Law of Banking and Negotiable Instruments

Osmania University 6th Sem

Part-A

Short Answers

Guarantor and Bank Guarantees

Answer: Let me explain **guarantors** and **bank guarantees** in the context of Indian banking law:

1. **Guarantor**:
    - A **guarantor** is an individual or entity that provides a **financial guarantee** to ensure the fulfilment of another party's obligations.
    - When someone acts as a guarantor, they are essentially promising to cover the financial losses if the primary debtor (borrower) fails to meet their contractual obligations.
    - Guarantors are commonly involved in various transactions, such as loans, leases, and contracts.
    - In the context of **banking**, a guarantor may be required for loans, credit facilities, or other financial arrangements.
    - The **Indian Contract Act, 1872** defines a "contract of guarantee" as an agreement to perform the promise or discharge the liability of a third person in case of their default.
2. **Bank Guarantees**:
    - A **bank guarantee** is a financial instrument provided by a **bank** (the guarantor) to ensure the fulfilment of a contractual obligation.
    - Here's how it works:
        - Suppose Party A (the beneficiary) enters into a contract with Party B (the debtor).
        - Party B obtains a bank guarantee from a financial institution (usually a bank).
        - If Party B fails to fulfill its contractual obligations (e.g., deliver goods, make payments), the bank steps in to cover the losses incurred by Party A.
    - Bank guarantees are commonly used in **international business transactions** and are similar to **standby letters of credit** in the United States.
    - Types of bank guarantees include:
        - **Performance bond guarantee**: Acts as collateral for the buyer's costs if services or goods are not provided as agreed in the contract.
        - **Advance payment guarantee**: Serves as collateral for reimbursing the buyer's advance payment if the seller does not supply the specified goods per the contract.
        - **Warrantee bond guarantee**: Ensures that the seller will rectify any defects during the warranty period.
        - **Rental guarantee**: May help individuals rent property in some countries.

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- Bank guarantees are crucial for establishing business relationships, accessing cash flow, protecting against losses, and facilitating international opportunities.

Kinds of Negotiable instruments

Answer: **kinds of negotiable instruments**:

1. **Personal Checks**:
    - A **personal check** is a common type of negotiable instrument.
    - It serves as a **draft** issued by an individual (the payer) and payable by their financial institution.
    - When the recipient (payee) receives a personal check, they can deposit it into their account or cash it.
    - The exact amount specified on the check is paid by the payer's bank.
2. **Cashier's Checks**:
    - Similar to personal checks, **cashier's checks** are also negotiable instruments.
    - However, they require the funds to be **allocated or set aside** by the payer's bank before issuing the check.
    - Cashier's checks provide greater security because the funds are guaranteed by the bank.
3. **Money Orders**:
    - Money orders are similar to checks but may or may not be issued by the payer's financial institution.
    - Typically, the payer must provide cash upfront before the money order is issued.
    - Once received by the payee, a money order can be exchanged for cash.
4. **Promissory Notes**:
    - A **promissory note** is a written promise to pay a specified amount of money.
    - It includes the specific amount promised and must be paid either **on-demand or at a specified time**.
    - Promissory notes can be transferred from one person to another, granting the holder full legal title to the instrument.
5. **Certificates of Deposit (CDs)**:
    - CDs are also considered negotiable instruments.
    - A **certificate of deposit** represents a time deposit with a fixed maturity date.
    - The issuer (usually a bank) promises to pay the bearer a specified amount plus interest upon maturity.
6. **Traveler's Checks**:

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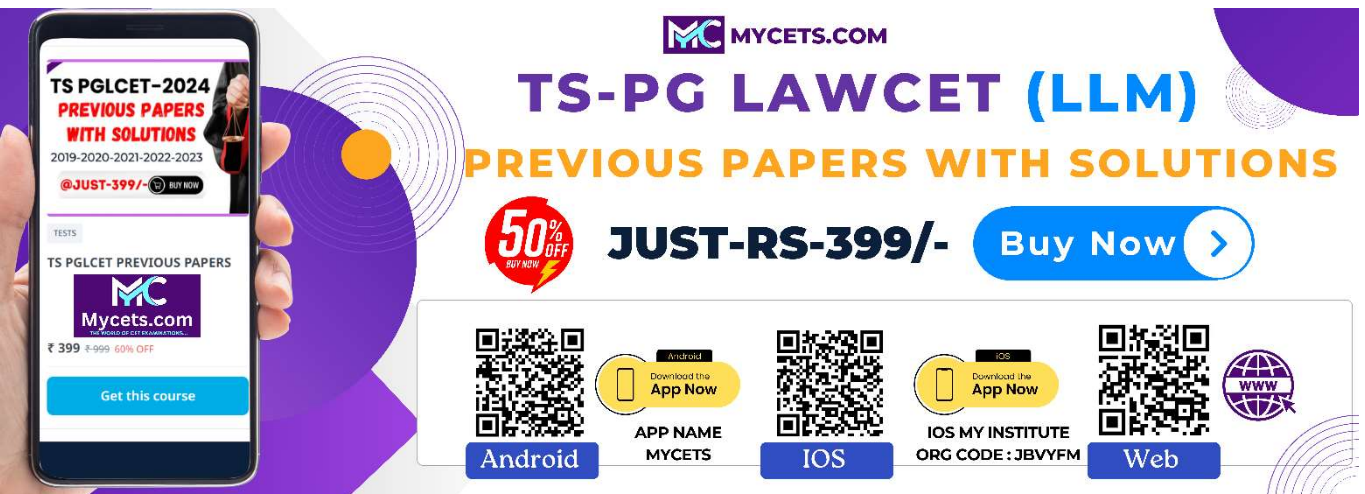
- Traveler's checks function differently.
- They require **two signatures** to complete a transaction.
- These checks are often used by traveller's as a secure way to carry funds while abroad.



Cheque and Crossed cheques

Answer: **cheques** and concept of **crossed cheques**:

1. **Cheque**:
   - A **cheque** is a **negotiable instrument** commonly used for financial transactions.
   - It serves as an order from the account holder (the drawer) to their bank (the drawee) to pay a specific amount of money to the payee (the recipient).
   - Cheques are widely used for various purposes, including payments, transfers, and settlements.
2. **Crossed Cheque**:
   - A **crossed cheque** is any cheque that bears **two parallel lines** across its face.
   - These lines can be drawn either **across the entire cheque** or specifically at the **top left-hand corner**.
   - The purpose of crossing a cheque is to ensure that it can only be **deposited into a bank account** and cannot be instantly cashed by a bank or any other credit institution.
   - By crossing a cheque, the payer adds a layer of security, as the funds must be handled through a **collecting bank**.
   - Essentially, crossed cheques are not payable over the counter; they must be collected through a bank.
3. **Various Ways to Cross a Cheque**:
   - Different methods of crossing provide specific instructions to the drawee bank on how to handle the cheque.

