

"Think Law, Think Justice"

Banking Law

Handwritten Notes for L.L.B. 5th Semester



A strong banking system
builds a strong economy.

Subject : Banking Law
Course : L.L.B.
Semester : 5th Semester
University : Gauhati University
College : Dispur Law College, Guwahati
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Key Features

- * Exam Oriented Content
- * Universally Relevant Topics
- * Easy Language
- * Relevant Case Laws
- * Important Definitions
- * Diagrams & Flowcharts
- * Structured & Well Organized

Stay focused,
Work hard and
Make it happen. ❤



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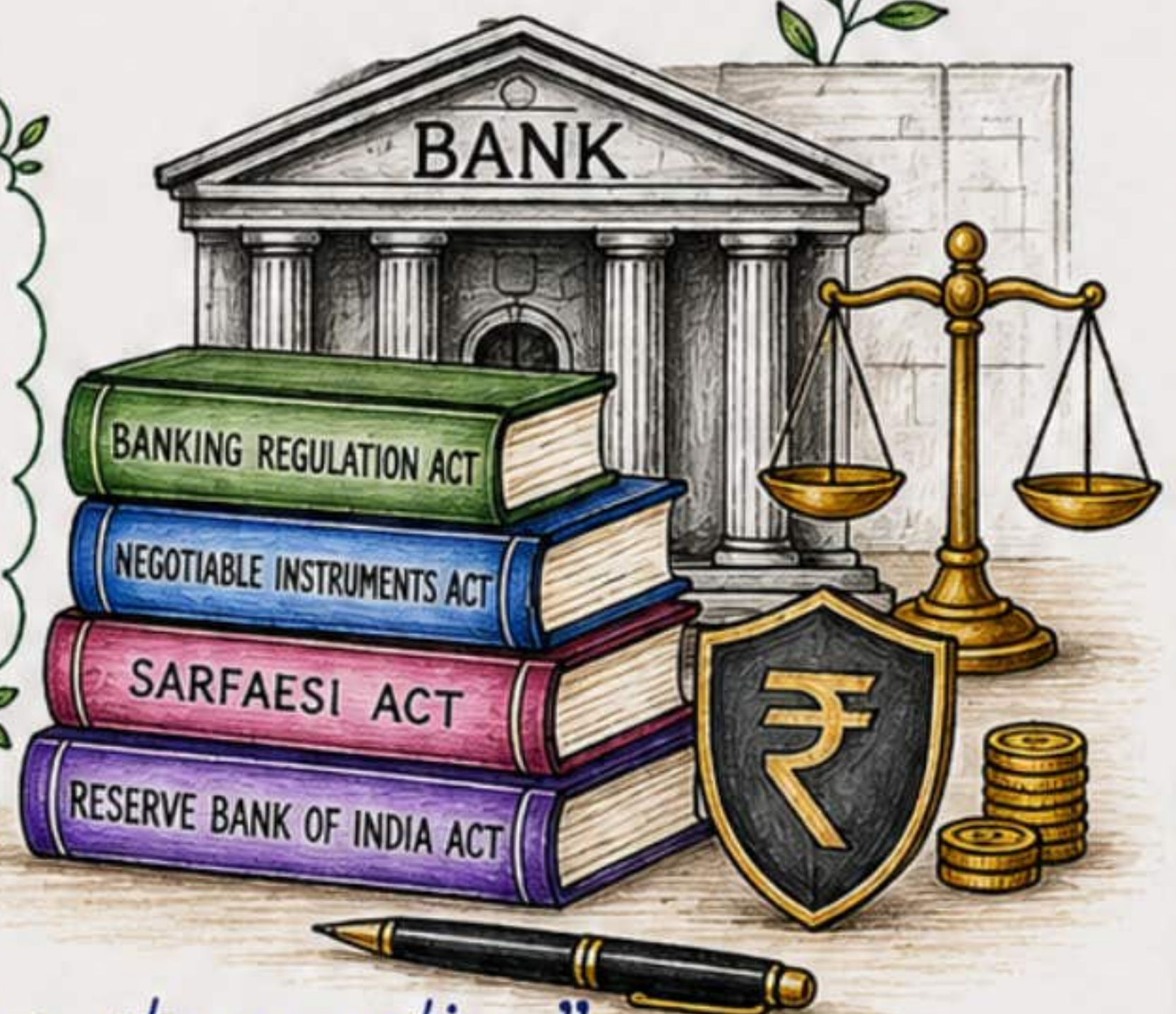
Acknowledgments

I express my sincere gratitude to all those who have directly or indirectly helped me in the completion of this Banking Law notes. Their guidance, support and encouragement have been invaluable throughout the preparation of this work.

