VIDYAVARDHAKA LAW COLLEGE
Subject: Banking Law
Class: II LL.B 3years and IV LL.B 5years

Synopsis

1. **Explain the Historical development of banking system in India**

- In India, the banking system is as old as early Vedic period. The book of Manu contains reference regarding deposits advances, pledge policy of loan, and rate of interest. The banking system, the most dominant segment of financial sector, accounts for over 80% of the funds flowing through the financial sector.

Pre-independence (1786-1947)

Post-Independence era:

Nationalization

Liberalization Period

2**. Explain the Indigenous banking system in India**

Indigenous banking system is the system of banking that involves private firms or individuals who act as banks by providing financial services such as loans and accepting deposits.

Characteristics of Indigenous Bankers

Functions of Indigenous Bankers

Hundi is a financial instrument that developed in Medieval India for use in trade and credit transactions. Hundis are used as a form of remittance instrument to transfer money from place to place, as a form of credit instrument.

- Hundis are of two types

1) Darshni or Sight hundi, a hundi that is payable on demand and

2) Muddati Hundi, a hundi that is payable after a certain time period. The time period after which it becomes payable is mentioned at the face of the hundi.

3. Explain the different kinds of Banks.

DIFFERENT KINDS OF BANKS:

Reserve bank of India

Co operative Banks	Commercial Banks	Development Banks
Short Term Credit Institutions	Public sector Banks	SIDBI
Long Term Credit Institutions	Foreign Banks	NABARD
	Old/New Private Sector Banks	NHB
	Local Area Banks	Exim Bank
	Regional Rural Banks	

CO-OPERATIVE BANKING SYSTEM

- Cooperative banks play an important role in the Indian Financial System, especially at the village level. The growth of Cooperative Movement commenced with the passing of the Act of 1904. A cooperative bank is a cooperative society registered or deemed to have been registered under any State or Central Act.
- The Cooperative rural Credit Structure in our country are of following types:
- Short Term Agricultural Credit institutions
- Long Term Agricultural Credit Institutions.

COMMERCIAL BANKS:

- Public Sector Banks
- Private Sector Banks
- . Foreign Banks
- Local area banks
- Regional Rural Banks

DEVELOPMENT BANKS

- With the introduction of financial sector reforms, many changes have been witnessed in the domain of development banking. There are more than 60 Development Banking Institutions at both Central and State level.
- National Bank for Agriculture and Rural Development (NABARD)
- Small Industries Development Bank of India (SIDBI)
- National Housing Bank (NHB)
- Export Import Bank of India (EXIM Bank)

4. Explain the services provided by multifunctional Banking System

Multifunctional Banking system

- Universal Banking, can be defined as a multi-purpose and multi-functional supermarket providing both banking and financial services through a single window. In simple words, a Universal Bank is a superstore for financial products.

  Universal Banking – A Strength And Weakness Analysis and Government Of India Regulations On Universal Banking.

Explain the Banking companies in India under the Banking Regulation Act 1949

Banking companies in India

- According to Sec. 5 of the Banking Regulation Act, 1949, a banking company means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise and withdrawn by Cheque, Draft, Order, or otherwise.
- Licensing of Banking Companies
- Inspection of the books of the company –
- Cancelation of License
- Board of Directors and Chairman
- Amalgamation of Banks(sec44A)

Explain the evolution of Central banking system in India.

Origin of the RBI:

- Before the establishment of Reserve Bank of India, there have been a few efforts to establish a central bank in the country. The earliest attempt has been traced back to 1773, when Warren Hastings, the Governor of Bengal, proposed to establish a central bank in the country and recommended that a "General Bank in Bengal and Bihar" be established.

State the Characteristics or functions of central bank

- CENTRAL BANK
- Banker to The Govt
- Banker's Bank
- Lender of Last Resort
- Controller of Credit
- Adviser to The Govt
- Clearing House
- Controller of Foreign Exchange

Describe the role of Reserve Bank of India in the economic development of the country

RESERVE BANK OF INDIA

The origins of the Reserve Bank of India can be traced to 1926, when the Royal Commission on Indian Currency and Finance – also known as the Hilton-Young Commission – recommended the creation of a central bank for India to separate the control of currency and credit from the Government and to augment banking facilities throughout the country.

