may not be suitable if it runs counter to the national "interests. RBI may issue directives restricting advances against commodities such as food grains, cotton, oil etc.

b. Due to liberalization measures initiated by the government, banks have to operate in a competitive environment. More emphasis should therefore be given to aspects of increasing market share of business, profitability, diversification of advance and investment portfolio etc.

10. Norms on credit exposure:

The Norms of NABARD have to be followed for ensuring that the norms on Credit exposure for individuals, units and industry/Sector are strictly followed. The NABARD's circular on Credit and Monitoring Arrangements will have to be referred to for complying with the exposure limits.



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11. Fair Lending Practices Code (FLPC):

a. FLPC came into effect from 1st November 2003. FLPC is put in place for retail credit facilities up to Rupees two lakhs. The purpose of FLPC is to render courteous and speedy services to all the borrowal customers.

b. All necessary information like range of loan products available, securities, interest, service charges, other terms and conditions, the likely time for sanction etc., should be furnished to a prospective borrowal customer.

c. The general Terms and Conditions for Advances and Schedule of service charges as advised by Head Office from time to time should be furnished to the prospective borrower along with the Application form.

d. The chart showing interest rate and service charges for advances to public should be displayed by the branches on their Notice Board.

e. On receipt of loan application complete In all respects, branches should give an acknowledgement. f. If any additional details are required while processing the application, the same should be immediately intimated to the customer.

f. On sanction of the loan, branches should obtain the customer's signature for acceptance of the terms and conditions of the sanction in the copy of the sanction ticket.

g. Statement of accounts should be regularly provided to the customers, unless the borrower expressly states that it is not required.

h. In case of rejection of loan applications, branches should furnish reasons for the same to the loan applicant through a letter.

TYPES OF LOANS:

1. Based on the Security Provided

Secured Loan:

These loans require the borrower to pledge collateral for the money being borrowed. In case the borrower is unable to repay the loan, the bank reserves the right to utilise the pledged collateral to recover the pending payment. The interest rate for such loans is much lower as compared to unsecured loans.

Unsecured Loan:

Unsecured loans are those that do not require any collateral for loan disbursement. The bank analyses the past relationship with the borrower, the credit score, and other factors to determine whether the loan should be given or not. The interest rate for such loans can be higher as there is no way to recover the loan amount if the borrower defaults.



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2. Based on the Purpose

Education Loan:

Education loans are financing instruments that aid the borrower pursue education. The course can either be an undergraduate degree, a postgraduate degree, or any other diploma/certification course from a reputed institution/university. You must have the admission pass provided by the institution to get the financing. The financing is available both for domestic and international courses.

Personal Loan:

Whenever there is a liquidity issue, you can go for a personal loan. The purpose of taking a personal loan can be anything from repaying an old debt, going on vacation, funding for the down payment of a house/car, and medical emergency to purchasing big-ticket furniture or gadgets. Personal loans are offered based on the applicant's past relationship with the lender and credit score.

Vehicle Loan:

Vehicle loans finance the purchase of two-wheeler and four-wheeler vehicles. Further, the four-wheeled vehicle can be a new one or a used one. Based on the on-road price of the vehicle, the loan amount will be determined by the lender. You may have to get ready with a down payment to get the vehicle as the loan rarely provides 100% financing. The vehicle will be owned by the lender until full repayment is made.

Home Loan:

Home loans are dedicated to receiving funds in order to purchase a house/flat, construct a house, renovate/repair an existing house, or purchase a plot for the construction of a house/flats. In this case, the property will be held by the lender and the ownership will be transferred to the rightful owner upon completion of repayments.

3. Based on the Pledged Assets:

1. Gold Loan:

Many financiers and lenders offer cash when the borrower pledges physical gold, may it be jewellery or gold bars/coins. The lender weighs the gold and calculates the amount offered based on several checks of purity and other things. The money can be utilised for any purpose.

The loan must be repaid in monthly instalments so the loan can be cleared by the end of the tenure and the gold can be taken back to custody by the borrower. If the borrower fails to make the repayments on time, the lender reserves the right to take over the gold to recover the losses.



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Loan Against Assets:

Similar to pledging gold, individuals and businesses pledge property, insurance policies, FD certificates, mutual funds, shares, bonds, and other assets in order to borrow money. Based on the value of the pledged assets, the lender will offer a loan with some margin at hand.

The borrower needs to make repayments on time so that he/she can get custody of the pledged assets at the end of the tenure. Failing to do so, the lender can sell the assets to recover the defaulted money.

ASSET CLASSIFICATION:

After identification NPA assets are classified into four categories in view of their status as NPA, availability of security and factors affecting the recovery of their dues.

On the basis of said classification provisions are to be made.

i) Standard assets:

These are assets which are regular in paying interest/instalment & its operations are Asset Classification NPA – Asset Classification & Income Recognition Asset Classification & Income Recognition normal.

ii) Sub-standard assets:

If the loan is NPA upto 12 months the same is called Sub Standard Assets.

iii) Doubtful assets:

If an asset is a sub-standard asset for a period exceeding 12 months, it should be classified as doubtful asset. The said doubtful assets are further classified age-wise i.e. doubtful assets upto 1 year, 1 to 3 years & over three years respectively.

Doubtful Assets upto	NPA
1 year	Of twenty four months
1 to 3 years	Over twenty four month & upto forty eight month
3 years & Above	Above 48 Months

iv) Loss Assets :

An asset identified by Bank or by internal/external auditor/RBI as loss assets with a little salvage value. 1 to 3 years Over twenty four month & upto forty eight month 3 years & above forty eight months.



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v) In respect of accounts where there are potential threats to recovery because of erosion in value of Security or fraud by borrower, such accounts should directly be classified as doubtful/ loss irrespective of period for which is remained as NPA.

vi) Upgradation of Accounts:

- Reschedule of recovery cannot give the advance a better classification than the previous one. Asset Classification NPA – Asset Classification & Income Recognition Asset Classification & Income Recognition previous one.

- NPA accounts can be upgraded to Performing Accounts, provided all overdues are adjusted or atleast reduced to a period of less than 90 days.

- Upgradation within the NPA category is not permitted i.e. Doubtful account cannot be made substandard even if the overdues are reduced to less than 18 Months.

INCOME RECOGNITION:

- Banks should not charge and take to income accounts interest accrued on non-performing assets. Income from non performing assets is not recognized on accrual basis but is booked as income only when it is actually received.
- Interest on advance against Term deposits, NSC, Indira & Kisan Vikas Patra & LIC may be taken to income subject to availability of Margin.
- In the absence of clear agreement between the Bank and the Borrower, an appropriate policy to be followed in uniform and consistent manner.
- On an account turning NPA, banks should reverse the interest already charged and not collected by debiting Profit and Loss account, and stop further application of interest. However, banks may continue to record such accrued interest in a Memorandum account in their books. For the purpose of computing Gross Advances, interest recorded in the Memorandum account should not be taken into account.

PROVISIONING NPA:

1. Provision in respect of Standard Advances

- a. 0.25% of gross amount for advances to agricultural and SME sectors.
- b. 1% of advances to Commercial Real Estate (CRE)
- c. 2% of advances to Housing loan at teaser rates. However after 1 year from the date on which the rates are reset at higher rates, the provision should be 0.40% NPA – Asset Classification & Income Recognition Asset Classification & Income Recognition Provisioning Norms
- d. 2% in case of Restructuring accounts classified as Standard advances e. 0.40% of gross account for advances other than (a), (b), (c) & (d).



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2. Realisable Value of Security shall be including Principal Security, Collateral Security, DIGCC/CGS Claim, Sundry Credits, Net worth of Borrower and Guarantors, Deposits as per court order and Value of attached assets as per Court Order.
3. For all NPA accounts provisioning should be made on amounts outstanding less amount of interest/other charges debited not recovered by the year end.
4. The country based risk provision ranging from 0.25 % to 100 % to be made.
5. A bank may voluntarily make specific provisions for advances at rates which are higher than the rates prescribed under existing regulations, to provide for estimated actual loss in collectable amount, provided such higher rate are approved by Board of Directors NPA – Asset Classification & Income Recognition Asset Classification & Income Recognition in collectable amount, provided such higher rate are approved by Board of Directors
6. The amount of liquidity facility drawn and outstanding for more than 90 days, in respect of securitization transactions, should be fully provided for.
7. In respect of NPA balance of Rs.5 crores & above, bank needs to formulate policy for annual stock audit by external agencies & in respect of immovable properties, valuation to be carried once in 3 years by approved value.

REPO RATE:

The Repo Rate is the interest rate at which the Reserve Bank of India (RBI) loans money to commercial banks.

Repo Rate full form is Repurchase Agreement or Repurchasing Option. Banks obtain loans from the Reserve Bank of India (RBI) by selling qualifying securities.

The current Repo Rate in India, fixed by RBI is 6.50%. As per the latest news, the repo rate remained unchanged, as announced on 8th December 2023.

The central bank or RBI and the commercial bank would reach an agreement to repurchase the securities at a set price. When banks are short on funds or need to maintain liquidity under volatile market conditions, this is done. The repo rate is utilized by the RBI to manage inflation.

REVERSE REPO RATE:

The reverse repo rate is the rate on commercial banks' deposits with the central bank. Most banking organizations choose this safer strategy to secure their funds in the event of a surplus. In other terms, the reverse repo rate is an interest rate paid on cash deposited.

The reverse repo rate is utilized to control the economy's liquidity, while the repo rate is utilized to control inflation. The reverse repo rate is always kept lower than the repo rate by central banks.



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Repo Rate	Reverse Repo Rate
The lender is the RBI, and the borrower is the commercial bank.	The lender is the commercial banks, and the borrower is the Reserve Bank of India.
The objective of the repo rate is to manage short deficiency of the funds.	It is to reduce the overall supply flow of money in the economy.
The rate of interest for repo rates is higher than that of reverse repo rates.	The rate of interest is lesser than the repo rate.
The interest charge that is applicable to the repo rate is through a repurchase agreement.	The applicable interest charge is through a reverse repurchase agreement.
The mechanism of operation in the case of repo rate for commercial banks gets funds from RBI utilizing government bonds as collateral.	In reverse repo rate, the commercial banks deposit their excess funds with the Reserve Bank of India and get interested from the deposit.
Higher the rate, the cost of the funds in repo rate increases for commercial banks; hence the loans become more expensive.	When the rate is high, the money supply in the economy gets lower as commercial banks park more excess funds with the Reserve Bank of India.
Lowering the rate makes the cost of the funds lower for commercial banks and leads to lower interest rates on loans.	When the rate is low, the money supply in the economy gets higher as banks lend more and lessen the deposits with RBI.

SECURITIES LENDING:

Securities lending is the act of lending or loaning a financial security, a stock, bond, or derivative, to a firm or an investor. It involves the borrower to provide collateral for the security that they are borrowing. The collateral can be in the form of either cash, bonds, shares or letter of credit (LOC).

One of the most common applications for securities lending is short selling. A short sell is when a party sells a security and then repurchases it at a date in the future. It is a trade that takes the position that the underlying security value will decrease in the future.

Securities Lending Benefits

From the lender's point of view, the benefits of securities lending include the ability to earn additional income through the fee charged to the borrower to borrow the security. It could also be viewed as a form of diversification.



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From the borrower's point of view, it allows them to take positions like short selling. It also gives investors more options to take different views on the market. For the market as a whole, as mentioned above, it helps to increase liquidity. Increasing liquidity in the market tends to also tighten spreads, which is beneficial to all market participants as the gap between the bid and the ask decreases.