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- Here are some common types of cheque crossing:
- **General Crossing**:
  - In this type of crossing, two parallel transverse lines are drawn on the cheque.
  - These lines can be placed anywhere on the cheque, but it is advisable to put them at the **top left** for visibility.
  - The purpose of general crossing is to ensure that the cheque is essentially paid to the bank.
  - It cannot be cashed directly by the bearer.
- **Account Payee Crossing (Restrictive Crossing)**:
  - An account payee crossing includes the words **"account payee"** or **"account payee only"**.
  - The cheque must be crossed either generally or specially.
  - By using this type of crossing, the cheque becomes **non-negotiable**.
  - It ensures that the amount transmitted is protected from being cashed by an unauthorized person or stolen.
- **Special Crossing**:
  - Special crossing involves adding specific instructions to the drawee bank.
  - The cheque is to be paid only at the counter of the bank to a person who presents it through a banker.
  - While less common, special crossing provides additional security and traceability.

Collecting Banker and Paying Banker

Answer: **collecting bankers** and **paying bankers** in the context of Indian banking law:

1. **Collecting Banker**:
   - The **collecting banker** is responsible for undertaking the collection of drafts, bills, pay orders, transfer cheques, and other negotiable instruments on behalf of the customer.
   - When a customer deposits a cheque drawn on another bank, the collecting banker ensures that the funds are credited to the customer's account.
   - The collecting banker acts as an **agent** for the customer, facilitating the inflow of funds into the customer's account.
   - Statutory protection for collecting bankers is provided under **Section 131** of the **Negotiable Instruments Act**.
2. **Paying Banker**:
   - As a **paying banker**, the bank pays cheques that are drawn upon it by its customers.

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- When a customer presents a cheque for payment, the paying banker ensures that the payment is made accurately and promptly.
- The paying banker plays a crucial role in maintaining trust and efficiency in the banking system.
- Protection for paying bankers is provided under **Section 85** of the **Negotiable Instruments Act.**

Pledge

Answer: Pledge under the **Indian Contract Act, 1872**:

1. **Definition of Pledge**:
   - A **pledge** is a **special type of contract** defined in **Section 172** of the Indian Contract Act.
   - It involves the **bailment of goods** as security for either:
     - **Payment of a debt**, or
     - **Performance of a promise**.
   - The person who delivers the goods as security is called the **“pawnor”**, and the person to whom the goods are pledged is called the **"pawnee"**.
2. **Essential Features of a Contract of Pledge**:
   - **Valid Contract**: Like any contract, a pledge must have all the essential elements of a valid contract, including offer, consideration, contractual capacity, and intention.
   - **Delivery of Possession**: The goods must be physically delivered from the pawnor (borrower) to the pawnee (lender) as security.
   - **Ownership Cannot Be Transferred**: The ownership of the goods remains with the pawnor; it is not transferred to the pawnee.
   - **Security Against Debt**: The goods serve as collateral for the repayment of a loan or fulfillment of a promise.
   - **Return of Goods on Repayment**: Once the debt is repaid or the promise fulfilled, the goods must be returned to the pawnor.
3. **Duties of the Pawnor (Pledger)**:
   - **Delivery of Possession**: The pawnor must deliver the goods to the pawnee.
   - **Ownership Retained**: The pawnor retains ownership of the goods.
   - **Repayment Obligation**: The pawnor must repay the debt or fulfill the promise.
   - **Return of Goods**: Upon repayment, the pawnee must return the goods to the pawnor.

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Shares

Answer: Shares in the context of Indian banking law typically refer to the ownership interests that individuals or entities hold in a bank. In India, banks can issue shares to raise capital and expand their operations. Here's a brief overview of how shares are regulated in the Indian banking sector:

1. **Regulatory Framework**: The issuance and trading of shares by banks are regulated by the Reserve Bank of India (RBI) under the Banking Regulation Act, 1949, and other relevant guidelines issued by the Securities and Exchange Board of India (SEBI).
2. **Types of Shares**: Banks may issue different types of shares, including equity shares and preference shares. Equity shares represent ownership in the bank and typically come with voting rights. Preference shares, on the other hand, may offer preferential treatment in terms of dividends or capital repayment but often do not carry voting rights.
3. **Share Capital**: Banks are required to maintain a minimum level of share capital as prescribed by the RBI. The capital adequacy ratio, which measures a bank's capital relative to its risk-weighted assets, is an important regulatory requirement aimed at ensuring financial stability.
4. **Ownership Restrictions**: There may be restrictions on the ownership of shares in banks, particularly in relation to foreign investment. The RBI regulates the maximum percentage of foreign shareholding allowed in Indian banks, which varies depending on the type of bank (private, public, or foreign).
5. **Disclosure and Reporting**: Banks are required to disclose information about their shareholding structure, including details of major shareholders and changes in share ownership, in their financial reports and to regulatory authorities.
6. **Corporate Governance**: Banks are expected to adhere to sound corporate governance practices concerning the issuance and management of shares. This includes ensuring transparency, accountability, and fairness in dealings with shareholders.
7. **Market Conduct**: Banks must comply with SEBI regulations regarding the conduct of share trading activities, including insider trading rules and disclosure requirements for material information that may affect share prices.

Holder in due course

Answer: **Holder in Due Course** under the **Indian Contract Act, 1872**.

1. **Definition of Holder in Due Course**:
    - The phrase "Holder in Due Course" shortens the cumbrous English equivalent "bona fide holder for value without notice."
    - Both the Indian and English Acts have adopted this phrase.
    - **Section 9** of the **Negotiable Instruments Act** deals with the concept of Holder in Due Course.
    - To qualify as a holder in due course, a person must meet specific conditions:
        - Acquire the instrument for **valuable and lawful consideration**.

- Acquire the instrument without having sufficient cause to believe that any defect existed in the title of the person from whom they received the instrument.
- Act in **good faith** and with reasonable caution.

- Mere failure to prove bona fides or absence of negligence would negate the claim of being a holder in due course.
- An antecedent debt or liability is sufficient to constitute valuable consideration for a negotiable instrument.

2. **Lawful Consideration**:
    - The consideration should be **lawful** under **Section 2(d)** of the **Indian Contract Act, 1872**.
    - Past consideration is valid and will support a negotiable instrument.
    - An antecedent debt or liability due from the maker or negotiator of the instrument qualifies as valuable consideration.
    - However, it must not be due from a third party.
    - Only a person who acquires an instrument after paying consideration and being a bona fide transferee can be a holder in due course.
3. **Authority to Transfer**:
    - Section 9 implies that there must be a **negotiation or transfer** to the holder in due course by someone authorized to transfer the negotiable instrument.
    - The holder in due course must come into possession after paying consideration and being a bona fide transferee.

Promissory Note

Answer: **promissory note** under the **Indian Contract Act, 1872**.

1. **Definition of Promissory Note**:
    - A **promissory note** is a **negotiable instrument** that contains an **unconditional promise** in writing made by one person (the **maker**) to another person (the **payee**).

- The promise is to pay a specified sum of money either on demand or at a specific time.
- Key features of a promissory note:
    - It must be in writing.
    - It must be signed by the maker.
    - It must contain an express promise to pay.
    - The promise must be unconditional.
    - The amount to be paid must be certain.
    - The payee must be named or identifiable.
    - It can be payable either on demand or at a specific time.