The Reserve Bank of India Act of 1934 established the Reserve Bank and set in motion a series of actions culminating in the start of operations in 1935. Since then, the Reserve Bank's role and functions have undergone numerous changes, as the nature of the Indian economy and financial sector changed.

Explain the functions of RESERVE BANK OF INDIA.

Functions of RBI

- Traditional functions are those functions which every central bank of each nation performs all over the world. It includes fundamental functions of the Central Bank.

Issue of Currency Notes
Banker to other Banks
Banker to the Government
Exchange Rate Management
Credit Control Function
Supervisory Function

Developmental / Promotional Functions of RBI

Development of the Financial System
Development of Agriculture
Provision of Industrial Finance
Provisions of Training
Publication of the Reports
Promotion of Banking Habits

Explain the monetary policy of RBI. State the difference between SLR and CRR

MONETARY POLICY OF RBI

- Monetary policy is the process by which the RBI controls the supply of money, often targeting an inflation rate or interest rate to ensure price stability. RBI reviews its monetary policy every two months. The RBI implements the monetary policy through open market operations, bank rate policy, CRR, SLR, reserve system, credit control policy, moral persuasion etc.
- Monetary Policy Tools
- To control inflation, the Reserve Bank of India needs to decrease the supply of money or increase cost of fund in order to keep the demand of goods and services in control.

- Reserve Ratio
- Banks are required to keep aside a set percentage of cash reserves or RBI approved assets. Reserve ratio is of two types:
- Cash Reserve Ratio (CRR)
- Statutory Liquidity Ratio (SLR)Difference between SLR & CRR
- Bank rate policy
- The bank rate, also known as the discount rate, is the rate of interest charged by the RBI for providing funds or loans to the banking system. This banking system involves commercial and co-operative banks, Industrial Development Bank of India, EXIM Bank, and other approved financial institutions.

REPO RATE

REVERSE REPO RATE

EXPLAIN THE RELATIONSHIP BETWEEN A BANKER AND CUSTOMER

Who is banker? The term banking' has been defined as accepting for the purpose of lending or investment, of deposit of money from the public repayable on demand or withdraw able by cheque, draft or order.

Who is Customer? Customer A customer is a person who has some sort of account, either deposit or current account, with the banker.

- Classification of Relationship: The relationship between banker and customer is of utmost importance. The relationship between a bank and its customers can be broadly categorized in to
  - General Relationship

  Special Relationship.

Banker’s Lien

- Lien means the right of the creditor to retain the goods and securities owned by the debtors until the debt due from him is repaid.
- It confers upon the creditor the right to retain the security of the debtor and not the right to sell it.
- In case of a pledge, the creditor enjoys the right of sale.

- A banker right of lien is more than “General lien”. It confers upon him the power to sell the goods and securities in case of default by the customer.

Meaning of Collecting Banker ™

The banker who collects the cheques and bills on behalf of its customers ™Every crossed cheque is necessarily to be collected through any bank which is known as collecting banker. ™While collecting the cheques of a customer the banker may act in the capacity of either as a holder for value or as an agent of the customer. ™For collection the collecting banker will charge commission.

Explain the duties and responsibilities of a collecting banker

ARE DISCUSSED BELOW:

1. Due care and diligence in the collection of cheque.
2. Serving notice of dishonor.
3. Agent for collection.
4. Remittance of proceeds to the customer.
5. Collection of bill of exchange.
6. He must exercise reasonable diligence and care and diligence in hi/hers collection work. He must observe utmost care while presenting customer's cheque.
7. If the cheque is delayed to be submitted by the banker, a customer may suffer because of the drawer insolvency or insufficiency of funds in the drawee's account. Therefore, the collecting banker must present the cheque for collection without delaying it.
8. Where the cheque is dishonored, the collecting banker must necessarily give notice to the customer and inform the customer without any delay.
9. In the event of drawing a cheque at a location where the banker is not a member of the 'clearing-house,' another banker who is a member may be used to

collect the check for the purpose collecting customers' cheques. The banker is a substituted agent in such a situation.