Securities Lending Risks

All investment strategies involve risk, including securities lending. As a lender, the main risk is that the value of the collateral decreases below the cost of the security that was lent out. Another risk to the lender could be that the borrower becomes insolvent and is unable to return the borrowed security.

Additionally, a timing risk could occur for the lender if the lender gives the borrower the security before receiving the collateral. As a borrower, the main risk is that the value of the security increases after a short position is taken. When the borrower takes a short position and the value of a security increases, the borrower essentially has sold low and bought high, losing money.

Securities Lending and Market Liquidity

Empirical evidence supports that securities lending helps to provide liquidity in over-the-counter markets. It helps facilitate various trades that allow investors or institutions to hedge, take a bespoke position, or in arbitrage situations.

Securities lending is a common practice in insurance companies. Insurers may take long-term investments to match with insurance liabilities. Thus, the securities are not actively traded. It gives rise to the opportunity for insurance companies to lend the securities and earn a fee to boost returns.

FACTORS INFLUENCES OF BANK LENDING:

Policy means action or procedure conforming to or considered regarding prudence or expediency. Bank lending policy refers to the policy and guidelines to make its lending process systematic and methodical. Banks deal with other people's money. They lend the money which they borrow from the depositors.

1. Liquidity:

The term 'liquidity' implies the ability to produce cash on demand. A bank mainly utilizes its deposits to grant advances.

These deposits are repayable on demand or the expiry of a specified period. To meet the depositors' demand in time, banks should keep their funds in a liquid state.

Money locked up in long-term loans cannot be received back in time and so are less liquid.

So a bank should confine its lending to short-term loans only.



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2. Profitability

Like all other commercial institutions, banks are run for profit, and even government-owned banks are no exception to this.

Banks earn profit to pay interest to depositors, declare a dividend to shareholders, meet establishment charges and other expenses, provide for reserve and bad and doubtful debts, depreciation, maintenance, improvements of property owned by the bank, and sufficient resources to meet contingent loss.

So profit is an essential consideration. Banker should employ their funds in such a way that they will bring them adequate returns.

2. Safety and Security

The banker should ensure that the borrower has the ability and willingness to repay the advances as per the agreement.

Closely allied to this point, he should carefully consider the margin of safety offered by the security and the possibilities of fluctuations in value before granting a secured advance.

If it is an unsecured advance, its repayment depends on the creditworthiness of the borrower and that of the guarantor.

The cardinal principles that the banker should consider in case of unsecured advances are character, capacity, and capital (popularly known as the 3C's) or reliability, responsibility, and resources (popularly known as the 3 R's) of the borrower and the guarantor.

4. Purpose

The banker has to carefully examine the purpose for which the advance has been applied.

If the advance is intended for productive purposes, it could be reasonably anticipated that cash flows arising from productive activities will prompt repayment.

6. Sources of Repayment

Before giving financial accommodation, a banker should consider the source from which repayment is promised. In some instances, debentures to be redeemed in a few months or a life insurance policy to mature soon may be offered as security.

Advances against such security give no trouble.

Sometimes customers may apply for loans for additional working capital for their business and repay the profits over a period.

7. Diversification of Risk

A banker's security consciousness and the borrower's integrity are 'not adequate factors to keep the banker safe.



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What is also important is the diversification of risk.

This means the banker should not lend a major portion of their loanable fund to any single borrower or industry or one particular region.

Otherwise, an adverse change in the economy may affect the entire business.

In such a case, repayment will be highly difficult, and the bank's survival will become questionable. Therefore a bank should follow the wise policy of "do not put all the eggs in a single basket."

The bank must advance moderate sums to customers spread over a wide area and belonging to different industries.

8. Social Responsibility

While admitting that banks are essentially commercial ventures, a bank should not forget that it is not enough that only people of means are given bank finance.

Through productive effort, bank finance should make people creditworthy and turn them into people of means.

Technical competence of the borrower, operational flexibility, and economic viability, rather than the security the borrower can offer, should be considered in evaluating a loan proposal.

Identifying priority sectors to extend bank credit should be considered a positive development in the banking system, aimed at effectively discharging its responsibility towards society.



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UNIT - IV

NEGOTIABLE INSTRUMENTS

MEANING OF NEGOTIABLE INSTRUMENT:

Negotiable Instruments are written contracts whose benefit could be passed on from its original holder to a new holder. In other words, negotiable instruments are documents which promise payment to the assignee (the person whom it is assigned to/given to) or a specified person. These instruments are transferable signed documents which promises to pay the bearer/holder the sum of money when demanded or at any time in the future.

DEFINITION OF NEGOTIABLE INSTRUMENTS:

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” literally means “a written document transferable by delivery”.

CHARACTERISTICS OF NEGOTIABLE INSTRUMENTS:

An examination of the above definition reveals the following essential characteristics of negotiable instruments which make them different from an ordinary chattel:

1. Easy negotiability:

They are transferable from one person to another without any formality. In other words, the property (right of ownership) in these instruments passes by either endorsement or delivery (in case it is payable to order) or by delivery merely (in case it is payable to bearer), and no further evidence of transfer is needed.

2. The transferee can sue in his own name without giving notice to the debtor:

A bill, note or a cheque represents a debt, i.e., an “actionable claim” and implies the right of the creditor to recover something from his debtor. The creditor can either recover this amount himself or can transfer his right to another person. In case he transfers his right, the transferee of a negotiable instrument is entitled to sue on the instrument in his own name in case of dishonor, without giving notice to the debtor of the fact that he has become the holder.

3. The better title to a bonfire transferee for value:

A bonfire transferee off a negotiable instrument for value (technically called a holder in due course) gets the instrument “free from all defects.” He is not affected by any defect of title of the transferor or any prior party. Thus, the general rule of the law of transfer applicable in the case of ordinary chattels that “nobody can transfer a better title than that of his own” does not apply to negotiable instruments.



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4. Title:

Negotiability confers an absolute and good title on the transferee. It means that a person who receives a negotiable instrument has a clear and indisputable title to the instrument. However, the title of the receiver will be absolute, only if he has got the instrument in good faith and for consideration the receiver should have no knowledge of the previous holder having any defect in his title. Such a person is known as the holder in due course.

5. Must be in writing:

A negotiable instrument must be in writing. This includes handwriting, typing, computer print out and engraving, etc.

6. Unconditional Order:

In every negotiable instrument, there must be an unconditional order or promise for payment.

7. Payment:

The instrument must involve the payment of a certain sum of money only and nothing else. For example, one cannot make a promissory note on assets, securities, or goods.

8. The time of payment must be certain:

It means that the instrument must be payable at a time which is certain to arrive. If the time is mentioned as “when convenient” it is not a negotiable instrument. However, if the time of payment is linked to the death of a person, it is nevertheless a negotiable instrument as death is certain, though the time thereof is not.

9. The payee must be a certain person:

It means that the person in whose favour the instrument is made must be named or described with reasonable certainty. The term “person” includes individual, body corporate, trade unions, even secretary, director or chairman of an institution. The payee can also be more than one person.

10. Signature:

A negotiable instrument must bear the signature of its maker. Without the signature of the drawer or the maker, the instrument shall not be a valid one.

11. Delivery:

Delivery of the instrument is essential. Any negotiable instrument like a cheque or a promissory note is not complete until it is delivered to its payee.



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12. Stamping:

Stamping of Bills of Exchange and Promissory Notes is mandatory. This is required as per the Indian Stamp Act, 1899. The value of stamp depends upon the value of the pro-note or bill and the time of their payment.

13. Right to file suit:

The transferee of a negotiable instrument is entitled to file a suit in his own name for enforcing any right or claim on the basis of the instrument.

14. Notice of transfer:

It is not necessary to give notice of transfer of a negotiable instrument to the party liable to pay.

15. Presumptions:

Certain presumptions apply to all negotiable instruments, for example, consideration is presumed to have passed between the transferor and the transferee.

16. Procedure for suits:

In India, a special procedure is provided for suits on promissory notes and bills of exchange.

17. The number of transfer:

These instruments can be transferred indefinitely until they are at maturity. 18. Rule of evidence: These instruments are in writing and signed by the parties, they are used as evidence of the fact of indebtedness because they have special rules of evidence. 19. Exchange: These instruments relate to payment of certain money in legal tender, they are considered as substitutes for money and are accepted in exchange of goods because cash can be obtained at any moment by paying a small commission

TYPES OF NEGOTIABLE INSTRUMENTS

Promissory notes

A promissory note refers to a written promise to its holder by an entity or an individual to pay a certain sum of money by a pre-decided date. In other words, Promissory notes show the amount which someone owes to you or you owe to someone together with the interest rate and also the date of payment.

In another possibility, A might have a promissory note which is issued by C. He could endorse this note and give it to B and clear of his dues this way. However, the seller isn't bound to accept the promissory note. The reputation of a buyer is of great importance to a seller in deciding whether to accept the promissory note or not



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Bill of exchange

Bills of exchange refer to a legally binding, written document which instructs a party to pay a predetermined sum of money to the second (another) party. Some of the bills might state that money is due on a specified date in the future, or they might state that the payment is due on demand.

A bill of exchange is used in transactions pertaining to goods as well as services. It is signed by a party who owes money (called the payer) and given to a party entitled to receive money (called the payee or seller), and thus, this could be used for fulfilling the contract for payment. However, a seller could also endorse a bill of exchange and give it to someone else, thus passing such payment to some other party.

Cheques

A cheque refers to an instrument in writing which contains an unconditional order, addressed to a banker and is signed by a person who has deposited his money with the banker. This order, requires the banker to pay a certain sum of money on demand only to the bearer of cheque (person holding the cheque) or to any other person who is specifically to be paid as per instructions given.

Cheques could be a good way of paying different kinds of bills. Although the usage of cheques is declining over the years due to online banking.

CROSSING OF CHEQUE:

The meaning of cross-cheques in India is similar to the meaning of cheques in other countries. It is a document that allows two people to exchange money.

The Indian Commercial Courts are familiar with the Crossed Cheque and have ruled that original Cross Cheques can be recognized under any company's seal and seals of any branch it has, irrespective of whether they bear the same figure or not. In other countries, a crossed cheque (also called a 'crossed check') is usually regarded as evidence of fraud.

OBJECTICE OF CROSSING CHEQUE

- Crossing a Cheque provides precise instructions to a financial organisation regarding the handling of funds.
- Crossed cheques are usually identified by drawing either two parallel transverse lines either vertically across the cheque or on the top left-hand corner of the cheque.
- Two or more words like 'and company' or 'not negotiable' may be placed between the lines. While just drawing the lines with no words also would not alter the purpose of the crossed cheque.
- With Crossed cheques, the cheque writers may protect the amount transferred from being cashed by the unauthorized person or from being stolen.



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- This format for Crossed cheques may differ between various countries in the nature of its format or statements.
- Since the Crossed Cheques can only be paid through a bank account, the beneficiaries transaction record may be traced later for further queries and clarifications.

TYPES OF CHEQUE CROSSING

- General Crossing – cheque bears across its face an addition of 2 parallel crosswise lines.
- Special Crossing – It bears the crossing across its face in which the banker's name is included
- Restrictive Crossing – It directs the assembling banker that he has to credit the number of cheques solely to the account of the receiver.
- Non-Negotiable Crossing – it's once the words 'Not Negotiable' are written between the 2 parallel crosswise lines.

1. General Cheque Crossing:

In general crossing, the cheque bears across its face which includes the addition of 2 parallel crossing lines with little spacing between them, within the case of general crossing on the cheque, the paying banker pays cash to any banker. For the aim of general crossing 2 crosswise parallel lines at the corner of the cheque are necessary. Thus, during this case, the holder of the cheque or the receiver can receive the payment solely through a checking account and not over the counter.