2. **Essential Elements of a Promissory Note**:
    - **Unconditional Promise**: The promise to pay must be absolute and without any conditions.
    - **Certain Sum of Money**: The amount to be paid must be clearly specified.
    - **Signed by the Maker**: The promissory note must be signed by the person making the promise (the maker).
    - **Payee's Name or Identification**: The payee (the person to whom the payment is promised) must be named or identifiable.
    - **Date of Payment**: The note should indicate when the payment is due (either on demand or at a specific time).
    - **Delivery of Possession**: The promissory note must be delivered to the payee.

Commercial Bank

Answer: A **commercial bank** is a financial institution that performs various functions related to deposit and withdrawal of money for the public. These banks operate with the goal of making a profit. Here are the key characteristics, functions, and types of commercial banks.

1. **Primary Functions of Commercial Banks**:
    - **Accepts Deposits**:
        - Commercial banks accept deposits in the form of savings, current, and fixed deposits.
        - These surplus balances collected from individuals and firms are then lent out to meet temporary requirements of commercial transactions.
    - **Provides Loans and Advances**:
        - Offering loans and advances is a critical function of commercial banks.
        - Banks provide loans to entrepreneurs, businesspeople, and other borrowers, earning interest in the process.

- This lending activity is a primary source of profit for banks.

- **Credit Creation**:
  - When a customer is provided with credit or a loan, they are not given liquid cash directly.
  - Instead, a bank account is opened for the customer, and the money is transferred to that account.
  - This process allows the bank to create money.

2. **Secondary Functions of Commercial Banks**:
   - Discounting Bills of Exchange
   - Overdraft Facility
   - Purchasing and Selling Securities
   - Locker Facilities
   - Payment and Collection of Credit
3. **Types of Commercial Banks**:
   - **Private Banks**:
     - Owned by private individuals and businesses.
     - Examples include Housing Development Finance Corporation (HDFC) Bank, Industrial Credit, and Investment Corporation of India (ICICI) Bank, and Yes Bank.
   - **Public Sector Banks**:
     - Owned and operated by the government.
     - Examples include State Bank of India (SBI), Bank of Baroda, and Punjab National Bank.
   - **Foreign Banks**:
     - Operate in India but have their headquarters outside the country.
     - Examples include Citibank, Standard Chartered Bank, and HSBC.

Bills in Sets

Answer: **Bills in sets** refer to a practice where a **bill of exchange** is drawn in multiple parts, each part being numbered. These parts are designed to ensure that even if one part gets lost or delayed in transit, the other parts can still reach the intended recipient. Here are the key points about bills in sets:

1. **Definition**:
   - Bills of exchange can be drawn in several parts, with each part containing a provision that it remains payable only as long as the other parts remain unpaid.

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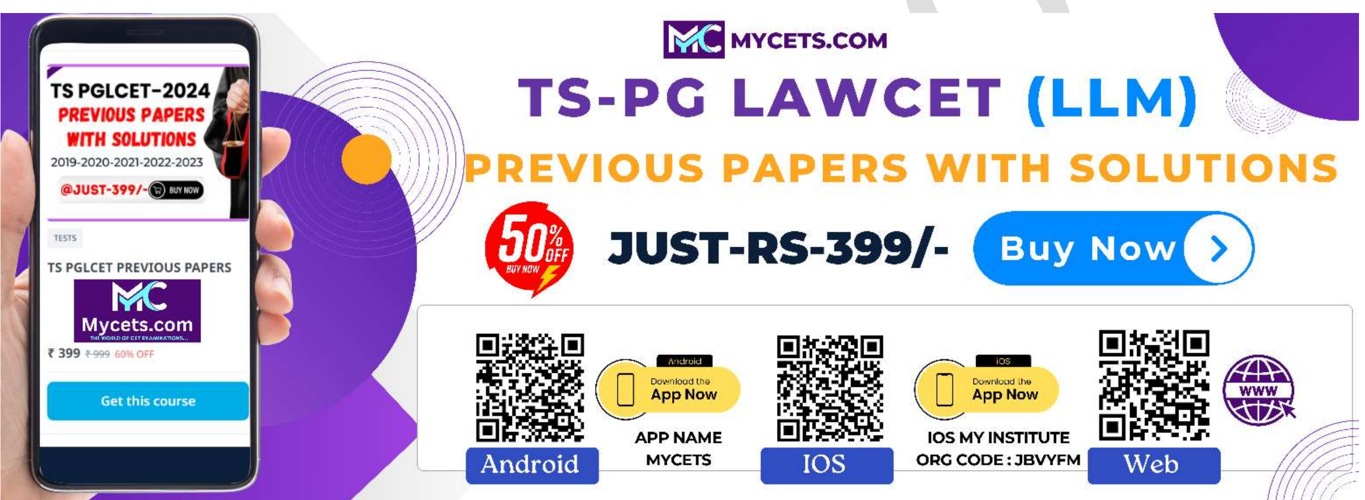
- When all these parts together form a set, they constitute only one bill. However, each part, if considered separately, would be treated as a separate bill.
- The idea behind bills in sets is to enhance security and prevent the loss of the entire bill due to mishaps during transit.

2. **Exceptions**:
   - When a person accepts or endorses different parts of the bill in favor of different individuals, each part is treated as a separate bill.
   - In such cases, the person accepting or endorsing different parts, along with subsequent endorsers, is liable for each part as if it were an independent bill.
3. **Priority Among Holders**:
   - Among holders in due course of different parts of the same set, the one who first acquires title to their part is entitled to the other parts and the money represented by the entire bill.



SARFAESI

Answer: The **Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002** is an Indian legislation that empowers banks and other financial institutions to effectively recover bad loans. Here are the key points about the SARFAESI Act:

1. **Objective**:
   - The SARFAESI Act allows banks and financial organizations to **recover defaulted loans** by auctioning residential or commercial properties of defaulters.
   - It aims to reduce **Non-Performing Assets (NPAs)** through efficient recovery methods and reconstruction.
2. **Applicability**:
   - The SARFAESI Act is applicable to **secured loans** where banks can enforce underlying securities such as hypothecation, mortgage, and pledge.
   - Banks can seize the property of a borrower without going to court, except for agricultural land.

- An order from the court is not required unless the security is invalid or fraudulent.

3. **Key Provisions**:
    - **Asset Reconstruction Companies (ARCs)**:
        - The Act deals with the registration and regulation of ARCs by the Reserve Bank of India (RBI).
    - **Securitization**:
        - It facilitates the securitization of financial assets of banks and financial institutions with or without the benefit of underlying securities.
    - **Transferability**:
        - The Act promotes seamless transferability of financial assets by ARCs through the issuance of debentures, bonds, or other securities.
    - **Fundraising by ARCs**:
        - ARCs can raise funds by issuing security receipts to qualified buyers.
    - **Reconstruction of Financial Assets**:
        - ARCs can reconstruct financial assets acquired while exercising powers of enforcement of securities or change of management.