10. Where the collecting banker has realized the cheque, he/she must pay the interest to the customer as per the customer's instruction.

Mention the different Types of Bank Accounts and Types of Deposit Account

1. SAVINGS ACCOUNT AND SAVING DEPOSIT –
2. Savings Accounts are the most popular kind of individual accounts for personal purpose of saving your investments and getting interest rates. Savings account provides cheque facility along with flexibility for deposit and withdrawal of funds from your account.

This account will be considered as normal banking service. ™ For this account, maintenance of minimum balance is not required. ATM card/ ATM cum Debit card, Rupay card will be given for the account holders. ™There are going to be no limit on the number of deposits that can be made in a month but, account holders will be allowed most of 4 withdrawals in a month, which includes ATM withdrawals also. ™ The above facilities will be given without any charge. There will be no charge levied for non-operation/ activation of in-operative basic saving bank deposit account. ™For this account, overdraft facility will be provided up to Rs. 5000/-. ™Two free cheque books will be issued per year. ™Internet banking facility will be provided without any charge. ™Balance enquiry, NEFT, Bill payment, Mobile recharge etc., are provided through mobile phones. ™ Students can open this account with zero balance by providing the required documents.

CURRENT ACCOUNT AND CURRENT DEPOSIT

Current bank accounts are very popular among companies, firms, public enterprises, businessmen who generally have higher number of regular transactions with the bank. Current account is a bank account for people who run businesses. It is designed for carrying out day-to-day business transactions easily. ™Any resident individual- single accounts, two or more individuals in joint accounts, Associations, Limited companies, Religious Institutions, Educational Institutions, Charitable Institutions, clubs etc., are eligible for this account. ™Payments can be done unlimited number of times.

RECURRING ACCOUNT AND RECURRING DEPOSIT –

Recurring deposits also known as RD accounts who wish to invest an average amount of their savings on a monthly basis. These accounts gain interest on the amount available in your account. This account is specially designed for the working public who don't want to invest a large amount at one instance. Any resident individual- single accounts, two or more individuals in joint accounts, Associations, clubs, Institutions/Agencies specifically permitted by the RBI etc., are eligible to open this account in single/joint names.

Periodic/Monthly installments can be for any amount starting from as low as Rs.50/- onwards. Account can be opened for any period ranging from 6 months to 120 months, in multiple of 1 month. The amount selected for installment at the start of the scheme will be payable every month. The number of installments once fixed, cannot be altered. Approved rate of interest is compounded every quarter. The amount after maturity will be paid to customers one month after the deposit of the last installment. Pass book will be given to the depositor. TDS will be applicable on the interest, as per the latest changes in the Income Tax Act on cumulative deposits also.

NEGOTIABLE INSTRUMENTS ACT, 1881

Explain the term 'Negotiable Instruments'. And explain its kinds.

MEANING OF NEGOTIABLE INSTRUMENTS

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

Thus, the term, negotiable instrument means a written document which creates a right in favour of some person and which is freely transferable. Although the Act mentions only these three instruments (such as a promissory note, a bill of exchange and cheque), it does not exclude the possibility of adding any other instrument which satisfies the following two conditions of negotiability:

1. the instrument should be freely transferable (by delivery or by endorsement. and delivery) by the custom of the trade; and

2. the person who obtains it in good faith and for value should get it free from all defects, and be entitled to recover the money of the instrument in his own name.

TYPES OF NEGOTIABLE INSTRUMENT Section 13 of the Negotiable Instruments Act states that a negotiable instrument is a promissory note, bill of exchange or a cheque payable either to order or to bearer. Negotiable instruments recognized by statute are: (i) Promissory notes (ii) Bills of exchange (iii) Cheques.

Promissory notes

Section 4 of the Act defines, "A promissory note is an instrument in writing (note being a bank-note or a currency note) containing an unconditional undertaking, signed by the maker, to pay a certain sum of money to or to the order of a certain person, or to the bearer of the instruments."