2. Special Cheque Crossing:

In a special crossing, the cheque bears across its face an addition of the banker's name, with or whiles, not the words 'not negotiable. In this case, the paying banker pays the quantity of cheque solely to the banker whose name seems within the crossing or to his assembling agent. The paying banker can honor the cheque only if it's ordered through the bank which is mentioned within the crossing. However, in special crossing 2 parallel crosswise lines don't seem to be essential, however the name of the banker is most significant. Amount Payee Crossing This type of cheque crossing indicates that the amount cannot be paid into any bank account other than the one specified on the check. This type of crossing assures that the funds are only moved to a bank account and not supplied in the form of cash.

3. Restrictive Cheque Crossing:

This type of crossing restricts the negotiability of the cheque. It directs the assembling banker to credit the amount of money in a cheque to the account of the receiver. Where the assembling banker credits the return of a cheque bearing such crossing to the other account, he shall be guilty of negligence. Also, he won't be eligible for the protection of the assembling banker below section 131 of the Act. However, such crossings can don't have any impact on the paying



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banker. This is often therefore as a result of it's not his duty to see that the cheque is collected for the account of the receiver.

4. Not Negotiable Cheque Crossing:

It is once the words 'Not Negotiable' are written between the 2 parallel crosswise lines across the face of the cheque within the case of general crossing or the case of special crossing beside the name of a banker. The Non-Negotiable Crossing doesn't mean that the cheque is non-transferable. As per the Non-Negotiable Act, 1881 section 130A cheque holder which has crossed any single leaf of cheque either generally or in a special case. In either case, the words "non-negotiable". Thus, he becomes the holder in due course and acquires an indisputable title thereto. Also, once the instrument passes through a holder in due course, all the next holders conjointly receive an honest title. But, no Negotiable Crossing takes away this vital feature.

ENDORSEMENT:

Section 15 defines endorsement as follows: "When the maker or holder of a negotiable instrument signs the same, otherwise than as such maker, for the purpose of negotiation, on the back or face thereof or on a slip of paper annexed thereto, or so signs for the same purpose a stamped paper intended to be completed as negotiable instrument, he is said to endorse the same, and is called the endorser." Thus, an endorsement consists of the signature of the holder usually made on the back of the negotiable instrument with the object of transferring the instrument. If no space is left on the back of the instrument for the purpose of endorsement, further endorsements are signed on a slip of paper attached to the instrument. Such a slip is called "along" and becomes part of the instrument. The person making the endorsement is called an "endorser" and the person to whom the instrument is endorsed is called an "endorsee".

KINDS OF ENDORSEMENTS:

Endorsements may be of the following kinds:

1. Blank or general endorsement:

If the endorser signs his name only and does not specify the name of the indorsee, the endorsement is said to be in blank. The effect of a blank endorsement is to convert the order instrument into a bearer instrument which may be transferred merely by delivery.

2. Endorsement in full or special endorsement:

If the endorser, in addition to his signature, also adds a direction to pay the amount mentioned in the instrument to, or to the order of, a specified person, the endorsement is said to be in full.

3. Partial endorsement:

Section 56 provides that a negotiable instrument cannot be endorsed for a part of the amount appearing to be due on the instrument. In other words, a partial endorsement which



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transfers the right to receive only a partial payment of the amount due on the instrument is invalid.

4. Restrictive endorsement:

An endorsement which, by express words, prohibits the indorsee from further negotiating the instrument or restricts the indorsee to deal with the instrument as directed by the endorser is called "restrictive" endorsement. The indorsee under a restrictive endorsement gets all the rights of an endorser except the right of further negotiation.

5. Conditional endorsement:

If the endorser of a negotiable instrument, by express words in the endorsement, makes his liability, dependent on the happening of a specified event, although such event may never happen, such endorsement is called a "conditional" endorsement. In the case of a conditional endorsement, the liability of the endorser would arise only upon the happening of the event specified. But they endorsee can sue other prior parties, e.g., the maker, acceptor etc. if the instrument is not duly met at maturity, even though the specified event did not happen.

CHEQUES PAYABLE TO FICTITIOUS OR IMPERSONAL PERSON

The law provides that "the instrument is payable to bearer when it is payable to the order of a fictitious or non existing person, and such fact was known to the person making it so payable".

Section 9 (3) of the Commissioners Draft, provides that a negotiable instrument shall be payable to bearer "when it is payable to the order of a fictitious or non-existing person and such fact was known to the person making it so payable."

In that same case Lord Buckley has this to say in attempting to sustain the position that there is a difference between "fictitious" and "non-existing:"

"Two different effects are contemplated by that sub-section (7-3), the one is, that the payee is fictitious; the other that he is non-existent. Existence or non-existence of a particular person is a question of fact, not relevant to anybody's mind or intention. 'Fictitious' is different. A thing can only be fictitious relatively to someone. There can be no action without an actor, and no fiction without a feigner. Fiction is necessarily relative.

"With due deference to the learned judges who have attempted thus to distinguish between "fictitious" and "non-existing" it seems that the real difference between the terms is, that, while every non-existing payee must necessarily be fictitious, the converse is not true. In other words, the term "fictitious" is the broader, including within it that which is "non-existing." Especially is this true as there is still another sense in which the term "fictitious" has been employed. Where the name of a living person, known to the drawer or maker, is chosen, but that person has no interest in the instrument, and it is intended that he shall have none, such a



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designation is held to constitute a fictitious payee. Illustrations are to be found in both the English law" and in that of the United States.

But before proceeding further, it may be well to eliminate some things that do not constitute fictitious payees and are not to be confounded with this doctrine.

LEGAL PROVISIONS REGARDING ENDORSEMENTS

The Negotiable Instrument Act contains many provisions regarding endorsement :

1. Effect of Endorsement:

The endorsement of a negotiable instrument followed by delivery, transfers to the endorsee the property therein with the rights of further negotiation. Thus the endorsee acquires property or interest in the instrument as the holder. He can also negotiate further if not restricted by a restricted endorsement by the endorser.

2. Who can endorse:

According to section 51. 'Every sole maker, drawer, payee or endorsee or all of several joint makers, drawers, payees or endorsees, of negotiable instrument may endorse and negotiate the same'. Thus, in case the instrument is held jointly by a number of persons, endorsement by all of them is essential, one can not present the other.

3. Time:

A negotiable instrument may be negotiated until its payment has been made' by the maker drawee or acceptor at or after maturity not after its payment.

4. Endorsement for a part of the amount:

The instrument must be endorsed-for its entire amount: According to section 56 'no writing on a negotiable instrument is valid for the purpose of negotiation if such writing purports to transfer only a part of the amount appearing to be due on the instrument'.

Thus an endorsement for a part of the amount of the instrument is invalid. But in cases where an instrument has been partly paid, it may be negotiated for the balance of the amount provided a note to that effect is given on the instrument. If the endorser intends to transfer the document to two or more endorsees separately, it will not constitute a valid endorsement.

5. The legal representative of a deceased person cannot negotiate by delivery only a promissory note, bill of exchange or cheque payable to order and endorsed by the deceased but not delivered. Thus if the endorser dies after endorsing the instrument payable to order but without delivering the same to the endorsee, the endorsement is not valid and his legal representative cannot complete the negotiation by mere delivery thereof.

6. Unless the contrary is proved it is presumed under section 118 that 'the endorsements appearing upon a negotiable instrument were made in the order in which they appear thereon. It



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means that the endorsement which appears on the instrument first is presumed to have been made earlier to the second one.

NEGOTIATING BANK

Negotiating Bank

It is the bank to which letter of credit documents are presented by the beneficiary for the collection of the payment. The name derives from the fact that the negotiating financial institution is normally authorized by the issuing financial institution to negotiate documents. It may or may not choose actually to do so. Furthermore, realizing that this financial institution may be authorized to pay or accept drafts, rather than negotiate them, UCP500 now uses the term nominated financial institution rather than negotiating financial institution. Unless otherwise instructed, negotiating financial institutions in North America generally examine the documents for discrepancies before forwarding them to the issuing financial institution. It is properly viewed as a service separate from negotiating and is not necessary when negotiating with recourse.

EFFECT OF ENDORSEMENT:

1. The endorsement of a negotiable instrument followed by delivery transfers to the endorser the property therein with the right of further negotiation.
2. The endorsement may restrict or exclude such right.
3. The endorsement may constitute the endorsee an agent.

GENERAL RULES REGARDING THE FORM OF ENDORSEMENTS

An endorsement must be regular and valid in order to be effective. The appropriateness or otherwise of a particular form of endorsement depends upon the practice amongst the bankers.

The following rules are usually followed in this regard.

1. Signature of the endorser:

The signature on the document for the purpose of endorsement must be that of the endorser or any other person who is duly authorized to endorse on his behalf. If a cheque is payable to two persons, both of them should sign their names in their own handwriting. If the endorser signs in block letters, it will not be considered a regular endorsement.

2. Spelling:

The endorser should spell his name in the same way as his name appears on the cheque or bill as its payee or endorsee. If his name is mis-spelt or his designation has been given incorrectly, he should sign the instrument in the same manner as given in the instrument. Thereafter, he may also put his proper signature in the same handwriting, if he likes to do so. For example, if the payee's name is wrongly spelt as 'Virendra Perkash' instead of 'Virendra Prakash'



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regular endorsement will be as follows: Virendra Prakash Merely writing the correct name will not be regular endorsement.

3. No addition or omission of initial of the name:

An initial name should neither be added nor omitted from the name of the payee or endorsee as given in the cheque.

PAYING BANKER:

The banker who pays by cheque to the customer or the order of the customer is known as the paying banker. The banker holds the cheque from the drawer and is obliged to make the payment if the funds of the customer are sufficient to cover the amount his cheque has drawn.

A customer is a person who buys services or goods from manufacturers or service providers with due consideration of money. Thus, as a customer opens an account, he becomes the client of the banker. The banker provides different services to the customer by following the specific duties and obligations he has. This develops a relationship between the customer and the banker as payment and processing of cheques is the fundamental feature of the modern banking system.

PAYING BANKER DEFINITION:

- **Section 10**

The paying banker can claim protection under the Negotiable Instruments Act; the condition the banker has got to satisfy is that the payment is in due course.

‘Payment in due course’ means payment following the apparent tenor of the instrument in straightness and without negligence to someone in possession thereof under circumstances which doesn’t afford an inexpensive ground for believing that he is not entitled to receive payment of the quantity therein mentioned.

- **Section 85**

This acts as the statutory protection of the paying banker.

DUTIES AND RESPONSIBILITIES OF A PAYING BANKER:-

A banker has an obligation to honour cheques of its customer, drawn on him and presented for payment, subject to the condition that there are sufficient funds in the accounts and the cheque is in order.

Section 31 of the Negotiable Instruments Act 1881, provides that “The drawee of a cheque, having sufficient funds of the drawer in his hands properly applicable to the payment of such cheque, must pay the cheque when duly required to do so and in default of such payment must compensate the drawer for any loss or damage caused by such fault.



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So, it is the bounden duty of a bank to honour its customer cheques, after taking some precautions. In other words, the paying banker is under an obligation to honour cheque subject to some conditions, being satisfied.

They are,

- a. There must be sufficient funds in the customer's account on which cheque is drawn.
- b. The funds should be properly applicable to the payment of such cheque.
- c. Cheque should be properly drawn and should not be irregular (or) ambiguous
- d. Cheque should be presented during the banking hours of the bank
- e. Cheques should be presented for payment within the validity period.

Now, the validity period for a cheque is three months from the date of issue. So cheques should be presented within three months of their issue.