Foreign Banks

Answer: Foreign banks are financial institutions that operate outside their country of origin. These banks provide services like domestic banks within the local jurisdiction but may also offer additional products and services. Some common features of foreign banks include higher interest rates on deposits, international transfers, and access to global financial markets. In India, there are several foreign banks with branches and operations.

e-banking

Answer: **E-banking**, also known as **electronic banking**, refers to a process through which customers can carry out personal or commercial banking transactions using electronic and telecommunication networks. It enables convenient and secure access to various banking services via digital channels. Here are some key aspects of e-banking:

1. **Internet Banking**:
    - **Internet banking** allows customers to perform monetary and non-monetary transactions using the internet.
    - Customers can access their bank accounts, transfer funds, check account statements, pay bills, and apply for loans through the bank's website or mobile application.
2. **Mobile Banking**:
    - Mobile banking applications enable users to perform transactions on their smartphones.

- Customers can check balances, transfer funds, pay bills, and even change their debit card PIN using mobile banking services.

3. **ATM (Automated Teller Machine)**:
   - ATMs are widely used for cash withdrawals, but they also offer other services.
   - Customers can check their account status, transfer funds, deposit money, and change their mobile numbers or debit card PINs at ATMs.
4. **Debit Cards**:
   - Debit cards are linked to a customer's bank account.
   - They allow users to make payments at Point of Sale (POS) outlets, shop online, and withdraw cash from ATMs.
   - The amount spent is directly deducted from the customer's account.
5. **Credit Cards**:
   - Credit cards allow users to borrow funds up to a pre-approved limit.
   - Cardholders can make payments and repay the borrowed amount within a stipulated time, with associated charges.
6. **Point of Sale (POS)**:
   - POS systems are used for making payments at retail outlets.
   - Customers can use their debit or credit cards to pay for purchases.

Banker as Trustee

Answer: When a **banker** accepts items like **securities** or **documents for safe custody** or maintains **escrow accounts** of the customers, the relation between the banker and customer is that of a **Trustee** and the **Beneficiary** (Trustier). The bank acts as a trustee, and the customer is the beneficiary. For instance, if the customer deposits securities or other valuables with the banker for safe custody, the banker becomes a trustee of the customer. The ownership remains with the customer. So, in such cases, the bank may be held liable as a trustee.

Banker's Lien

Answer: **banker's lien**:

- **Definition**:
   - A **banker's lien** is a legal right that allows a bank to retain possession of a customer's property or funds until a debt or obligation is satisfied.
   - It is a form of **security interest** that the bank holds over the customer's assets.
   - The lien arises automatically by operation of law when the customer has an outstanding debt or liability to the bank.
- **Key Points**:

- ◦ **Right of Retention**: The bank can retain possession of the customer's property or funds until the debt is paid.
  - ◦ **Types of Banker's Lien**:
    - ▪ **General Lien**: The bank can retain any property or funds of the customer, regardless of the specific transaction.
    - ▪ **Particular Lien**: The bank can retain specific property or funds related to a particular transaction.
  - ◦ **Scope of Lien**: The lien extends to all accounts held by the customer with the bank.
  - ◦ **Notice to Customer**: The bank must notify the customer of the lien and the reason for retaining the property.
  - ◦ **Enforcement**: If the debt remains unpaid, the bank can sell the property or set off the funds to recover the amount owed.
- **Examples**:
  - ◦ If a customer defaults on a loan, the bank may exercise its lien over the customer's savings account funds.
  - ◦ If a customer has unpaid fees for services, the bank may retain the customer's valuables held in safe custody.

Dividend warrant

Answer: A **dividend warrant** is a financial instrument issued by a company to its shareholders as a form of payment for dividends. Here are the key points about dividend warrants:

- **Purpose**:
  - ◦ A dividend warrant serves as a written order or certificate issued by the company.
  - ◦ It instructs the company's bank to pay the specified dividend amount to the shareholder.
- **Characteristics**:

- Bearer Instrument: The dividend warrant is usually a **bearer instrument**, meaning it is transferable by mere delivery.
  - **Payment Instructions**: It contains instructions to the bank to pay the dividend amount to the bearer or the specified payee.
  - **Validity Period**: Dividend warrants have an expiration date, and shareholders must encash them within the specified time frame.

- **Process**:
  - When a company declares dividends, it issues dividend warrants to eligible shareholders.
  - Shareholders can present the dividend warrant to the company's designated bank for payment.
  - The bank verifies the warrant and disburses the dividend amount.

Bill of exchange

Answer: A **bill of exchange** is a written order used primarily in international trade that binds one party to pay a fixed sum of money to another party on demand or at a predetermined date. Here are the key features, types, and advantages of bills of exchange:

1. **Features of Bill of Exchange**:
   - It is important to have a bill of exchange in writing.
   - It must contain an unconditional order to make a payment and not just a request.
   - The order should not have any conditions.
   - The bill of exchange amount should be definite.
   - There should be a fixed date for the amount to be paid.
   - The bill must be signed by both the drawee and the drawer.
   - The amount stated on the bill should be paid on-demand or on the expiry of a fixed time.
   - The amount is paid to the beneficiary of the bill, a specific person, or against a definite order.
2. **Types of Bill of Exchange**:
   - **Documentary Bill**: Supported by relevant documents confirming the genuineness of a sale or transaction.
   - **Demand Bill**: Payable when demanded; no fixed date of payment.
   - **Usance Bill**: Time-bound; payment within a specified period.
   - **Inland Bill**: Payable only within one country (opposite of foreign bill).
   - **Clean Bill**: No proof of document; higher interest rates.
   - **Foreign Bill**: Payable outside India (e.g., export or import bills).

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- **Accommodation Bill**: Drawn, accepted without any condition.
- **Trade Bill**: Specifically related to trade.
- **Supply Bill**: Withdrawn by the supplier or contractor from the government department.

3. **Advantages of Bill of Exchange**:
    - **Legal Document**: Legally enforceable; facilitates recovery if the drawee defaults.
    - **Discounting Facility**: Convertible into cash by discounting at a bank.
    - **Endorsement Possible**: Can be transferred from one individual to another.
    - **Security**: Provides security for payment.

Banker's Setoff

Answer: **banker's setoff**:

- **Definition**:
    - **Banker's setoff**, also known as **right of setoff**, refers to the legal right of a bank to combine or offset the mutual debts between itself and a customer.
    - If a customer has both a debt (such as an outstanding loan) and a credit (such as a deposit) with the same bank, the bank can use the credit to offset the debt.
- **Key Points**:
    - **Mutual Debts**: The debts must be mutual, meaning they arise from the same banking relationship.
    - **Automatic Right**: The right of setoff arises automatically by operation of law.
    - **No Court Order Needed**: The bank can exercise this right without obtaining a court order.
        - **Example** : If a customer has an outstanding loan with the bank, and they also have a savings account, the bank can use the funds in the savings account to offset the loan amount.
        - Similarly, if a customer has an overdraft on their current account, the bank can use any incoming deposits to offset the negative balance.
- **Advantages**:
    - **Efficiency**: Setoff simplifies the process of debt recovery for the bank.
    - **Risk Reduction**: It reduces the risk of non-payment by using available funds to offset outstanding debts.
    - **Cost-Effective**: No legal proceedings are required, saving time and costs.