Essential elements

An instrument to be a promissory note must possess the following elements:

1. It must be in writing: A mere verbal promise to pay is not a promissory note. The method of writing (either in ink or pencil or printing, etc.) is unimportant, but it must be in any form that cannot be altered easily.

2. It must certainly an express promise or clear understanding to pay: There must be an express undertaking to pay. A mere acknowledgment is not enough. The following are not promissory notes as there is no promise to pay.

3. It should be signed by the maker:

The person who promise to pay must sign the instrument even though it might have been written by the promisor himself. There are no restrictions regarding the form or place of signatures in the instrument. It may be in any part of the instrument. It may be in pencil or ink, a thumb mark or initials.

The maker must be certain:

The note self must show clearly who is the person agreeing to undertake the liability to pay the amount. In case a person signs in an assumed name, he is liable as a maker because a maker is taken as certain if from his description sufficient indication follows about his identity. In case two or more persons promise to pay, they may bind themselves jointly or jointly and severally, but their liability cannot be in the alternative.

The amount should be certain:

One of the important characteristics of a promissory note is certainty—not only regarding the person to whom or by whom payment is to be made but also regarding the amount.

Bill of exchange

Section 5 of the Act defines, “A bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of a certain person or to the bearer of the instrument”. A bill of exchange, therefore, is a written acknowledgement of the debt, written by the creditor and accepted by the debtor. There are usually three parties to a bill of exchange drawer, acceptor or drawee and payee. Drawer himself may be the payee.

Essential conditions of a bill of exchange

(1) It must be in writing.

(2) It must be signed by the drawer.

(3) The drawer, drawee and payee must be certain.

(4) The sum payable must also be certain.

(5) It should be properly stamped.

(6) It must contain an express order to pay money and money alone.

Classification of Bills

Bills can be classified as:

(1) Inland and foreign bills.

(2) Time and demand bills.

(3) Trade and accommodation bills.

(1) Inland and Foreign Bills Inland bill: A bill is, named as an inland bill if:

(a) it is drawn in India on a person residing in India, whether payable in or outside India, or

(b) it is drawn in India on a person residing outside India but payable in India.

Foreign Bill: A bill which is not an inland bill is a foreign bill.

The following are the foreign bills:

1. A bill drawn outside India and made payable in India.

2. A bill drawn outside India on any person residing outside India.

3. A bill drawn in India on a person residing outside India and made payable outside India.

4. A bill drawn outside India on a person residing in India.

5. A bill drawn outside India and made payable outside India.

Cheques

Section 6 of the Act defines "A cheque is a bill of exchange drawn on a specified banker, and not expressed to be payable otherwise than on demand". A cheque is bill of exchange with two more qualifications, namely,

(i) it is always drawn on a specified banker, and

(ii) (ii) it is always payable on demand. Consequently, all cheque are bill of exchange, but all bills are not cheque. A cheque must satisfy all the requirements of a bill of exchange; that is, it must be signed by the drawer, and must contain an unconditional order on a specified banker to pay a certain sum of money to or to the order of a certain person or to the bearer of the cheque. It does not require acceptance.

Explain the differences between Assignment and negotiation under N I Act

ASSIGNMENT

Bills, notes and cheques represent debts and as such have been held to be assignable without endorsement. Transfer by assignment takes place when the holder of a negotiable instrument sells his right to another person without endorsing it. The assignee is entitled to get possession and can recover the amount due on the instrument from the parties thereto. Of the two methods of transfer of negotiable instruments discussed, transfer by negotiation is recognized by the Negotiable Instrument Act.

Negotiation and Assignment Distinguished

The various points of distinction between negotiation and assignment are as below:

1. Negotiation requires delivery only to constitute a transfer, whereas assignment requires a written document signed by the transferor.

2. Consideration is always presumed in the case of transfer by negotiation. In the case of assignment consideration must be proved.

3. In case of negotiation, notice of transfer is not necessary, whereas in the case of assignment notice of the transfer must be given by the assignee to the debtor.