The Legal Obligations of Paying Banker

The obligatory role of the paying banker while honouring cheques is-

- **Crossed cheque and open cheque-** If a cheque is crossed, the banker must check whether it is generally crossed or special crossed. In general crossing, the owner needs to bring the cheque to the banker, and during the special crossing, the banker will pay for the bank.

In an open cheque, the cash will be paid by the banker across the counter.

1. **Proper form-** A banker should check whether the cheque is in the proper form.
2. **Cheque presentation and date of cheque-** The cheque should consist of the correct format and location. The banker must also check for the correct cheque date; it should not be a post-dated or stale-dated cheque.
3. **Words and figures-** The sum of the amount needed must be written correctly, and if it varies, the banker needs to deny the cheque.
4. **Alterations and overwriting-** The banker should take care of extra modifications or changes made on the cheque.
5. **Endorsements-** The bearer cheque is not legally endorsed; thus, while making payment, the banker should check all endorsements on the cheque.

PAYING BANKER CAN DISHONOURING OF CHEQUE :

The banker before honouring the cheques presented to him/her for payment should look into the following points in order to safeguard himself/herself against the risk of losing the customer's money. They are,



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i. Open or crossed cheques:

When a cheque is presented for payment, the banker should verify as to whether it is an open cheque or a crossed one and whether the cheque is in printed form. There is no provision in the Banking Regulations Act, preventing a customer from drawing his own cheque. But the banks prefer the printed form as it is easy for verification and filing. An open cheque, if it is otherwise valid, can be paid across the counter. If it is crossed, the holder is required to present it only through another banker. The specific instruction in case of a crossed cheque is that, it should be paid through an account and not across the counter.

ii. Drawn on the specific branch:

Cheques should be drawn on the particular branch at which they are presented. In olden days a cheque can not be presented at a different branch, even of the same bank, where account is not maintained. Because the banker will refuse payment, as he doesn't know the state of the drawer's account and can not verify the signature of the customer. This was the position, upto the period, where all bank works were done manual.

DISCHARGE PAYING BANKS:

Discharge is the term in bankruptcy cases for getting rid of debt. If a judge rules in a bankruptcy case that you don't have to pay a certain debt, the amount of debt you don't have to pay has been discharged.

Discharge is "final payment" in funds transfers in the form of "accountability" by a bank instructed to pay to a payee/beneficiary. Both the accountability of the drawee/payor bank in a check-collection debit-pull system and that of the beneficiary's bank in a wire-transfer credit-push system are discussed. The article further examines the relationship between "final payment" and the discharge of an obligation paid by means of the "funds transfer". It also points out a possible improved bank mechanism consisting of a bank check paid by means of a wire transfer. Such mechanism is designed to meet regulatory concerns, as well as to enhance speed and flexibility for a discharge in connection with a payment that is either required to coincide with the occurrence of external conditions or is otherwise time sensitive. While concluding that the various components of the U.C.C. scheme that governs the subject are fundamentally sound, the article recommends the pursuance of a law reform project leading to a statute dealing with both "finality of payment" and discharge across all categories of payment systems

Payment of Crossed Cheque:

A crossed check is any check that is crossed with two parallel lines, either across the whole check or through the top left-hand corner of the check. This double-line notation signifies that the check may only be deposited directly into a bank account. Such checks cannot be immediately cashed by a bank or by any other financial institution.

- A crossed check is one that's crossed with two parallel lines, either through the top left-hand corner of the check or horizontally across the whole check.



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- Crossing a check provides specific instructions to a financial institution regarding how the funds can be handled.
- Crossed checks are predominantly used in countries across Europe and Asia, as well as in Mexico and Australia.

Reasons to Cross Cheque

- Crossing a Cheque provides precise instructions to a financial organisation regarding the handling of funds.
- Crossed cheques are usually identified by drawing either two parallel transverse lines either vertically across the cheque or on the top left-hand corner of the cheque.
- Two or more words like 'and company' or 'not negotiable' may be placed between the lines. While just drawing the lines with no words also would not alter the purpose of the crossed cheque.
- With Crossed cheques, the cheque writers may protect the amount transferred from being cashed by the unauthorized person or from being stolen.
- This format for Crossed cheques may differ between various countries in the nature of its format or statements.
- Since the Crossed Cheques can only be paid through a bank account, the beneficiaries transaction record may be traced later for further queries and clarifications.

BANKER REFUSE PAYMENT OF CHEQUE:

In the following circumstances a banker is bound to refuse the payment of a cheque without incurring any liability thereon.

1. When the customer has countermanded payment.
2. When the banker has received a garnishee order.
3. When the customer has died.
4. When the customer has become insolvent or insane.
5. Where the banker has received a notice of assignment.
6. When the customer has lost the instrument.
7. When the banker has come to know of any defect in the title.
8. Where the instrument has been materially altered.
9. When the account is closed.



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They are briefly discussed as follows. Meanwhile you would also like to read the essential characteristics of a cheque and dishonor of cheque

When the customer has countermanded payment:

If a customer countermands payment, i.e., issues instructions to his/her banker not to pay or honor, i.e., 'stop payment' of a particular cheque issued by him/her, the banker is bound to comply with such instruction. It is important to note that the customer must duly sign the countermand notice, which should contain correct particulars of the cheques and give to the banker in sufficient time, i.e., before the banker makes the payment of the cheque that is desired for 'stop payment'. However, it is not necessary that such a notice be given in writing always. An oral countermand is equally effective.

When the banker has received a garnishee order:

Garnishee order implies a prohibiting order by a court of law attaching the funds in the customer's account. On receipt of such order, the banker must refuse the payment of the customer's cheque. If the banker by mistake makes payment of any cheque after receipt of such order, it will have to bear the loss itself. In this case it cannot recover from the payee who gets payment of an otherwise valid cheque.

When the customer has died:

If the banker receives notice of a customer's death, it must dishonour the cheque presented to it after the notice of death. However, a banker is justified in making payment if such payment is made before receiving the notice of death and the payment so made is valid.

When the customer has become insolvent or insane:

A banker must also refuse payment of cheques when its customer has been adjudged insolvent or has become insane since in such cases its original authority to pay on behalf of the customer ceases to exist. A fresh authority is required on those accounts. If a banker makes any payment even after receiving a due notice as regards insolvency or insanity of the account holder, such payment is not good against the drawer and in such a case the banker cannot get a refund from the payee, who gets payment of an otherwise valid cheque.

Where the banker has received a notice of assignment:

When the banker receives notice of assignment from the customer about his credit balance, it must refuse payment of the cheque(s) drawn by that customer.

When the customer has lost the instrument:

When the customer has lost the cheque and has informed the banker about the loss of the instrument, the bank must, in turn, dishonour the cheque.



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When the banker has come to know of any defect in the title:

When the banker comes across any defect in the title of the person presenting the cheque, it must refuse to honor the cheque. Even the holder of a bearer cheque is subject to this rule and the banker should insist on identification of the presenter in the event of any suspicion or doubt about the integrity of the possessor of the instrument.

Where the instrument has been materially altered:

When there is a material alteration on the instrument or where the signature of the drawer does not match with the specimen signature kept by the banker, the latter must dishonor such cheques. However, in case of payment by mistake, the banker is entitled to a refund from the wrong payee if traceable, failing which the banker will have to bear the loss itself.

When the account is closed:

When the customer gives notice to the banker for closing his account, the banker must not pay the customer's cheques after that date, i.e., the date of closing of the account.

MEANING OF COLLECTING BANKER:-

According to Sir. John Paget, one of the main functions of a banker is "Collecting cheques crossed or uncrossed for its customer"

In the ordinary course of any business, people used to buy and sell products, services, raw materials, semi-finished goods and even events. For settlement of the purchases, everybody used to issue cheques, for, cash payment is not possible in all situations. Another reason is that it is not safe to deal in cash always. Sometimes, the seller offers credit to the buyer. In modern business world even buyers and sellers in very remote areas are transacting with each other because of the colossal development in the field of communication. So, everyone cannot pay cash, one to one, and the use of cheques, bill of exchanges and other modes of electronic payments are made necessary.

STATUTORY PROTECTION TO COLLECTING BANK UNDER SECTION 131:

Under this Section, a collecting bank has protection only if the collecting bank, in good faith and without negligence, receives payment of the customer by a cheque, i.e. if there is negligence in receiving of a cheque on behalf of the customer, the collecting bank would be liable for negligence.

The NI Act provides protection under Section 131 to the collecting banker in this respect provided the following conditions are satisfied:

1. The protection under the law is available only if he collects a crossed cheque for collection. No protection is available for uncrossed or open cheques.



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2. The protection can be claimed only when the collecting banker has collected the cheque as an agent for his customer. If he collects the cheque for non-customers this protection is not available.

The banker should collect the cheque in good faith and without negligence.

Statutory Protection of Bankers

Sections 131 and 131 A of the act deals with the protection given to the collecting banker. The collecting banker in respect of a cheque bearing a forged endorsement or in respect of a cheque to which the customer has no title or has a defective title. This section states that “A banker who has in good faith and without negligence, received payment for a customer, of a cheque crossed {generally or specially} to himself shall not, in case the title to the cheque proves defective, incur any liability to the true owner of a cheque by reason only of having received such payment”

The Collecting Banker may claim for protection under section 131, only if the following conditions are satisfied:

1. This protection is available only for a “Crossed Cheque”.
2. The protection can be claimed only if the cheque is crossed before it reaches the collecting banker. If the collecting banker receives open cheque and if he himself crosses it and sends for the payment - collecting banker cannot get the protection.
3. The Collecting banker can claim this protection, only when he has collected the cheque as an agent for his customer. If he is a holder for value – he can’t get the protection.
4. This protection can be claimed only if the collecting banker has collected the cheque in good faith and without negligence. Section 131 A of the Negotiable Instruments act of 1881, protects the interests of the collecting banker against the collection of a ‘bank draft’ having forged endorsement or defective title.

But in order to get the protection under law all the above stated conditions must be fulfilled. Banker acting as both Collecting and Paying Banker Sometimes, the cheques are drawn on the same banker by one customer for another customer.

In this case, the banker will be acting as both paying banker and collecting banker. He will be given protection under both the capacities, if he satisfies the conditions relating to both the provisions given for protection.

“Holder” (Section 8)

The “holder” of a promissory note, bill of exchange or cheque means any person entitled in his own name to the possession thereof and to receive or recover the amount due thereon from the parties thereto. Where the note, bill or cheque is lost or destroyed, its holder is the person so entitled at the time of such loss or destruction.



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DUTIES AND RESPONSIBILITIES OF A COLLECTING BANKER:

The duties and responsibilities of a collecting banker are discussed below:

1. Due Care and Diligence in the Collection of Cheques:

The collecting banker is bound to show due care and diligence in the collection of cheques presented to him. In case a cheque is entrusted with the banker for collection, he is expected to show it to the drawee banker within a reasonable time. According to Section 84 of the Negotiable Instruments Act, 1881, "Whereas a cheque is not presented for payment within a reasonable time of its issue, and the drawer or person in whose account it is drawn had the right, at the time when presentment ought to have been made, as between himself and the banker, to have the cheque paid and suffers actual damage, through the delay, he is discharged to the extent of such damage, that is to say, to the extent to which such drawer or person is a creditor of the banker to a large amount than he would have been if such cheque had been paid."

2. Serving Notice of Dishonour:

When the cheque is dishonoured, the collecting banker is bound to give notice of the same to his customer within a reasonable time. It may be noted here, when a cheque is returned for confirmation of endorsement, notice must be sent to his customer. If he fails to give such a notice, the collecting banker will be liable to the customer for any loss that the customer may have suffered on account of such failure.