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Travellers' cheque

Answer: **Travellers' cheques**, also known as **traveler's cheques**, are preprinted, fixed-denomination cheques issued by financial institutions. They are designed for travelers to use as a secure and convenient form of payment while abroad. Here are the key features of travellers' cheques:

- **Security**:Travellers' cheques are considered safe because they require the signature of the holder at the time of use, if lost or stolen, they can be replaced by the issuing bank.
- **Denominations**:
    - Travellers' cheques come in fixed denominations (e.g., $20, $50, $100).
    - This allows travelers to carry cheques of different values based on their needs.
- **Acceptance**:Travellers' cheques are widely accepted at banks, hotels, and other establishments.
    - They can be exchanged for local currency at foreign exchange counters.
- **Record Keeping**:
    - Each cheque has a unique serial number,The traveler keeps a record of the serial numbers separately from the cheques.
- **Advantages**:
    - **Security**: Reduced risk of loss or theft compared to carrying large amounts of cash.
    - **Universal Acceptance**: Accepted in many countries and locations.
    - **Replacement**: Easily replaced if lost or stolen.
- **Disadvantages**:
    - **Fees**: Some banks charge fees for issuing travellers' cheques.
    - **Limited Denominations**: Available only in fixed denominations.
    - **Declining Use**: With the rise of credit cards and electronic payments, travellers' cheques are less commonly used today.

Part-B

Long Answers

Explain the nature, development, and evolution of baking in India.

Answer: The **nature, development, and evolution of banking in India** have undergone significant changes over the centuries. Let's explore the journey of Indian banking:

1. **Pre-Independence Period (1786-1947)**:
    - **Early Banks**: The first bank in India was the "Bank of Hindustan," established in 1770 in Calcutta (now Kolkata). However, it failed to sustain operations.
    - **Presidential Banks**: During British rule, the East India Company established three banks: Bank of Bengal (1809), Bank of Bombay (1840), and Bank of Madras (1843). These were called the "Presidential Banks" and later merged into the "Imperial Bank of India" (1921).
    - **Other Banks**: Several other banks emerged during this period, including Allahabad Bank (1865), Punjab National Bank (1894), Bank of India (1906), Central Bank of India (1911), and Canara Bank (1906).
2. **Post-Independence Period (1947-1969)**:
    - **Nationalization**: In 1955, the Imperial Bank of India was nationalized and became the State Bank of India (SBI). SBI played a crucial role in the development of the Indian banking sector.
    - **Expansion**: Other nationalized banks were established, including Bank of Baroda, Punjab National Bank, and Canara Bank.
    - **Rural Banking**: The focus shifted to rural banking, with the establishment of regional rural banks (RRBs) to promote financial inclusion.
3. **Nationalization Phase (1969-1991)**:
    - **Bank Nationalization**: In 1969, the government nationalized 14 major private banks to ensure social control and promote economic development.
    - **Branch Expansion**: Banks expanded their branch networks across the country.
    - **Priority Sector Lending**: Banks were directed to allocate a portion of their loans to priority sectors like agriculture, small-scale industries, and weaker sections.
4. **Liberalization and Reforms Phase (1991-Present)**:
    - **Liberalization**: Post the economic reforms of 1991, the banking sector witnessed liberalization, deregulation, and increased competition.
    - **Private Banks**: New private banks like ICICI Bank, HDFC Bank, and Axis Bank emerged.
    - **Technology Adoption**: Banks embraced technology, introduced ATMs, internet banking, and mobile banking.

  - **Foreign Banks**: Foreign banks entered India, offering specialized services.
  - **Asset Quality and NPA Management**: Challenges related to non-performing assets (NPAs) emerged, leading to reforms and stricter regulations.

5. **Recent Developments**:
  - **Payment Banks**: The Reserve Bank of India (RBI) introduced payment banks to enhance financial inclusion.
  - **Digital Transformation**: Banks are adopting digital channels, fintech partnerships, and blockchain technology.
  - **Consolidation**: Recent mergers of public sector banks aim to create stronger and more efficient entities.

Conclusion: Indian banking has evolved from colonial-era banks to a diverse and technology-driven sector, playing a crucial role in the country's economic development.

Discuss in detail the general relationship between banker and customer.

Answer: The **relationship between a banker and a customer** is multifaceted and governed by legal principles, mutual obligations, and trust. Let's explore the various aspects of this relationship:

1. **Nature of the Relationship**:
  - **Debtor and Creditor Relationship**:
    - When a customer opens an account with a bank, they become a creditor (lender) to the bank.
    - The bank, in turn, becomes a debtor (borrower) and is obligated to repay the deposited amount as and when the customer requests it.
    - The bank holds the customer's funds in trust and manages them on their behalf.
  - **Trustee and Beneficiary Relationship**:
    - The bank acts as a trustee for the customer's funds.
    - The customer trusts the bank to safeguard their deposits, provide financial services, and act in their best interest.
    - The bank's duty is to manage the customer's funds prudently and transparently.
  - **Principal and Agent**:
    - The customer appoints the bank as their agent to carry out various financial transactions.
    - The bank acts on behalf of the customer, executing instructions related to payments, investments, and other banking services.
    - The bank's actions are legally binding on the customer.

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- **Lessor and Lessee**:
  - In cases of safe deposit lockers or leased premises, the bank acts as the lessor (owner), and the customer becomes the lessee (tenant).
  - The bank provides the facility, and the customer pays rent or fees for its use.
- **Bailor and Bailee**:
  - When a customer deposits valuables (such as jewelry or documents) in a safe deposit locker, the bank becomes the bailee (custodian).
  - The customer is the bailor (owner) of the deposited items.
  - The bank has a duty to safeguard the valuables and return them upon the customer's request.
- **Advisor and Client**:
  - Banks provide financial advice, investment options, and risk management services.
  - The customer relies on the bank's expertise to make informed decisions.
  - The bank's role is to guide the customer based on their financial goals and risk tolerance.

2. **Rights and Obligations**:
   - **Duties of a Banker**:
     - **Acceptance of Deposits**: The bank must accept deposits from customers.
     - **Payment of Cheques**: The bank honors valid cheques drawn by the customer.
     - **Confidentiality**: The bank must maintain the confidentiality of the customer's financial information.
     - **Duty of Care**: The bank must exercise reasonable care in handling the customer's funds.
   - **Rights of a Banker**:
     - **Right of Lien**: The bank can retain possession of the customer's assets until outstanding debts are settled.
     - **Right of Set-off**: The bank can offset mutual debts between itself and the customer.
     - **Right to Charge Interest and Commission**: The bank can levy charges for services provided.
     - **Right to Close the Account**: The bank can close the account under certain circumstances.
   - **Obligations of the Customer**:
     - **Honesty**: The customer must provide accurate information to the bank.

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- **Payment of Charges**: The customer pays fees, interest, and other charges as agreed.
- **Compliance with Terms**: The customer adheres to the terms and conditions of the banking relationship.