4. The assignee takes the instrument subject to all the defects in the title of the transferor. If the title of the assignor was defective the title of the assignee is also defective. However, in case of negotiation the transferee takes the instrument free from all the defects in the title of the transferor. A holder in due course is not affected by any defect in the title of the transferor. He may therefore have a better title than the transferor.

5. In case of negotiation a transferee can sue the third party in his own name. But an assignee cannot do so.

Define the term 'Endorsement'. Explain the various forms of endorsement.

ENDORSEMENT

The word 'endorsement' in its literal sense means, writing on the back of an instrument. But under the Negotiable Instruments Act it means, the writing of one's name on the back of the instrument or any paper attached to it with the intention of transferring the rights therein. Thus, endorsement is signing a negotiable instrument for the purpose of negotiation. The person who effects an endorsement is called an 'endorser', and the person to whom negotiable instrument is transferred by endorsement is called the 'endorsee'.

Essentials of a valid endorsement

The following are the essentials of a valid endorsement:

1. It must be on the instrument. The endorsement may be on the back or face of the instrument and if no space is left on the instrument, it may be made on a separate paper attached to it called allonage. It should usually be in ink.

2. It must be made by the maker or holder of the instrument. A stranger cannot endorse it.

3. It must be signed by the endorser. Full name is not essential. Initials may suffice. Thumb-impression should be attested. Signature may be made on any part of the instrument. A rubber stamp is not accepted but the designation of the holder can be done by a rubber stamp.

4. It may be made either by the endorser merely signing his name on the instrument (it is a blank endorsement) or by any words showing an intention to endorse or transfer the instrument to a specified person (it is an endorsement in full). No specific form of words is prescribed for an endorsement. But intention to transfer must be present. When in a bill or note payable to order the endorsee's name is wrongly spelt, he should when he endorses it, sign the name as spelt in the instrument and write the correct spelling within brackets after his endorsement.

5. It must be completed by delivery of the instrument. The delivery must be made by the endorser himself or by somebody on his behalf with the intention of passing property therein. Thus, where a person endorses an instrument to another and keeps it in his papers where it is found after his death and then delivered to the endorsee, the latter gets no right on the instrument.

6. It must be an endorsement of the entire bill. A partial endorsement i.e. which purports to transfer to the endorse a part only of the amount payable does not operate as a valid endorsement.

Classes of endorsement

An endorsement may be:

(1) Blank or general.

(2) Speical or full.

(3) Partial.

(4) Restrictive.

(5) Conditional.

Who is holder in due course? Explain the privileges of a holder in due course

HOLDER IN DUE COURSE

Section 9 of the Act defines 'holder in due course' as any person who

(i) for valuable consideration,

(ii) (ii) becomes the possessor of a negotiable instrument payable to bearer or the indorsee or payee thereof,

(iii) (iii) before the amount mentioned in the document becomes payable, and (iv) without having sufficient cause to believe that any defect existed in the title of the person from whom he derives his title. (English law does not regard payee as a holder in due course).

The essential qualification of a holder in due course may, therefore, be summed up as follows:

1. He must be a holder for valuable consideration. Consideration must not be void or illegal, e.g. a debt due on a wagering agreement. It may, however, be inadequate. A donee, who acquired title to the instrument by way of gift, is not a holder in due course, since there is no consideration to the contract. He cannot maintain any action against the debtor on the instrument. Similarly, money due on a promissory note executed in consideration of the balance of the security deposit for the lease of a house taken for immoral purposes cannot be recovered by a suit.

2. He must have become a holder (passessor) before the date of maturity of the negotiable instrument. Therefore, a person who takes a bill or promissory note on the day on which it becomes payable cannot claim rights of a holder in due course because he takes it after it becomes payable, as the bill or note can be discharged at any time on that day.

Explain the provisions relating to Dishonor of negotiable instrument

DISHONOUR OF A NEGOTIABLE INSTRUMENT

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

Dishonor by non-acceptance (Section 91)

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

When the drawee is a fictitious person or if he cannot be traced after reasonable search.

. When the drawee is incompetent to contract, the bill is treated as dishonoured.

When a bill is accepted with a qualified acceptance, the holder may treat the bill of exchange having been dishonoured.