I am deeply thankful to :-

- * Allah (SWT) - For giving me the strength, patience and wisdom to complete this work.
- * My Parents - For their endless love, prayers, sacrifices and support in every step of my life.
- * My Teachers - For their valuable guidance, constant encouragement and for inspiring me to go deeper into the subject.
- * My Friends - For their help, motivation and for being with me throughout this journey.
- * All well-wishers - Who supported me in many ways and helped me complete this notes.

This notes is dedicated to every student who is striving to understand Banking Law and work towards a strong and transparent banking system for a better tomorrow. ❤️



“Strong banks build a strong nation.”



DECLARATION

I, Jakir Hussain, Adv., LL.M. (Pursuing), hereby declare that the Banking Law PDF Notes prepared by me are my original work, based on my own study, research, and understanding of the subject. These notes have been prepared solely for educational and academic purposes.

I further declare that all the information contained in this PDF has been compiled with due care and in good faith. Every effort has been made to ensure the accuracy and authenticity of the content.

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- Place : Guwahati
- Date : 01/06/2026

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UNIT - 1

① Origin of Bank and evolution of Banking in India and its history ?

Ans :- Introduction :-

The **Banking System** is the back-bone of a country's economy, providing credit, mobilizing savings, and facilitating trade. The concept of banking is **ancient**, but its terminology and institutional development evolved gradually.

Origin of the word "Bank" :-

- Some authorities believe that the word "Bank" has been derived from Greek word "**Banque**", which means "**a Bench**".
- These are other, who believe that the word "**Bank**". is originally derived from German word "**Bank**" meaning a '**Joint Stock-fund**'.