- **Rights of the Customer**:
  - **Grievance Redressal**: The customer has the right to seek resolution for any grievances.
  - **Privacy**: The bank must protect the customer's privacy and sensitive information.
  - **Suitability**: The bank's products and services should suit the customer's needs.
  - **Fair Treatment**: The customer deserves fair and transparent dealings.

3. **Termination of Relationship**:
   - The relationship can end due to closure of the account, death of the customer, or other reasons.
   - The bank must settle all outstanding transactions and return any remaining funds to the customer.

Conclusion: the relationship between a banker and a customer is built on trust, legal obligations, and mutual benefit. It involves various roles and responsibilities, ensuring the smooth functioning of financial services.

State the statutory protection available to the banker while paying the customer's cheque.

Answer: When a banker pays a customer's cheque, there are statutory protections in place to ensure fair and lawful transactions. Here are the key protections available to the paying banker:

1. **Section 85 of the Negotiable Instruments Act, 1881**:
   - This section provides statutory protection to the paying banker when they dishonor cheques on genuine grounds.
   - It states: "Where a cheque payable to order purports to be endorsed by or on behalf of the payee, the drawee is discharged by payment in due course."

   - In other words, if the paying banker honors a cheque based on a valid endorsement, they are protected from any liability arising from the payment.
2. **Good Faith and Without Negligence**:
   - The paying banker is protected if they act in good faith and without negligence.
   - If the banker genuinely believes that the payment is valid and follows standard procedures, they are shielded from liability.
3. **Duty to Compensate for Default**:
   - Section 31 of the Negotiable Instruments Act imposes a duty on the paying banker to compensate the drawer (customer) for any loss or damage caused by default.
   - If the paying banker fails to honor a valid cheque, they may be liable to compensate the customer.

Conclusion: the statutory protections ensure that paying bankers can operate within legal boundaries while honoring or dishonoring cheques.

DRT Debt Recovery Tribunal Act has effective powers and procedure for recovery of debt. Discuss.

Answer: **Debts Recovery Tribunals (DRTs)** are specialized quasi-judicial bodies established in India to facilitate the efficient adjudication and recovery of debts owed by banks and other financial institutions. Here are the key points about DRTs:

1. **Purpose and Establishment**:
   - DRTs were established under the **Recovery of Debts Due to Banks and Financial Institutions Act, 1993 (RDDBFI Act)**.
   - Their primary objective is to provide a speedy and effective mechanism for lenders (banks and financial institutions) to recover outstanding loans from borrowers.
2. **Functions of DRTs**:
   - **Adjudication**: DRTs adjudicate cases related to debt recovery filed by banks and financial institutions against defaulting borrowers.
   - **Enforcement of Security Interest**: DRTs have the authority to enforce security interests (such as mortgages, hypothecation, and pledges) provided by borrowers.
   - **Recovery Proceedings**: DRTs handle recovery proceedings initiated by lenders against defaulters.
   - **Appeals**: Orders of DRTs can be appealed before the **Debts Recovery Appellate Tribunal (DRAT)**.
3. **Powers of DRTs**:
   - DRTs can issue orders for the recovery of debts due to banks and financial institutions.

   - They can attach and sell the secured assets of defaulting borrowers to recover the outstanding amount.
   - DRTs have the authority to summon witnesses, examine evidence, and pass judgments.

4. **Composition**:
   - Each DRT is headed by a **Presiding Officer**, who is usually a retired judge.
   - DRTs have the power to summon experts, legal advisors, and other professionals to assist in the proceedings.

5. **Procedure for Debt Recovery through DRTs**:
   - **Filing of Application**:
     1. The creditor (usually a bank or financial institution) files an application before the relevant DRT.
     2. The application includes details of the debt, borrower, and supporting documents.
   - **Notice to Borrower**:
     1. The DRT issues a notice to the borrower (defendant) to appear before the tribunal.
     2. The borrower can file a written statement in response.
   - **Hearing and Evidence**:
     1. The DRT conducts hearings, examines evidence, and evaluates legal arguments.
     2. Both parties present their case.
   - **Judgment and Recovery**:
     1. The DRT passes a judgment, either in favor of the creditor or the borrower.
     2. If the judgment favors the creditor, the DRT facilitates the recovery process.
     3. The creditor can seek attachment and sale of the borrower's assets.

6. **Appeals to DRATs**:
   - If a party is dissatisfied with the decision of a DRT, they can appeal to the **Debts Recovery Appellate Tribunal (DRAT)**.
   - DRATs review the orders passed by DRTs and provide further relief or uphold the decision.

Explain the salient features of the Banking Regulation Act.

Answer: The **Banking Regulation Act, 1949** is a significant legislation that governs the functioning of banks in India. It provides a comprehensive framework for the regulation and supervision of banking companies. Let's explore the salient features of this Act:

1. **Definition of Banking Business**:
   - The Act defines what constitutes "banking business."
   - It includes accepting deposits, granting loans, and other banking-related activities.
   - The definition ensures that all institutions engaged in banking activities fall under the regulatory purview.

2. **Prohibition of Trading**:

- Banking companies are prohibited from engaging in trading activities.
- This restriction eliminates non-banking risks and ensures that banks focus on their core functions.

3. **Minimum Capital Standards**:
   - The Act prescribes minimum capital requirements for banking companies.
   - Banks must maintain adequate capital to absorb losses and ensure financial stability.
4. **Payment of Dividends**:
   - The Act places restrictions on dividend payments by banks.
   - Banks cannot distribute dividends beyond a certain limit to protect depositors' interests.
5. **Restrictions on Loans and Advances**:
   - The Act imposes limits on loans and advances granted by banks.
   - It ensures prudent lending practices and prevents excessive risk-taking.
6. **Licensing of Banking Companies**:
   - The Act establishes a licensing system for banking companies.
   - Banks must obtain licenses from the Reserve Bank of India (RBI) to operate.
7. **Inspection and Supervision**:
   - The RBI has the authority to inspect and supervise banks.
   - Regular inspections ensure compliance with regulations and safeguard depositors' funds.
8. **Management of Banks**:
   - The Act outlines rules for the management and governance of banking companies.
   - It ensures transparency, accountability, and efficient administration.
9. **Balance Sheet Format and Reporting**:
   - Banks must prepare balance sheets in a specific format.
   - The RBI can call for periodic returns to monitor financial health.
10. **Central Government's Powers**:
    - The central government can take action against banks operating against the interests of depositors.
    - It ensures effective oversight and intervention when necessary.
11. **Liquidation Procedure**:
    - The Act provides an expeditious procedure for liquidating banking companies.
    - It ensures orderly winding up in case of insolvency.

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12. **Applicability to Cooperative Societies**:
    - The Act extends to cooperative societies engaged in banking activities.
    - It brings them under the regulatory framework.

Define negotiable instrument and examine the difference between the bill of exchange and the cheque.