When the drawee has either become insolvent or is dead.

When presentment for acceptance is excused and the bill is not accepted. Where a drawee in case of need is named in a bill or in any indorsement thereon, the bill is not dishonoured until it has been dishonoured by such drawee.

Dishonor by non-payment (Section 92)

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

Write a short notes on:

NOTING AND PROTESTING

When a negotiable instrument is dishonored the holder may sue his prior parties i.e the drawer and the indorsers after he has given a notice of dishonor to them. The holder may need an authentic evidence of the fact that a negotiable instrument has been dishonored. When a cheque is dishonored general1y the bank who refuses payment returns back the cheque giving reasons in writing for the dishonor of the cheque.

Sections 99 and l00 provide convenient methods of authenticating the fact of dishonor of a bill of exchange and a promissory note by means of 'noting' and 'protest'. Noting As soon as a bill of exchange or a promissory note is dishonored, the holder can after giving the parties due notice of dishonor, sue the parties liable thereon. Section 99 provides a mode of authenticating the fact of the bill having been dishonored. Such mode is by noting the 46 instrument. Noting is a minute recorded by a notary public on the dishonored instrument or on a paper attached to such instrument. When a bill is to be noted, the bill is taken to a notary public who represents it for acceptance or payment as the case may be and if the drawee or acceptor still refuses to accept or pay the bill, the bill is noted as stated above.

Noting should specify in the instrument,

(a) the fact of dishonour,

(b) the date of dishonour,

(c) the reason for such dishonour, if any

(d) the notary's charges,

(e) a reference to the notary's register and

(f) the notary's initials.

Protest

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

Contents of protest

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

1. The instrument itself or a literal transcript of the instrument; and of everything written or printed thereupon.
2. The name of the person for whom and against whom the instrument has been protested.
3. The fact of and reasons for dishonour i.e. a statement that payment or acceptance or better security, as the case may be, has been demanded of such person by the

notary public from the person concerned and he refused to give it or did not answer or that he could not be found.

4. The time and place of demand and dishonour.

5. The signature of the notary public.

EXPLAIN THEGENERAL PRINCIPLES OF SECURED ADVANCES

While granting advances on the basis of securities offered by customers, a banker should observe the following basic principles:

1. Adequacy of margin- The word ‘margin’ has special meaning and significance in the banking business. In banking terminology, ‘margin’ means the difference between the market value of the security and the amount of the advance granted against it. For example, if a banker sanctions an advance of Rs. 80 against the security of goods worth Rs. 100, the difference between the two (Rs. 100 – Rs. 80 = Rs. 20) is called margin.

   A banker always keeps an adequate margin because of the following reasons:

   (i) The market value of the securities is liable to fluctuations in future with the result that the banker’s secured loans may turn into partly secured ones.

   (ii) The liability of the borrower towards the banker increases gradually as interest accrues and other charges become payable by him. For example, if a loan of Rs. 100 is sanctioned by a banker today, the liability of the borrower at a future date, say, a year after, would be increased by the amount of interest accrued and other charges payable by him. Hence a banker keeps adequate margin to cover not only the present debt but also the additions to the debt.

ADVANCES AGAINST GOODS

The Scheduled banks in India sanctions advances against the security of the following types of goods and commodities broadly divided into four main heads as follows:

(i) Food articles,

(ii) Industrial raw materials,

(iii) Plantation products, and

(iv) Manufacturers and materials.

The advances against goods meet the needs of working capital of a large number of business and industrial concerns. In fact, such advances are essential for all trading and commercial activities in the country, i.e., for storing the agricultural output, the industrial raw materials and the finished products from the time of their harvest or production till their final consumption.

ADVANCES AGAINST DOCUMENTS OF TITLE TO GOODS

A document of title to goods represents actual goods in the possession of somebody else. It confers on the purchaser the right to receive the goods and to transfer such right to any other person by mere delivery or by endorsement and delivery. A document of title to goods is a 139 document used in the ordinary course of business as a proof of the possession or control of goods. Bill of Lading, Dock Warrants, Warehouse-keeper's or wharfinger's certificate, railway receipts and delivery orders are the instances of the documents of title to goods. There are two tests by which we may judge the validity of such a document:

(a) The person who possesses such document is recognised by law or by business practice as possessing the actual goods; and

(b) The person who possesses such document can transfer the goods to any person by endorsement or delivery or by both. The transferee is thus entitled to take delivery of the goods in his own right.