3. Agent for Collection:

In case a cheque is drawn on a place where the banker is not a member of the „clearing-house“, he may employ another banker who is a member of the clearinghouse for the purpose of collecting the cheque. In such a case the banker becomes a substituted agent.

According to Section 194 of the Indian Contract Act, 1872, "Whereas an agent, holding an express or implied authority to name another person to act in the business of the agency has accordingly named another person, such a person is a substituted agent. Such an agent shall be taken as the agent of a principal for such part of the work as is entrusted to him."

4. Remittance of Proceeds to the Customer:

In case a collecting banker has realized the cheque, he should pay the proceeds to the customer as per his (customer's) direction. Generally, the amount is credited to the account of the customer on the customer's request in writing, the proceeds may be remitted to him by a demand draft.

5. Collection of Bills of Exchange:

There is no legal obligation for a banker to collect the bills of exchange for its customer. But, generally, bank gives such facility to its customers. In collection of bills, a banker should examine the title of the depositor as the statutory protection under Section 131 of the Negotiable



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Instruments Act, 1881. Thus the collecting banker must examine very carefully the title of his customer towards the bill.

RBI INSTRUCTION:

RBI's guidelines:

RBI has issued licences to almost twelve private banks in the last two decades. In 1993, a total of 10 banks got the licences. After that, RBI amended some guidelines. In 2010-11, in the budget speech, the finance minister added some banks under RBI's guidelines.

RBI formed a group with internal working people on 12th June of 2020. This committee was made to restructure the private banks. This committee gave its recommendations in November. The panel recommended a total of 33 norms for the ownership of private banks. Out of which, RBI accepts only 21 norms.

1. Short Title and Commencement of the Directions.

(1) These Directions shall be called the Non-Banking Financial Company–Non Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016

(2) These Directions shall come into force with immediate effect.

Applicability

(1) The provisions of the Directions shall apply to the following:

(i) every Non-Banking Financial Company (NBFC) not accepting/ holding public deposits which is not systemically important (as defined in paragraph 3(xxix) of the Directions);

(ii) every Non-Banking Financial Company – Factor (NBFC-Factor) registered with the Bank under section 3 of the Factoring Regulation Act, 2011 and having an asset size of below ₹500 crore;

(2) The Category of NBFCs as mentioned in points (i) to (iv) above are hereinafter referred to as 'applicable NBFCs', for the purpose of these Directions

3. For the purpose of these Directions, unless the context otherwise requires:

(i) "Act" means the Reserve Bank of India Act, 1934;

(ii) "Bank" means the Reserve Bank of India constituted under section 3 of the Reserve Bank of India Act, 1934

(iii) "Break up value" means the equity capital and reserves as reduced by intangible assets and revaluation reserves, divided by the number of equity shares of the investee company;

(iv) "Carrying cost" means book value of the assets and interest accrued thereon but not received



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4. Words or expressions used in these Directions but not defined herein and defined in the RBI Act shall have the same meaning as assigned to them in the RBI Act.

5. In exercise of the powers conferred under clause (b) of sub-section (1) of section 45-IA of the RBI Act and all the powers enabling it in that behalf, the Bank, hereby specifies two hundred lakh rupees as the Net Owned Fund (NOF) required for a nonbanking financial company to commence or carry on the business of non-banking financial institution, except wherever otherwise a specific requirement as to NOF is prescribed by the Bank.

6. Leverage Ratio:

The leverage ratio of an applicable NBFC (except NBFC-MFIs and NBFC-IFCs) shall not be more than 7 at any point of time, with effect from March 31, 2015. In respect of NBFCs primarily engaged in lending against gold jewellery (such loans comprising 50 percent or more of their financial assets) they shall maintain a minimum Tier I capital of 12 per cent.

7. Income recognition

(1) The income recognition shall be based on recognised accounting principles.

(2) Income including interest/ discount/ hire charges/ lease rentals or any other charges on NPA shall be recognised only when it is actually realised. Any such income recognised before the asset became non-performing and remaining unrealised shall be reversed.

8. Income from investments

Income from bonds and debentures of corporate bodies and from Government securities/bonds shall be taken into account on accrual basis: Provided that the interest rate on these instruments is pre-determined and interest is serviced regularly and is not in arrears.

9. Accounting standards:

NBFCs that are required to implement Indian Accounting Standards (Ind AS) as per the Companies (Indian Accounting Standards) Rules, 2015 shall prepare their financial statements in accordance with Ind AS notified by the Government of India and shall comply with the regulatory guidance specified in Annex XX of these Directions. Disclosure requirements for notes to accounts specified in these directions shall continue to apply. Other NBFCs shall comply with the requirements of notified Accounting Standards (AS) insofar as they are not inconsistent with any of these directions.

10. Accounting of investments

(1) The Board of Directors of every applicable NBFC shall frame investment policy for the company and shall implement the same;

(2) Quoted current investments shall, for the purposes of valuation, be grouped into the following categories, viz.



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- (a) equity shares,
- (b) preference shares,
- (c) debentures and bonds, Withdrawn 14
- (d) Government securities including treasury bills,
- (e) units of mutual fund, and (f) others.

11. Need for policy on demand/ call loans

(1) The Board of Directors of every applicable NBFC granting/intending to grant demand/call loans shall frame a policy for the company and implement the same.

(2) Such policy shall, inter alia, stipulate the following –

- (i) A cut-off date within which the repayment of demand or call loan shall be demanded or called up;
- (ii) The sanctioning authority shall, record specific reasons in writing at the time of sanctioning demand or call loan, if the cut-off date for demanding or calling up such loan is stipulated beyond a period of one year from the date of sanction;
- (iii) The rate of interest which shall be payable on such loans;

12. Asset classification:

The asset classification norms as given below shall apply to every applicable NBFC (except NBFC-MFIs):

Every NBFC shall, after taking into account the degree of well-defined credit weaknesses and extent of dependence on collateral security for realisation, classify its lease/hire purchase assets, loans and advances and any other forms of credit into the following classes, namely:

- (i) Standard assets;
- (ii) Sub-standard assets;
- (iii) Doubtful assets; and
- (iv) Loss assets.

13. Provisioning requirements The provisioning requirements as given below shall apply to every applicable NBFC (except NBFC-MFIs): Every applicable NBFC shall, after taking into account the time lag between an account becoming non-performing, its recognition as such, the realisation of the security and the erosion over time in the value of security charged, make provision against sub-standard assets, doubtful assets and loss assets as provided hereunder:-

Loans, advances and other credit facilities including bills purchased and discounted-



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The provisioning requirement in respect of loans, advances and other credit facilities including bills purchased and discounted shall be as under:

(i) Loss Assets - The entire asset shall be written off. If the assets are permitted to remain in the books for any reason, 100 per cent of the outstanding shall be provided for;

(ii) Doubtful Assets - 100 per cent provision to the extent to which the advance is not covered by the realisable value of the security to which the applicable NBFC has a valid recourse shall be made.

14. Standard asset provisioning:

Every applicable NBFC shall make provision for standard assets at 0.25 per cent of the outstanding, which shall not be reckoned for arriving at net NPAs. The provision towards standard assets need not be netted from gross advances but shall be shown separately as 'Contingent Provisions against Standard Assets' in the balance sheet.

15. Guidelines on Liquidity Risk Management Framework :

Applicable NBFCs having an asset size of ₹100 crore and above, as per their last audited balance sheet, shall adhere to the set of liquidity risk management guidelines as detailed in Annex II of these Directions

16. Multiple NBFCs:

Applicable NBFCs that are part of a corporate group or are floated by a common set of promoters shall not be viewed on a standalone basis.

17. Disclosure in the balance sheet

The provisions shall be distinctly indicated under separate heads of account as under:- (i) provisions for bad and doubtful debts; and (ii) provisions for depreciation in investments

18. Accounting year :

Every applicable NBFC shall prepare its balance sheet and profit and loss account as on March 31 every year. Whenever an applicable NBFC intends to extend the date of its balance sheet as per provisions of the Companies Act, 2013, it shall take prior approval of the Bank before approaching the Registrar of Companies for this purpose.

19. Schedule to the balance sheet:

Every applicable NBFC shall append to its balance sheet prescribed under the Companies Act, 2013, the particulars in the schedule as set out in Annex III.

20. Transactions in Government securities :

Every applicable NBFC shall undertake transactions in Government securities through its gilt account or its demat account or any other account, as permitted by the Bank.



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21. Loans against NBFCs own shares prohibited:

No applicable NBFC shall lend against its own shares.

22. Loans against security of shares:

Applicable NBFC with asset size of ₹100 crore and above lending against the collateral of listed shares shall, (i) maintain a Loan to Value (LTV) ratio of 50 per cent for loans granted against the collateral of shares.

New Banks Licences:

It is important to understand RBI guidelines for new Banks licences. In the General Awareness Section, RBI is considered a vital chapter. Let us know more in detail.

The RBI is not just a banker's bank, but also regulates and monitors all banks' activities and licences. With the introduction of the guidelines for new bank's licences, it is important to understand why banks need licences from the RBI and what goes behind the scrutinising committee and panels. There have also been many changes in guidelines for private banks that RBI has just introduced.

Private Sector Banks:

- In these new guidelines, a bunch of new rules have been added. One of them is that promoters' stake has increased from 15 to 26%. This norm will be the same for all kinds of promoters. According to Rbi, this norm is for the long run, and if the promoter wishes to lower his stake, he can.
- A non-promoter can cap his stake between 10-15%. Rbi further clears these norms in this way. According to this organisation, the non-promoter will cover 10% of the voting equity capital share in the case of natural persons or non-banking institutions. It will be 15% if it belongs to all category financial institutions.
- Under the Banking Regulation Act 1949, after all the amendments, the large industrialists can be the promoter of the banks. This is because it will strengthen the supervisory mechanism.
- Under the recommendations, some big announcements are announced for NBFC. An NBFC with an asset size of more than 50,000 crores or above can be converted into banks after ten years.
- A Payment bank can start its business as a small finance bank if it has experience of 3 years.
- The initial capital requirements need to be 500 crores to 1000 crores for universal banks. For a small finance bank, it is 200 crore to 300 crores.



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- A small finance bank needs to enlist within eight years from its launching date, while only six years for a universal bank. In the initial five-year lock-in period, the promoters pledge their shares.

PAYING BANKER VS COLLECTING BANKER

- In case when the paying and collecting banker is same, the bank must pay the money on the same day of presentation. If banker is having any objection in the cheques drawn, the information of dishonor must be given to the customer.
- Paying banker gets protection under section 85 and collecting banker gets protection under 131 of the Negotiable Instrument Act, 1881.

CONSUMER GRIVENCES

- **How to approach district consumer Forum**

The complaint can be made on plain paper and you can file it in person or through an authorised agent, after it has been notarised, through registered post or regular post. It is important that you serve a personal or legal notice to the opposite party before filing the complaint.

You will need to file four copies, plus additional copies for each opposite party. And the complaint must be filed within two years from the date of the cause of action having arisen. The court fee for cases involving up to Rs 1 lakh is nil for those holding Antyodaya Anna Yojana cards and Rs 100 for the rest. For cases involving up to Rs 5 lakh the case fee is Rs 200, for case up to Rs 10 lakh the court fee is Rs 400 and for those up to Rs 20 lakh the case fee is Rs 500. The demand draft should be made out to the President, Consumer Disputes Redressal Forum, (name of) district.