1. Answer: **Negotiable Instrument**:
    - A **negotiable instrument** is a written document that guarantees payment of a specific amount of money either on demand or at a predetermined time.
    - It is transferable from one person to another, either by simple delivery or by endorsement and delivery.
    - Common examples of negotiable instruments include:
        - **Personal Checks**: Used for making payments on demand and can be transferred through hand delivery.
        - **Cashier's Checks**: Similar to personal checks but require funds to be allocated (set aside) for the payee before issuance.
        - **Promissory Notes**: A written promise to pay a specific sum of money to a specified person or order.
        - **Certificates of Deposit (CDs)**: Time-bound instruments issued by banks with a fixed interest rate.
2. **Bill of Exchange**:
    - A **bill of exchange** is an unconditional written order that binds one party (the drawer) to pay a certain sum to another party (the payee) either immediately or at a future date.
    - Key features of a bill of exchange:
        - Requires acceptance by the drawee (acceptor) before any demand for payment can be made.
        - Can be drawn on anyone (individual or bank).
        - Must be stamped.
        - Can be noted or protested if dishonored.
3. **Cheque**:
    - A **cheque** is a type of bill of exchange used for making easy payments on demand.
    - Key features of a cheque:
        - Always payable on demand.

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- No requirement for acceptance.
- Drawn only on a banker (usually a bank).
- No need for stamping.
- Cannot be noted or protested if dishonored.

Aspect	Bill of Exchange	Cheque
Acceptance	Requires acceptance by the drawee.	No acceptance required.
Payable on Demand	Not always payable on demand.	Always payable on demand.
Drawee	Can be drawn on anyone.	Drawn only on a banker (bank).
Stamping	Must be stamped.	No such requirement.
Noting/Protesting	Can be noted or protested.	Cannot be noted or protested.

What are the protections available to the paying banker?

Answer: The **paying banker** enjoys certain statutory protections and rights when handling the payment of cheques. Let's explore these protections:

1. **Protection under the Negotiable Instruments Act, 1881 (Section 85)**:
   - The Negotiable Instruments Act provides specific protections to the paying banker.
   - These protections include:

- **Relying on the Apparent Tenor**: The paying banker can rely on the apparent tenor (face value) of the cheque. If the cheque appears valid on its face, the banker is protected.
- **Signatures of Drawer and Payee**: The paying banker can assume that the signatures of the drawer (account holder) and the payee (cheque recipient) are genuine. If the cheque is properly signed, the banker is protected.

2. **Good Faith and Without Negligence**:
   - The paying banker is protected if they act in good faith and without negligence.
   - If the banker genuinely believes that the payment is valid and follows standard procedures, they are shielded from liability.
3. **Duty to Compensate for Default**:
   - Section 31 of the Negotiable Instruments Act imposes a duty on the paying banker to compensate the drawer (customer) for any loss or damage caused by default.
   - If the paying banker fails to honor a valid cheque, they may be liable to compensate the customer.
4. **Right of Set-Off**:
   - If the account holder owes any debts or liabilities to the bank, the paying banker has the right to exercise the principle of set-off.
   - The bank can use the funds available in the account to offset outstanding debts.

Discuss the salient features of the negotiable instruments Act.

Answer: The **Negotiable Instruments Act, 1881** governs the use and regulation of negotiable instruments in India. Here are the salient features of this Act:

1. **Transferability**:
   - The Act emphasizes the free transferability of negotiable instruments from one party to another.
   - These instruments can be easily transferred by endorsement or simple delivery.
2. **Rights of the Holder**:
   - The Act provides rights and protections to the holder (bearer or endorsee) of the instrument.
   - The holder can enforce payment and claim rights against the parties involved.
3. **Types of Negotiable Instruments**:
   - The Act covers three main types of negotiable instruments:
     - **Promissory Notes**: A written promise to pay a specific sum of money to a specified person or order.

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   - **Bills of Exchange**: An unconditional written order to pay a certain sum to another party either immediately or at a future date.
   - **Cheques**: A type of bill of exchange used for making easy payments on demand.

4. **Transfer by Delivery or Endorsement**:
   - Negotiable instruments can be transferred by simple delivery (in the case of bearer instruments) or by endorsement and delivery (in the case of order instruments).
   - Endorsement involves signing the instrument to transfer it to another party.
5. **Holder in Due Course**:
   - The Act defines a "holder in due course" as someone who acquires the instrument for value, in good faith, before it matures, and without notice of any defect.
   - A holder in due course enjoys certain privileges and protections.
6. **Presumptions in Favor of Holders**:
   - The Act presumes that certain facts are true unless proven otherwise:
     - Consideration: The instrument is presumed to have been issued for consideration (unless proven otherwise).
     - Date: The date mentioned on the instrument is presumed to be the date of issue.
     - Order Instruments: The holder is presumed to be a holder in due course unless there is evidence to the contrary.
7. **Liability of Parties**:
   - The Act defines the liability of parties involved in negotiable instruments.
   - The drawer (maker), drawee (acceptor), and endorser have specific obligations.
8. **Payment in Due Course**:
   - Payment made in accordance with the apparent tenor of the instrument and in good faith is considered payment in due course.
   - The paying party is protected if they follow standard procedures.
9. **Crossing of Cheques**:
   - The Act allows for the crossing of cheques to enhance security.
   - Crossed cheques can only be paid through a bank and not over the counter.
10. **Penalties for Dishonor**:
    - The Act specifies penalties for dishonoring negotiable instruments.
    - Dishonor can result in criminal liability.

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What is e bank guarantee? How is it different from a letter of credit?

Answer: **e-bank guarantee** and **letter of credit (LC)**:

1. **E-Bank Guarantee (Electronic Bank Guarantee)**:
    - An e-bank guarantee is a **digitally issued and managed guarantee** provided by a bank on behalf of its customer (usually a buyer or contractor).
    - It serves as a **commitment** from the bank to pay a specified amount to the beneficiary (usually the seller or supplier) if the customer fails to fulfill their contractual obligations.
    - Key features:
        - **Digital Format**: E-bank guarantees are created, transmitted, and stored electronically, eliminating the need for physical paper documents.
        - **Secure Authentication**: The authenticity and integrity of e-bank guarantees are ensured through secure digital signatures.
        - **Real-Time Access**: Beneficiaries can verify the guarantee's status and validity online.
        - **Reduced Processing Time**: E-bank guarantees streamline the issuance process, reducing administrative delays.
    - Common uses: E-bank guarantees are commonly used in international trade, construction projects, and other commercial transactions.
2. **Letter of Credit (LC)**:
    - A letter of credit is a **financial instrument** issued by a bank on behalf of an importer (applicant) to guarantee payment to an exporter (beneficiary) upon fulfillment of specified conditions.
    - Key features:
        - **Payment Assurance**: The LC assures the exporter that they will receive payment if they comply with the terms and conditions outlined in the LC.
        - **Types**: There are various types of LCs, including:
            - **Sight LC**: Payment is made immediately upon presentation of compliant documents.
            - **Usance LC**: Payment is deferred until a specified future date.
        - **Documentary Process**: The exporter submits required documents (such as shipping documents, invoices, and certificates) to the bank, which then releases payment.
        - **Independence Principle**: The LC is independent of the underlying contract between the buyer and seller.
    - Common uses: LCs are widely used in international trade to mitigate risks for both parties and facilitate smooth transactions.