EXPLAIN THE E- BANKING SYSTEM IN INDIA /DIGITAL BANKING IN INDIA

In 2016, the government launched its unified payment interface(UPI) system, a digital banking system that allows people to easily transfer money to and from a bank account or to others via a smartphone. The UPI system has started a revolution and gave birth money transferring was available to bank account holders before 2016 as well but it wasn't accessible to everyone as that was not based on mobile systems. Now UPI anyone in the country can open a bank account, save money and make transactions using a mobile phone. The wave of digital banking in India has made most of the banks in India to leverage technology by bringing an entire bank squeezed to fit into your smartphone and encourage customers for mobile banking.

RECENT TRENDS IN BANKING

1. **Automatic Teller Machine:** Automatic Teller Machine is the most popular devise in India, which enables the customers to withdraw their money 24 hours a day and 7 days in a week. It is a device that allows customers who as ATM card to perform routine banking transactions without interacting with a human teller. In addition to cash withdrawal, ATM's can be used for payment of utility bills, funds transfer between accounts, deposit of cheques and cash into accounts, balance enquiry etc.
2. **Tele Banking:** Tele banking facilitate the customer to do entire non-cash related banking on telephone. Under this devise automatic voice recorder is

used for simpler queries and transactions. For complicated queries and transaction manned phone terminals are used.

3. **Electronic Clearing Service (ECS):** Electronic clearing service is retail payment systems that can be used especially where each individual receipts of a similar nature especially where each individual payment is of a repetitive nature and of relatively smaller account. This facility is meant for companies and government departments to make receive large volume of payments rather than for funds transfers by individuals.
4. **Electronic Funds Transfer(EFT):** Electronic funds transfer is a system where by anyone who wants to make payment to another person/Company etc. can approach his bank and make cash payment are give instructions/authorization to transfer funds directly from his own account to the bank account of the receiver/beneficiary. Complete details such as the receiver's name, bank account number, account type, bank name, city, branch etc.. should be furnished to the bank at the time of requesting for such transfers so that the amount reaches the beneficiary's account correctly and faster. RBI is the service providers of EFT.
5. **Real Time Gross Settlement(RTGS):** Real time gross settlement system, introduced in India since March 2004. It is a system through which electronics instructions can be given by banks to transfer funds from their account to the account of another bank. The RTGS system is maintained and operated by the RBI and provides a means of efficient and faster funds transfer among banks facilitating their financial operations. As the name suggests funds transfer between banks takes place on a 'Real Time' basis. Therefore money can reach the beneficiary instantly and the beneficiary's banks are responsibility to credit the beneficiary's account within two hours.

6. **Point of Sale Terminal:** Point of sale terminal is a computer terminal that is linked outline to the computerized customer information files in a bank and magnetically encoded plastic transaction card that identifies the customer to the computer. During a transaction the customer account is debited and the retailer account is credited by the computer for the amount of purchase.
7. **Internet Banking:** Internet banking enables a customer to do banking transactions through the bank's website on the internet. It is a system of accessing accounts and general information on bank products and services through a computer while sitting in its office or home. This is also called virtual banking. It is more or less bringing the bank to your computer. In traditional banking one has to approach the branch in person to withdraw cash or deposit a cheque or request a statement of accounts etc. But Internet banking has changed the way of banking. Now everyone can operate all those type of transactions on his computer through website of bank. All such transactions are encrypted. Using sophisticated Multi- layered security architecture including firewalls and filters. One can be rest assured that one's transaction are secure and confidential.
8. **De-Mat Account:** India adopted the de-mat system for electronic storing. According to Depository Act 1996 to maintain shares and securities electronically and eliminating the troubles associated with as per shares. De-mat system was introduced to invest shares and securities every investor should have registration. Instead of investor taking physical passion of certificates a de-mat account is opened. De-mat account can be provided by through stockbrokers. It can be held electronically. For the purpose of purchase and transfer of shares and their process for sales.