- **How to approach state consumer Forum**

Cases where the value of goods or services exceeds Rs 20 lakh can be filed and orders of the district forum challenged here within 30 days of the order being passed. The court fee for cases above Rs 20 lakh and up to Rs 50 lakh is Rs 2,000 while the court fee for cases up to Rs 1 crore is Rs 4,000. The demand draft should be made in favour of the registrar, (name of) state commission and be payable in that state only. To file an appeal you need the following:

- (a) Documents of record with correct name of all parties and their addresses;
- (b) Certified copy of the district forum order;
- (c) More than four additional copies for each respondent for filing an appeal;
- (d) Any conditional delay, interim orders and other petitions to be submitted along with an affidavit; and
- (e) A statutory deposit of Rs 25,000 or 50 per cent of the award / compensation amount, whichever is less, is to be made by the appellant / opposite parties.



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- How to approach National Consumer Disputes Redressal Commission

A dissatisfied consumer can file a complaint directly with the national commission or appeal against decisions of the state commission within a month from the date of the order. The court fee is Rs 5,000 and the demand draft should be in the name of The Registrar, National Consumer Disputes Redressal Commission. There is no fee for filing an appeal before the state or national commission. You can appeal against the orders of the national commission in the Supreme Court within a period of 30 days.

GRIEVANCE REDRESSAL :

Paper-based

Feedback Forms:

These are most popular and usually used by consumer service businesses, such as hotels and restaurants. They are less likely to be effective, as there is reduced assurance of their reaching the decision-making authorities. These also usually do not give any formal confirmation or tracking number to the complainant. Possibility of fake submissions also remains. Customers therefore have less confidence on such forms. Confidence can be strengthened if a central call center sends an acknowledgement of receipt of such feedback. Another possible reinforcement may be done by taking digitized input, which can be processed using scantron machines.

Contact Us Links:

Websites of organizations generally carry the Contact Us page, which lists the email and phone numbers to use to submit any concerns. Many websites also provide a form to fill that automatically gets sent by email, with confirmation to the reporter.

Customer-driven Feedback Websites:

Websites such as Yelp and Trip Advisor allow customers to post grievances and recommendations about organizations from personal experience. Designated representatives of these organizations have the option to respond to such communications, though these responses are often just standard text. The feedback also tends to be subjective and unlikely to be auto-sorted and forwarded for action.

Organization-oriented Portals:

Organizations can subscribe to grievance redressal portals such as ActPlease.com to invite their customers to report their grievances and request action. As such portals are configured by the organizations themselves, they can ensure that complaints are directed properly. Act Please, being a third party site, handles anonymity of the reporter from the organization when necessary, while ensuring the genuine nature of the person, through SMS verification. Such SaaS Portals are easy to use and easily affordable for all organizations including SMEs, while empowering them with the latest tools such as Mobile application testing and Customized Websites.



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Custom-developed Ticketing Systems:

Large organizations involved in customer service set up their own ticketing systems with similar features as the SaaS portals, but with greater customization in the processing of grievances. Examples of such organizations are Bharat Sanchar Nigam Limited and Torrent Power. Large-scale ERP software, such as SAP and Genie also provide facility for setting up ticketed grievance redressal and customer support systems.

BANKING OMBUDSMAN :

Banking Ombudsman is a quasi-judicial authority created in 2006, and the authority was created pursuant to a decision made by the Government of India to enable resolution of complaints of customers of banks relating to certain services rendered by the banks. The Banking Ombudsman Scheme was first introduced in India in 1995 and was revised in 2002. The current scheme became operative from 1 January 2006, and replaced and superseded the banking Ombudsman Scheme 2002. Presently the Banking Ombudsman Scheme 2006 (As amended up to July 1, 2017) is in operation.

From 2002 until 2006, around 36,000 complaints have been dealt by the Banking Ombudsmen. There are 22 regional offices of Banking Ombudsmen in India. The latest offices are opened in Jammu, Raipur, Mumbai-II & New Delhi-III.

The type and scope of the complaints which may be considered by a Banking Ombudsman is very comprehensive, and it has been empowered to receive and consider complaints pertaining to the following;

- Non-payment or inordinate delay in the payment or collection of cheques, drafts, bills, etc.;
- Non-acceptance, without sufficient cause, of small denomination notes tendered for any purpose, and for charging of commission for this service;
- Non-acceptance, without sufficient cause, of coins tendered and for charging of commission for this service;
- Non-payment or delay in payment of inward remittances ;
- Failure to issue or delay in issue, of drafts, pay orders or bankers' cheques;
- Non-adherence to prescribed working hours;
- Failure to honour guarantee or letter of credit commitments;
- Failure to provide or delay in providing a banking facility (other than loans and advances) promised in writing by a bank or its direct selling agents;



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- Delays, non-credit of proceeds to parties' accounts, non-payment of deposit or non-observance of the Reserve Bank directives, if any, applicable to rate of interest on deposits in any savings, current or other account maintained with a bank ;
- Delays in receipt of export proceeds, handling of export bills, collection of bills etc., for exporters provided the said complaints pertain to the bank's operations in India;
- Refusal to open deposit accounts without any valid reason for refusal;
- Levying of charges without adequate prior notice to the customer;
- Non-adherence by the bank or its subsidiaries to the instructions of Reserve Bank on ATM/debit card operations or credit card operations;
- Non-disbursement or delay in disbursement of pension to the extent the grievance can be attributed to the action on the part of the bank concerned, (but not with regard to its employees);
- Refusal to accept or delay in accepting payment towards taxes, as required by Reserve Bank/Government;
- Refusal to issue or delay in issuing, or failure to service or delay in servicing or redemption of Government securities;
- Forced closure of deposit accounts without due notice or without sufficient reason;
- Closure of account without customer concern.
- Refusal to close or delay in closing the accounts;
- Non-adherence to the fair practices code as adopted by the bank; and
- Financial loss incurred to customer due to wrong information given by bank official.
- Any other matter relating to the violation of the directives issued by the Reserve Bank in relation to banking or other services.
- complaints from Non-Resident Indians having accounts in India in relation to their remittances from abroad, deposits and other bank-related matters;

Vide their Circular No.CSD.BOS.4638/13.01.01/2006-07 dated May 24, 2007, the Reserve Bank of India has amended their Banking Ombudsman Scheme, 2006 and the scheme shall be operative with amended effect.



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UNIT – V

DIGITAL BANKING

DIGITAL BANKING MEANING:

Digital banking is an umbrella term covering all online banking-related and financial institutions-related services. These are services offered through the bank's website, a mobile application, or both. You can access their banking features remotely from anywhere in the world through digital banking.

Not only that, but digital banking also automates a lot of banking services like transferring money, opening a fixed deposit, ordering or blocking a debit card and credit card etc., through the app, making them far more efficient than their brick-and-mortar counterparts.

DIGITAL BANKING SERVICES

Here's a list of the most prominent types of digital banking services in India.

1. Card Payments

Card payments are the most widely used tool in the digital banking space. You can use a credit/ debit card to purchase goods and services online, pay utility bills, make business transactions, etc. You can use these cards to withdraw cash from ATMs as well.

2. United Payment Interface (UPI)

UPIs are a system that allows you to link your bank account(s) to a mobile application. You do not need an IFSC code or bank details to use a UPI; payments are made through a virtual payment address (VPA) instead. Payments made through this system are quick and hassle-free. Through UPI applications, you can send or request money, pay bills, scan and pay through QR codes, make peer-to-peer payments, and much more. UPIs are gaining popularity for being the most convenient cash-free payment method.

3. Internet Banking

Internet banking functions similarly to brick-and-mortar banks. The difference is that these services are all online. You can send or receive money through Internet banking via NEFT, IMPS, or RTGS transfers. You can also avail of other services like checking your bank statement.

4. Mobile Banking

You can access digital banking services through your bank's mobile application on your smartphone. Mobile banking has become quite prominent in the last few years. One feature of mobile banking that has changed digital banking is the advent of mobile wallets.



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These digital wallets allow you to add funds to the wallet to pay for goods and services through them. Mobile wallets eliminate the need to enter your card details when sending money to an online merchant.

Other some digital banking services such as follows,

Most frequently, they include the following operations and activities (all the traditional banking services that are available 24/7 on mobile phones, computers, and compatible smart devices, without the need for a customer's presence in the bank branch):

- Obtaining bank statements
- Cash withdrawals
- Transfer money
- Checking/savings account management
- Opening a digital bank account
- Loan management
- Bill payments
- Cheques management
- Transaction records monitoring

Obviously, digital banking software makes all traditional services easier to access, understand and manage.

This approach allows us to test digital banking risk concepts before moving parts of the old legacy business to the new system. Notable examples include Goldman Sachs' Marcus, RBS' Bó, and State Bank of India's YONO, which gained more than 26 million customers and reached profitability within 18 months.

MEANING OF E-BANKING:

Banks give administrations or bank services to draw in clients, from giving advances, issuing of debit cards and credit cards, computerized monetary services, and surprisingly personal services or administrations. Even so, some fundamental present-day administrations are presented by many commercial banks.

Electronic banking has many names like web-based banking, e-banking, virtual banking, or web banking, and online banking. It is just the utilisation of telecommunications networks and electronic networks for conveying different financial services and products. Through e-banking, a client can acquire his record and manage numerous exchanges utilising his cell phone or personal computer.



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DEFINITION:

E-banking is a blanket term used to indicate a process through which a customer is allowed to carry out, personal or commercial banking transactions using electronic and telecommunication network.

It is a product offered by banks which facilitates online banking, with the help of which the customer can have access to the bank account in just one click.

E-banking covers facilities such as – fund transfer, checking account statements, utility bill payments, opening of bank account, locating nearest ATM, obtain information on financial products and services, applying for loans, etc. using a personal computer, smart phone, laptop or personal digital assistant.

E-BANKING SERVICES IN INDIA:

In India, since 1997, when the ICICI Bank first offered internet banking services, today, most new-generation banks offer the same to their customers. In fact, all major banks provide e-banking services to their customers as given below: The following services are available in India:

1. Bill payment

Every bank has a tie-up with different utility companies, service providers, insurance companies, etc. across the country. The banks use these tie-ups to offer online payment of bills (electricity, telephone, mobile phone, etc.). Also, most banks charge a nominal one-time registration fee for this service. Further, the customer can create a standing instruction to pay recurring bills automatically every month.

2. Funds transfer

A customer can transfer funds from his account to another with the same bank or even a different bank, anywhere in India. He needs to log in to his account, specify the payee's name, account number, his bank, and branch along with the transfer amount. The transfer is affected within a day or so.

3. Investing

Through electronic banking, a customer can open a fixed deposit with the bank online through funds transfer. Further, if a customer has a demat account and a linked bank account and trading account, he can buy or sell shares online too. Additionally, some banks allow customers to purchase and redeem mutual fund units from their online platforms as well.

4. Shopping

With an e-banking service, a customer can purchase goods or services online and also pay for them using his account.



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FINANCIAL SERVICES:

Financial services are the economic services which are provided by various financial institutions and companies for dealing with the management of money. Financial product is an intangible product of financial markets like loans, insurance etc. Financial services are provided by various institutions like banking firms, insurance companies, investment funds, credit unions, brokerage firms, and consumer finance companies. Nature of Financial Services: The following points reveal the nature of financial services:

1. Customer Oriented:

Financial services are customer oriented services which are provided as per the requirements of customers.

2. Intangibility:

Financial services are intangible in nature hence it is challenge to offer customers in the society. The marketing of such products is a very difficult task.

3. Inseparable:

These services cannot be stored. They are inseparable in nature.

4. Saving of Fund:

Financial services develop the habits of savings amongst the people. It raises the funds of institutions as well as the investment of people.

5. Scope to lenders & borrowers:

The financial services serves inter-mediators like lenders and borrowers in the financial market to provide financial services.

6. Market oriented:

Financial services are market oriented. It changes according to economic, financial, social, cultural, geographical conditions of the business environment.