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Key Differences:

- **Nature**:
    - E-bank guarantee: A guarantee of performance or payment.
    - LC: A payment assurance mechanism.
- **Purpose**:
    - E-bank guarantee: Ensures contractual obligations are met.
    - LC: Facilitates payment for goods or services.
- **Beneficiary**:
    - E-bank guarantee: Usually the seller or contractor.
    - LC: The exporter or seller.
- **Issuance Process**:
    - E-bank guarantee: Issued electronically.
    - LC: Issued as a written document.
- **Payment Timing**:
    - E-bank guarantee: Payment upon default.
    - LC: Payment upon compliance with terms.
- **Applicability**:
    - E-bank guarantee: Not limited to international trade.
    - LC: Primarily used in international trade.

What are the legal presumptions of Negotiable instrument?

Answer: These presumptions are primarily governed by the **Negotiable Instruments Act, 1881** and the **Banking Regulation Act, 1949**. Here are the relevant sections and provisions:

1. **Presumptions under the Negotiable Instruments Act, 1881**:
    - Sections **118** and **119** of the Negotiable Instruments Act lay down certain presumptions that are presumed to exist in every negotiable instrument unless proven otherwise:

1. **Presumption as to Consideration**:
    - Until the contrary is proved, every negotiable instrument is presumed to have been made or drawn for **consideration**. Additionally, when an instrument has been accepted, endorsed, negotiated, or transferred, it is presumed that such actions were done for consideration.
    - The term "consideration" here is broad and not limited to what is explicitly mentioned in the instrument. It encompasses any value exchanged for the instrument.
2. **Presumption as to Date**:
    - When a negotiable instrument bears a date, it is presumed to have been made or drawn on that specific date.

- However, if no date is mentioned, there can be no presumption regarding the exact date of creation. In such cases, circumstantial evidence may be presented to rebut any presumption.

3. **Presumption as to Time of Acceptance**:
    - Every accepted bill of exchange is presumed to have been accepted within a **reasonable time** after its date and before its maturity.
    - This presumption ensures that timely acceptance occurs in the normal course of business.
4. **Presumption as to Time of Transfer**:
    - Every transfer of a negotiable instrument is presumed to have taken place before its maturity.
    - This presumption supports the smooth flow of negotiable instruments in commercial transactions.
5. **Presumption as to Order of Endorsements**:
    - The indorsements appearing on a negotiable instrument are presumed to have been made in the order in which they appear.
    - This helps maintain the integrity and sequence of endorsements.
6. **Presumption as to Stamps**:
    - If a promissory note, bill of exchange, or cheque is lost, it is presumed to have been duly stamped.
    - This presumption facilitates the handling of lost instruments.
7. **Presumption of Holder in Due Course**:
    - The holder of a negotiable instrument is presumed to be a **holder in due course** unless evidence suggests otherwise.
    - However, if the instrument was obtained through fraud, offense, or unlawful consideration, the burden of proving holder-in-due-course status lies with the holder.

What is a letter of credit Discuss the merits and demerits of making advance against stocks and shares.

Answer: **Letter of Credit (LC)**

A **letter of credit** (LC), also known as a **documentary credit**, is a crucial payment mechanism in international trade.

Definition: An LC is a **guarantee** issued by a bank or financial institution. It assures the seller (beneficiary) that the buyer's payment will be received on time and for the correct amount. If the buyer fails to make the payment, the bank steps in to cover the outstanding amount.

How It Works:

- The buyer (importer) requests the bank to issue an LC in favor of the seller (exporter).
- The bank ensures that the buyer has sufficient assets or credit to make the payment.
- If the seller fulfills the terms of the contract (e.g., delivers goods), the bank pays them directly.
- LCs are often used in international transactions due to distance, differing laws, and the need for security.

Types of LCs:

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- **Commercial Letter of Credit**: Used for regular trade transactions.
- **Revolving Letter of Credit**: Allows multiple shipments within a specified period.
- **Confirmed Letter of Credit**: Involves a second bank confirming the LC.
- **Standby Letter of Credit**: Acts as a backup if the buyer defaults.

Costs: Banks charge a fee for issuing an LC, typically a percentage of the total credit guaranteed. Fees vary based on the type of letter and the issuing bank's credit strength.

Advantages of Making Advances Against Stocks and Shares

1. **Ownership Stake**: Investing in stocks provides an ownership stake in the issuing company. Shareholders participate in company profits and decision-making.
2. **Exclusivity in Transactions**: Stock trading used to be exclusive to brokers, but online platforms have made it accessible to the general public.
3. **Return on Investment**: When a company performs well, stock values appreciate, leading to capital gains.
4. **Right to Vote**: Shareholders can vote in company matters, including board elections.
5. **Regulatory Protection**: Regulatory bodies safeguard investor interests.
6. **Contribution to Economic Growth**: Stock markets play a vital role in economic development.
7. **Diversification**: Stocks allow diversifying investment portfolios.
8. **Tax Benefits**: Certain tax advantages apply to stock investments.

Disadvantages of Making Advances Against Stocks and Shares

1. **Volatility**: Stock prices can fluctuate significantly, leading to potential losses.
2. **Impulsive Investment**: Emotional decisions may harm investment outcomes.
3. **Lack of Knowledge**: Inadequate understanding of stocks can be risky.
4. **Time-Consuming**: Research and monitoring stocks require time and effort.
5. **Higher Risk**: Stocks are subject to market risks and company-specific risks.

Part-C

Problems

1. X, a customer has deposited jewel worth Rs. 50,000 for safe custody in a bank later he becomes a debtor to the bank. Explain the legal right of the banker in this situation?

2. A, a banker pays the cheque of the customer B before the order of counter manding the cheque is received by the bank. Is the banker liable for it?

3. There is a house in the name of Malati. After marriage her husband without the knowledge of her mortgaged the house to a bank. Later she sold her house to somebody and registered it legally. Advise the bank for recovery of debt.

4. A locker is hired by X and Y jointly and is to be operated by them jointly. Both of them nominated S and W to operate the locker in the bank respectively. Advice the bank in case X dies.

5. The Reserve Bank of India (RBI) has inspected the books of JVN bank and found that the bank is not in a position to pay its depositors claims. Subsequently, the RBI cancelled the license of the bank. Advise, the statutory remedy available to JVN bank to challenge the decision of the RBI.

6. A draws a cheque in favour of B, a minor. B indorses it in favour of C, who in turn endorses it in favour of D. The cheque is dishonoured by the bank. Examine the rights of C and D. Can B is liable in the circumstances?

7. Bank of Baroda issued a fixed deposit receipt (FDR) amounting Rs.50,000/- in favour of Smt. Rani. Can rani transfer the FDR like a cheque, if not so, what is the reason?

8. Mohan and Ravi together have a joint account in the bank. Apart from joint account, Mohan has also another account in the same bank. There is a credit balance in the account of Mohan. The banker wishes to set this off against an overdraft in the joint name of Mohan and Ravi. Is the bank permitted under the rules to exercise right of set off in these circumstances?

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