Opportunities:

1. **Retail Lending:** Recently banks have adopted customer segmentation which has helped in customizing their product folios well. Thus retail lending has become a focus area particularly in respect of financing of consumer durables, housing, automobiles etc. Retail lending has also helped in risks dispersal and in enhancing the earning of banks with better recovery rates.
2. **Rural area Customers:** Contributing to 70% of the total population in India is a largely untapped market for banking sector. In all urban areas banking services has entered but only few big villages have the banks entered. So the banks must reach in remaining all villages because majority of Indian still live in rural areas.
3. **Good Customer Services:** Good customer services are the best brand ambassador for any bank for growing its business. Every engagement with customer is an opportunity to develop a faith in the bank. While increasing competition customer services has become the backbone for judging the performance of banks.
4. **Offering Various Channels:** Banks can offer so many channels to access the banking and other services such as ATM, Local branches, Telephone/ mobile banking, video banking etc. to increase the banking business.
5. **Other Opportunities:** There are many other opportunities in future in the field of Indian banking sector. E.g. To enter new business and new markets, to develop new ways of working, to improve efficiency, to deliver high level of customer services.

CHALLENGES

1) Customer Satisfaction / Loyalty: -Today, customers are more value oriented in their services because they have alternative choices in it. Hence, each and every bank has to take care about fulfillment of customers ’satisfaction.

2) To Provide several personnel services:- The present times demanded that banks are to provide several services for which they have to expanse in service, social banking with financial possibilities, selective up gradation, computerization and innovative mechanization, better customer services, effective managerial culture, internal supervision and control, adequate profitability, strong organization culture etc. Therefore banks must be able to provide complete personal service to the customers who come with expectations.

3) Non-Performing Assets (N.P.A): Non-performing assets are another challenge to the banking sector. Vehicle loans and unsecured loans increases N.P.A. which terms 50% of banks retail portfolio was also hit due to upward movement in interest rates, restrictions on collection practices and soaring real estate prices. Therefore, every bank has to take care about regular repayment of loans**.**

4) Competition:- The nationalize banks and commercial banks have the competition from foreign and new private sector banks. Competition in banking sector brings various challenges before the banks such as product positioning, innovative ideas and channels, new market trends, cross selling etc. Banks are restricting their administrative folio by converting manpower into machine power i.e. banks are decreasing manual powers and getting maximum work done through machine power. Skilled and specialized man power is to be utilized and result oriented targeted staff will be appointed**.**

5) Managing Technology:- Developing or acquiring the right technology, deploying it optimally and then leveraging it to the maximum extent is essential to achieve and maintain high service and efficiency standards while remaining cost effective and delivering sustainable return to shareholders. Early adopters' of technology acquire significant competitive advances Managing technology is therefore, a key challenge for the Indian banking sector.

6)Government Ownership: At present, the Government is the owner of about three-fourths of the total assets in the banking system. On the ownership issues, proponents of private sector banks advocate that Government should reduce its ownership stake in the public sector banks as private sector banks score over public sector banks in profitability and efficiency. However, broadly over the years, the performance of public sector banks has converged with that of new private sector banks and foreign banks. On one hand, the predominance of government owned banks in India has contributed to financial stability, on the other, meeting their growing capital needs casts a very heavy burden on the Government. What is, therefore, needed is an optimal ownership mix to promote a balance between efficiency, equity and financial stability.

7) Gaps in the Flow of Credit: A high proportion of socially and economically underprivileged sections of society in India is concentrated in the informal economic activities since more than 60 per cent of India's population lives in rural areas. This sector holds importance due to growing inter linkages between informal and formal economic activities. Available data indicate that the cooperatives, commercial banks, and other formal financial sector programs in rural areas have not displaced informal sources of credit altogether as 43 per cent of rural households continue to rely on informal finance in 2002, when the last All India Debt and Investment Survey was undertaken.