7. Risk distribution:

The risk is distributed by the institutions providing financial services to the customers in the market.

INITIATIVES IN BANKS:

Several initiatives are being undertaken in an ongoing manner by Reserve Bank of India (RBI) and Banks to promote and create awareness about digital payments in the country. Some of these initiatives are as follows:



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Initiatives taken by RBI:

i. RBI conducts Electronic Banking Awareness and Training (e-BAAT) programmes through its regional offices to create awareness about digital payments and target audience includes rural area population. The focus of this training includes topics on safe practices while using digital payment products, Cyber hygiene, customer protection, grievance redressal mechanisms etc. The target audience includes cross section of the society consisting of bank staff, customers, government officials, students, Self Help Groups, farmers, shopkeepers, traders and the common man. From 2019 till date, a total of 869 e - BAAT programmes were conducted by various Regional Offices of RBI.

ii. RBI has been also carrying out multi-channel public awareness media campaigns under the aegis of 'RBI Kehta Hai' by television, radio, online, SMS and social media posts, whereby public is sensitised about how to be vigilant while using digital products such as mobile banking, ATMs, internet banking, etc., and how digital frauds could be averted.

iii. RBI has carried out multi-lingual media campaigns on themes like 'Convenience of Digital Banking', 'Switch On / Off and Setting Transaction Limits' facility for card transactions, and 'Safety of Digital Banking' among others, through various advertisements issued in major newsprints.

iv. Centre for Financial Literacy (CFL) project: To have an exclusive focus on financial literacy at the block level through brick and mortar Centres, CFLs have been set-up by RBI at the block level. A total of 1107 CFLs have been set up across the country as on June 30, 2022. Awareness about digital banking is one of the areas covered under the CFL project.

Initiatives taken by Banks:

i. Financial Literacy Camps (FLCs): Banks have been advised to conduct special camps through their FLCs (2 camps per month on "Going Digital" through UPI and *99# (USSD) including tailored camps for different target groups viz., farmers, Micro and Small entrepreneurs, school children, Self Help Groups and Senior citizens.

ii. Rural Branches of banks are required to conduct one camp per month covering all the messages that are part of Financial Awareness Messages (FAME) booklet and the two digital platforms UPI and *99# (USSD).

iii. Banking Correspondents (BCs) led initiative: A strong network of about 5.2 lakh BCs, representing the last mile connect in the Banking Services delivery system is also creating awareness while facilitating transactions in the rural areas, because of their familiarity with Local/Rural population.



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OPPORTUNITIES IN DIGITAL BANKING:

Despite these challenges, digital banking also opens a variety of opportunities, both for quality of service and the potential for profit. It's still very much in a bank's interest to take the digital plunge.

Partnerships

Banks are increasingly partnering with third-party apps and fintech companies. This is a mutually beneficial arrangement: it gives your customers flexible money management and improves the user experience, without the bank having to overhaul its entire system. It also gives the startups stability and an opportunity to gain new customers. Partnerships of this kind can also help you engage with the potentially lucrative crypto currency market, which will be seen as a major benefit to some patrons.

Enhanced Services

The access provided by digital banking allows you to connect to your customers in new ways. This not only provides an enhanced guest experience; it also opens up a new profit area for banks. For example, the process of taking out a loan or opening a new line of credit can be intimidating for many people. By offering information on assorted options on your website and giving your customers a way to apply online, you'll be able to help them find the solution that works best for them, in the comfort of their home.

New Customers

Digital and mobile banking is now an expectation for most people, and especially for younger people who may be opening their first account. Attracting these new customers now depends on offering a smooth and user-friendly banking experience on your app and website, just as would happen in traditional banks. In addition to attracting new users, your digital banking system can help you gather data on new trends, which can help you predict new trends and advancements in the banking sector and the economy as a whole.

TRADITIONAL BANKING VS DIGITAL BANKING:

With the advent of technology, banking system has drastically changed its way of functioning. Lot of changes have taken place in the last two decades. The primary difference is that of accessing account, making payments, and reconciling statements using computer in internet banking while in traditional banking one has to go to respective branch or office to operate the account. Traditional banks exist physically for serving the customers while e banking does not have a physical appearance as services are provided online. Customers who travel in foreign countries cannot pay close attention to their financial transactions in traditional banking while in e banking customers can control their financial transactions from anywhere in the world. In traditional banking, customers have to spend money on visiting their respective branches while in e-banking they can avoid these charges. In traditional banking, the customers do not encounter



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e-security threats while security is one of the problems faced by customers in accessing accounts through the e banking is a tempting target for hackers.

MOBILE BANKING:

According to Andrew (2009) Mobile banking is defined as 'the provision of banking and financial services with the help of mobile telecommunication devices'. About two billion people worldwide are using a mobile phone. As the number of mobile phone increases there has been a pervasive impact on people's lives. Mobile banking helps to cover wide geographical area. They can reach remote area at low cost. In developing countries where financial services are scarce, mobile banking provides an inexpensive and secure way to transfer funds. It also offers improved access to savings accounts.

Mobile banking refers to the use of a mobile device to carry out financial transactions. The service is provided by some financial institutions, especially banks. Mobile banking enables clients and users to carry out various transactions, which may vary depending on the institution.

Types of Mobile Banking Services

Mobile banking services can be categorized into the following:

1. Account information access

Account information access allows clients to view their account balances and statements by requesting a mini account statement, review transactional and account history, keep track of their term deposits, review and view loan or card statements, access investment statements (equity or mutual funds), and for some institutions, management of insurance policies.

2. Transactions

Transactional services enable clients to transfer funds to accounts at the same institution or other institutions, perform self-account transfers, pay third parties (such as bill payments), and make purchases in collaboration with other applications or prepaid service providers.

3. Investments

Investment management services enable clients to manage their portfolios or get a real-time view of their investment portfolios (term-deposits, etc.)

4. Support services

Support services enable clients to check on the status of their requests for loan or credit facilities, follow up on their card requests, and locate ATMs.

5. Content and news

Content services provide news related to finance and the latest offers by the bank or institution.



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Challenges Associated With Mobile Banking

Some of the challenges associated with mobile banking include (but are not limited to):

Accessibility based on the type of handset being used

- Security concerns
- Reliability and scalability
- Personalization ability
- Application distribution
- Upgrade synchronization abilities

ANYWHERE BANKING:

Anywhere Banking is a convenient banking system which allows you to access customer facilities of your bank from anywhere across the nation. It is a secure and speedy way of making transfers away from home. This makes the feature especially important for users who move frequently

Then you'd surely benefit from our Anywhere Banking facility. Open an account in your city of residence and start banking across the country. A host of facilities like ATMs, Instant Fund Transfer, ECS, Multi City Cheque Book facility, NEFT, E-pay taxes that can be accessed from anywhere across the country

Anywhere Banking is a highly secure and convenient system for online, real-time inter branch transactions across the Bank. Anywhere banking offers you greater flexibility, transaction power, convenience and ease in banking.

Bank with us from your computer, tablet, or smartphone using these tools and services:

- Mobile Deposit: deposit a check anytime, anywhere.
- Zelle®: fast, safe payments between family and friends.
- Bill Pay: pay your bills anytime, anywhere.
- Real-time balance information, including pending transactions.
- Financial Tools: Create budgets, track spending, and much more.
- E-Documents: no need to store paper documents.
- Open new accounts: no need to visit a branch.
- Card Swap: manage your card on file with merchants in a single click.



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- Account Management: update your address, reorder checks, personalize your view with account nicknames and grouping.

Benefits

The benefits of anywhere banking come to light in the context that it is no longer practically possible to carry money everywhere we go and also to restrict banking to one branch or open multiple bank accounts wherever we go.

Cash Remittance

- Highly secure and convenient system for banking transactions.
- Online & real-time transaction capability.
- Withdraw or remit cash through your AWB cheque from any of our branches.
- This facility is extended to Savings, Current, Loan and Overdraft Accounts.

Cash Withdrawal

- Withdraw cash through your AWB cheque from any of our branches.
- This facility is extended to Savings, Current, Loan and Overdraft Accounts

ANYTIME BANKING:

With introduction of ATMs, etc., Tele-Banking and internet banking, customers can conduct their business anytime of the day and night. The 'Banking Hours' is not a constraint for transacting banking business.

Anytime Internet Banking

Log in - step 1

Choose how you'd like to log in. You can use your customer number or your card number.

☐ Customer number

This is your date of birth (DDMMYY) followed by your unique identification number.

Customer number

Forgotten your login details?

☐ Card number

☐ Remember me. What does this mean?

Continue



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Register for Anytime Internet Banking Sign up here

Only individuals who have an Ulster Bank account and authorised access to Anytime Internet Banking should proceed beyond this point. For the security of customers, any unauthorised attempt to access customer bank information will be monitored and may be subject to legal action.

ELECTRONIC MOBILE WALLET:

Mobile wallets have eliminated the need to remember four-digit card pins or enter CVV details or carry loose cash. Mobile wallets store bank account and card credentials to easily add funds to the wallet and make payments to other merchants with similar applications. Popular mobile wallets are Paytm, Free charge, MobiKwik, etc. Mobile wallets, however, generally have a limit on how much can be deposited in the wallet. A small fee may also be charged on depositing the funds from the mobile wallet back into the bank account.

A new way to pay where mobile wallet is accepted

- Conveniently linked with your Sterling Bank Debit Card
- Improves transaction security
- Use for Point of Sale transactions where mobile wallet is accepted

Smarter pocket technology

- Use with compatible Apple®, Samsung™ or Android™ devices
- To pay, hold your phone near the contactless reader
- A unique, encrypted Device Account Number is used for more security

AUTOMATED TELLER MACHINE:

MEANING

The full form of ATM machine is Automated Teller Machine and is set up by various banks and other financial institutions to make daily banking activities easy. An ATM machine is a self-service outlet that allows customers to manage cash and account by inserting their card. Customers can withdraw, deposit or transfer money, see their mini statement, check their balance, update or change their Personal Identification Number (PIN), etc. The first few transactions of the month are free, after which the bank charges a nominal fee on each transaction.

CONCEPT OF ATM:

An automated teller machine (ATM) is a specialized computer that allows you to complete bank transactions without the need of a bank representative. Many ATMs are conveniently



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accessible any time of day or night and can be used for everything from withdrawing or depositing money to checking your account balance to transferring money between accounts.

Here we'll delve deeper into what an ATM is, common transactions performed at ATMs and important things to know before using them.

- An ATM is a machine that allows you to withdraw money, deposit cash or checks, view your balance or transfer money between accounts.
- Many ATMs are accessible around the clock and eliminate the need to see a bank teller for transactions.
- It pays to avoid ATM fees by only using ATMs in your bank's network.

ATM transactions:

Various common banking transactions that are often carried out at an ATM include:

Withdrawing cash

The most common ATM transaction is the withdrawal of funds from one's account. Banks typically impose limits on the maximum amount that can be taken out each day. This amount can vary from bank to bank, as well as among different accounts offered by a single bank.

Depositing money

Account holders can often use an ATM to deposit cash or checks. When making this type of transaction, you'll be asked to insert the funds into a slot in the machine. When money is deposited in the form of a check, the bank sometimes might not provide you with access to the funds until the check has cleared.

Transferring funds

You may be able to use an ATM to transfer money between accounts you hold with your bank. For instance, if you wish to transfer \$200 from your savings account to your checking account, this can often be done by selecting the "transfer" option at the ATM. Like balance inquiries, transferring funds between accounts is also something you can accomplish using your bank's mobile app or website.