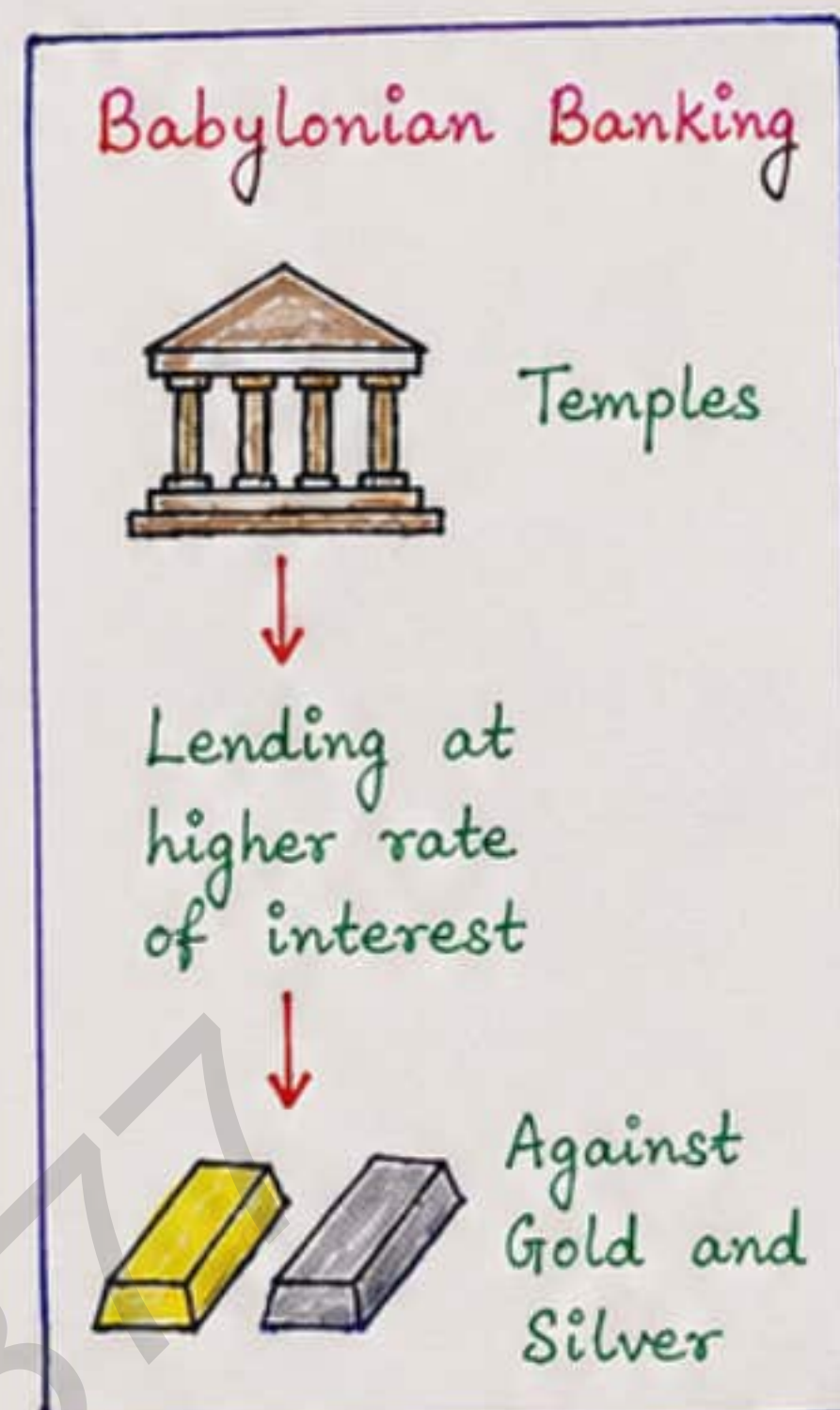
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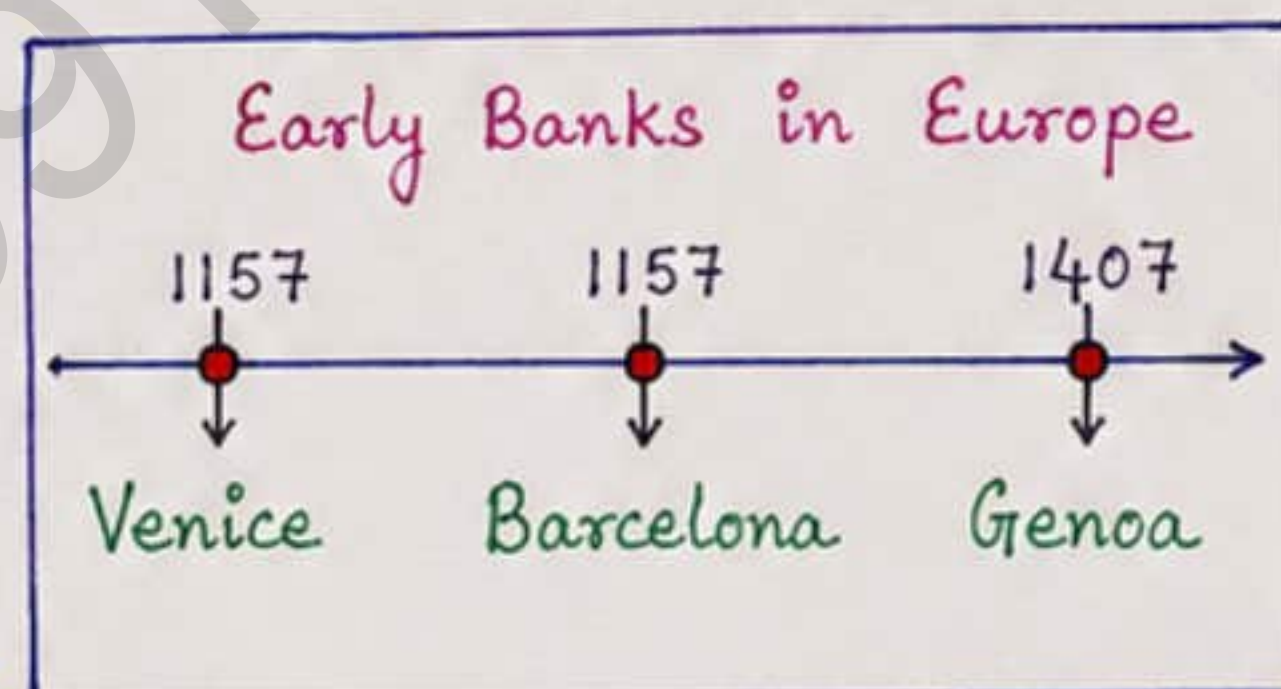
These are other, who believe that the word **"Bank"** is originally derived from German word **"Back"** meaning a **Joint Stock-fund**.

Early history of Banking

Banking is as old as the civilization itself. As early as **2000 BC** the Babylonians had developed a system of Banks. They used the temples for lending at higher rates of interest against gold and silver. Aristotle considered that the charging of interest was unnatural.

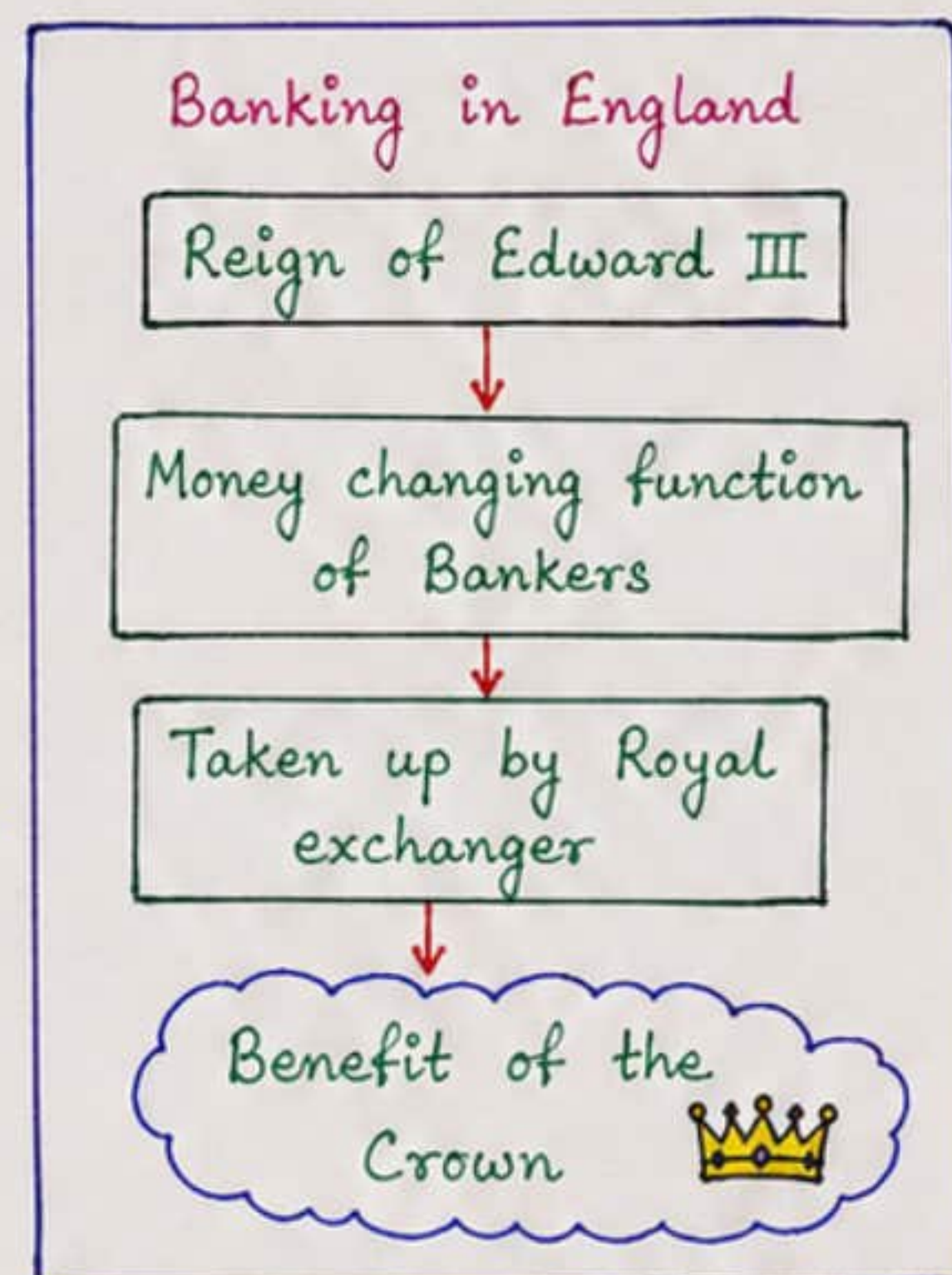


With the rival revival of civilization, in the middle of the 12th century the first 'Bank' was found at **Venice** in **1157**. Later Banks were est. at **Barcelona** in **1157**, and **Genoa** in **1407**.



evolution of Banking in England

In England during the reign of **Edward III**, money changing function of Bankers was taken up by a Royal exchanger for the benefits of the crown.