Balance inquiries

You can also visit an ATM to view your current account balance. This feature may come in handy if you wish to know how much you're able to spend when using your debit card or writing a check. Alternatively, your account balance is something you can view by logging onto your bank's mobile app or website. Knowing your balance can help you keep from overspending or overdrawing your account.



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Some banks also allow customers to use ATMs to see a small list of their recent transactions (although viewing your entire account statement isn't usually an option).

FEATURES OF AN AUTOMATED TELLER MACHINE

From the time this machine came into existence, its functions are updated accordingly. It has become a safe and trusted machine to use. Below are some features of an ATM:

- The modern ATMs are very versatile.
- It not only allows you to withdraw cash but it also allows depositing money, transferring money, payment of several bills, generation of statements and many more.
- ATMs are very user-friendly machines.
- Anyone can use it whether they are educated or are a specially-abled person. It has become easy with the introduction of the biometric identification scanner.
- ATMs are multilingual devices. India is a country with different types of people speaking different languages. So, the machine being multilingual is very helpful as everybody can use it in their own preferred language.
- ATMs have now started providing receipts via email, which eliminates the use of paper.

TYPES OF AUTOMATED TELLER MACHINES

ATMs are labelled based on specific purposes they cater to –

White-label ATMs

These ATMs are owned and operated by non-bank entities.

Brown-label ATMs

These ATMs are outsourced by banks to third-party service providers, who own the hardware and lease the ATM.

Green-label ATMs

They are dedicated to agricultural transactions, such as crop insurance, loans and subsidies. Banks in rural areas set them up to cater to the needs of farmers.

Orange-label ATMs

These ATMs are used for share transactions, such as buying and selling stocks, mutual funds, and bonds.

Yellow-label ATMs

These ATMs are provided for e-commerce purposes, such as online shopping, bill payment and mobile recharge.



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Pink-label ATMs

They are designed exclusively for women's use only. They aim to provide safety and convenience for women customers.

ELECTRONIC MONEY (E-MONEY):

Electronic money (e-money) is broadly defined as an electronic store of monetary value on a technical device that may be widely used for making payments to entities other than the e-money issuer. The device acts as a prepaid bearer instrument which does not necessarily involve bank accounts in transactions.

E-money products can be hardware-based or software-based, depending on the technology used to store the monetary value.

CATEGORIES OF ELECTRONIC MONEY

Electronic money can be classified into two broad categories:

1. Hard

Hard electronic money is when e-money is used for irreversible transactions, ones that are highly securitized, and are more or less procedural in nature. They may include transactions that are drawn through a bank.

2. Soft

Soft electronic money is when e-money is used for reversible or flexible transactions. There is an increased level of flexibility offered, and users are allowed to manage their transactions even after payment is processed, like canceling a transaction or modifying the payment price, etc.

The changes can be made post-transaction within a defined period. They may include transactions that are passed through payment mechanisms like PayPal, PayTM, Interac, credit cards, and so on.

MERITS/ADVANTAGES OF ELECTRONIC MONEY

Electronic money offers several advantages for the global economy, including:

1. Increased flexibility and convenience

The use of electronic money brings increased flexibility and convenience to the table. Transactions can be entered into from anywhere in the world, at any given time, with one click of a button. It removes the hassle and tediousness involved with the physical delivery of payments.



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2. Historical record

The usage of electronic money is becoming increasingly popular because it stores a digital historical record of each and every transaction made. It makes tracing back payments easier and also helps with making detailed expenditure reports, budgeting, and so on.

3. prevents fraudulent activities

Since electronic money makes available a detailed historical record of each and every transaction made, it is very easy to keep track of transactions and trace them back through the economy. It increases security and helps prevent fraudulent activities and malpractices.

4. Instantaneous

The use of electronic money brings with it a kind of instantaneousness that has not been experienced before in the economy. Transactions can be completed in split seconds with the click of a button from virtually anywhere in the world. It eliminates problems of physical delivery of payments, including long queues, wait times, etc.

5. Increased security

The use of e-money also brings with it an increased sense of security. To prevent loss of personal information while transacting online, advanced security measures are implemented like authentication and tokenization. Stringent verification measures are also employed to ensure the full authenticity of the transaction.

NATIONAL ELECTRONIC FUND TRANSFER (NEFT)

National Electronic Funds Transfer (NEFT) is a nation-wide payment system facilitating one-to-one funds transfer. Under this Scheme, individuals, firms and corporates can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country participating in the Scheme. Individuals, firms or corporates maintaining accounts with a bank branch can transfer funds using NEFT. Even such individuals who do not have a bank account (walk-in customers) can also deposit cash at the NEFT-enabled branches with instructions to transfer funds using NEFT. However, such cash remittances will be restricted to a maximum of Rs.50,000/- per transaction. NEFT, thus, facilitates originators or remitters to initiate funds transfer transactions even without having a bank account. Presently, NEFT operates in hourly batches – there are twelve settlements from 8 am to 7 pm on week days (Monday through Friday) and six settlements from 8 am to 1 pm on Saturdays.

REAL TIME GROSS SETTLEMENT (RTGS)

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



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final and irrevocable. The RTGS system is primarily meant for large value transactions. The minimum amount to be remitted through RTGS is 2 lakh. There is no upper ceiling for RTGS transactions. The RTGS service for customer's transactions is available to banks from 9.00 hours to 16.30 hours on week days and from 9.00 hours to 14:00 hours on Saturdays for settlement at the RBI end. However, the timings that the banks follow may vary depending on the customer timings of the bank branches.

IMMEDIATE PAYMENT SERVICE (IMPS)

IMPS offers an instant, 24X7, interbank electronic fund transfer service through mobile phones. IMPS is an emphatic tool to transfer money instantly within banks across India through mobile, internet and ATM which is not only safe but also economical both in financial and non-financial perspectives.

Objectives of IMPS:

- To enable bank customers to use mobile instruments as a channel for accessing their banks accounts and remit funds
- Making payment simpler just with the mobile number of the beneficiary
- To sub-serve the goal of Reserve Bank of India (RBI) in electronification of retail payments
- To facilitate mobile payment systems already introduced in India with the Reserve Bank of India Mobile Payment Guidelines 2008 to be inter-operable across banks and mobile operators in a safe and secured manner
- To build the foundation for a full range of mobile based Banking services

UNIFIED PAYMENTS INTERFACE (UPI)

Unified Payments Interface (UPI) is a system that powers multiple bank accounts into a single mobile application (of any participating bank), merging several banking features, seamless fund routing & merchant payments into one hood. It also caters to the "Peer to Peer" collect request which can be scheduled and paid as per requirement and convenience.

With the above context in mind, NPCI conducted a pilot launch with 21 member banks. The pilot launch was on 11th April 2016 by Dr. Raghuram G Rajan, Governor, RBI at Mumbai. Banks have started to upload their UPI enabled Apps on Google Play store from 25th August, 2016 onwards.

UPI Service:

- Immediate money transfer through mobile device round the clock 24*7 and 365 days.
- Single mobile application for accessing different bank accounts.



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- Single Click 2 Factor Authentication – Aligned with the Regulatory guidelines, yet provides for a very strong feature of seamless single click payment.
- Virtual address of the customer for Pull & Push provides for incremental security with the customer not required to enter the details such as Card no, Account number; IFSC etc.
- QR Code
- Best answer to Cash on Delivery hassle, running to an ATM or rendering exact amount.
- Merchant Payment with Single Application or In-App Payments.
- Utility Bill Payments, Over the Counter Payments, QR Code (Scan and Pay) based payments.
- Donations, Collections, Disbursements Scalable.
- Raising Complaint from Mobile App directly.

Participants in UPI

- Payer PSP
- Payee PSP
- Remitter Bank
- Beneficiary Bank
- NPCI
- Bank Account holders
- Merchants

DIGITAL RUPEE:

Digital Rupee refers to the digital version of the Indian Rupee, the official currency of India. This government-backed program aims to digitally transform physical money so that it can be used and accessed online. The digital rupee is a digital representation of traditional currency's value intended to make digital transactions straightforward and secure.

Uses of a Digital Rupee:

- **Cross-Border Transactions:** The Digital Rupee can simplify cross-border trading for individuals and companies, removing the need for intermediaries.
- **Benefits to the government-** It can help reduce leakages and ensure prompt delivery by directly transferring government grants and benefits to citizens' digital wallets.



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- **Black money reduction-** Digital Rupee can reduce black money and improve economic transparency by encouraging digital transactions.

DIFFERENCE BETWEEN DIGITAL RUPEE AND UPI

- **Nature**

The Indian rupee is available in digital form as the “Digital Rupee,” which has the same value as actual money. On the other hand, the UPI payment system enables immediate money transfers between bank accounts.

- **Issue authority**

The central authority, which is RBI, is responsible for issuing and regulating digital rupees. Contrarily, UPI was created by NPCI and is used a decentralised platform with several banks and payment service providers.

- **Scope of use**

The Digital Rupee program aspires to digitalise all aspects of the monetary system, including international trade and government benefits. Peer-to-peer and merchant payments within the nation are UPI’s main areas of concentration.

- **Centralisation vs. decentralisation**

While UPI runs on a decentralised platform and offers users flexibility and choice, Digital Rupee functions on a controlled infrastructure that ensures control and security.

SAFE AND SECURITY MEASURES IN DIGITAL BANKING

The security features available to customers include the following:

Login details:

The very first level of security is the login credentials you need to provide. While setting up a password, you are prompted to choose an alphanumerical string that includes special characters, and it also suggests an optimum password length.

Encrypted data:

The data is encrypted in such a way that none other than you and your bank can understand and read it while it is transferred across the internet. The cipher strength is so complicated that a hacker cannot crack the code easily.

Serious account management:

Banks ensure additional checks in case you wish to add a new beneficiary or payee, or change your password or addresses. Hence a hacker will not be able to log in to your account and transfer money or get a new Debit Card made.



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Logout:

You can log in to your bank from only one device at a time. When you log out the window or app, it is closed instantly. The browser's or app's back button won't work. And every time you want to return to your Digital Banking page, you will have to log in again.

Two-factor authorisation:

It helps identify genuine account holders. It needs your password or PIN and a card reader or mobile phone that generates a single-use pass code. Apart from the above, banks also use the following:

Intrusion detection system and firewalls to protect servers and information systems.

Password protection features such as no reusing of previous three passwords, ATM authentication, OTP verification, pre-enrolment with ATM or signature authentication.

E-mail confirmation or alert. These are the general guidelines that all the banks follow. However some banks are going the extra mile and elevating Digital Banking security even further through additional technology and infrastructure. These security features include:

IPIN security:

The system generates an IPIN that is delivered to the user through a tamperproof medium. It is not accessible to anyone, not even the system administrator.

Session timeout:

If the user's online webpage is idle for some time, it will automatically log them out.

Digital certificate:

The webpage of the banks' server is identified by a digital certificate that assures customers they are on the correct site. So customers are prevented from revealing their confidential information on wrong or fake websites.

Virtual keyboard:

Using a virtual keyboard to enter your password will protect your credentials from being compromised by any key logger software installed on shared computers.

Insta-alerts:

You will receive instant SMS or email after registration for defined transaction denominations or when you add a beneficiary.

Security solutions:

Firewalls, intrusion detection systems, intrusion prevention systems, and anti-malware systems are installed.



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Extended Validation Secure Sockets Layer (EV SSL) certificate:

This provides visual indicators – a green address identifies a genuine website whereas a red bar would mean the site is likely to be unsafe.

Online spending limit:

Some banks allow users to set an upper limit on a transaction or a daily limit on credit, debit, or Digital Banking transactions. This mitigates risk in case of a breach.

KAMARAJ WOMEN'S COLLEGE