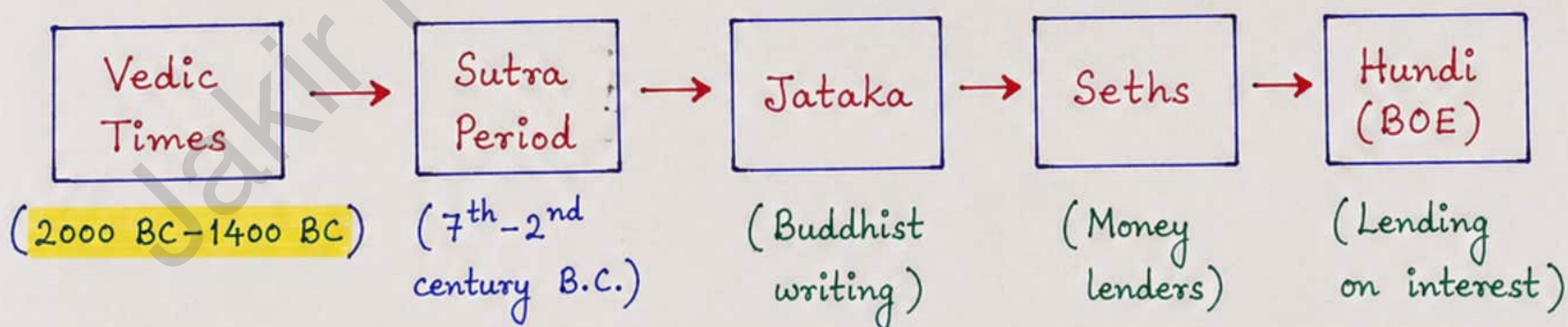
Evolution of Banking in India

The evolution can be understood in three broad phases :—

① Ancient and medieval period (Before 18th cent)

Banking was in existence in India during vedic times (from 2000 BC to 1400 B.C.)

Loan and usury were well understood in those days. money lending was regarded as an old art. money lending in the sutra period (from 7th to 2nd century B.C.) are available from the buddhist writing called the Jataka. The Jataka clearly est. the existence of money lenders called "Seths" who performed the function of a bankers. indigenous sys. Like Hundi (BOE) and lending on interest were common.



2. Colonial period (1850-1947)

When the British came to India in 17th century, they found a reasonably well est. indigenous banking sys. The EIC came to India as traders and est. its Agency houses at — Mumbai, Calcutta and Madras

The modern banking started with the est. of the **Bank of Hindustan** in 1770, a mere appendage of Alexander & Company, was the earliest bank set up under European direction in India. The years 1771 at Calcutta it could not survive due to failure of its parent firm and was ultimately collapsed in **1832**.

The presidency Banks were set up —



- BOB (**1806**)
- BOB Bombay (**1840**)
- BOM (**1843**)

Growth of Banking in Colonial Period

Arrival of British in India



Establishment of Agency Houses



Early Bank Establishment



Failure of early Banks (e.g. 1832)

In 1921, These three bank merged to form the imperial Bank of India, Later nationalized as SBI in 1955.

3. post-independence period : 1947 - present

Banking in india, experience severe set-back during the period 1913-17 as 108 bank failed and another 373 bank failed in 1926-1922-36 which was again followed the failure of 620 more banks in 1937-48. The est. of RBI in the year 1935 marked the beginning of new era in the history of indian banking. The Banking Regulation Act in 1949 gave wide powers to the RBI to regulate.

Nationalization of Banks → in 1969 (14 major banks) and 1980 (6 more) to ensure



Pre-independence
Period
(1913 - 1947)

- 108 banks failed (1913-17)
- 373 banks failed (1926-36)
- 620 more banks failed (1937-48)

Post-independence
Period
(1947 - Present)

- RBI established (1935)
- Banking Regulation Act (1949)
- Nationalization : 1969 (14) and 1980 (6 more)

rural credit expansion.

Introduction of RRB 1975 to serve rural and agricultural sectors.

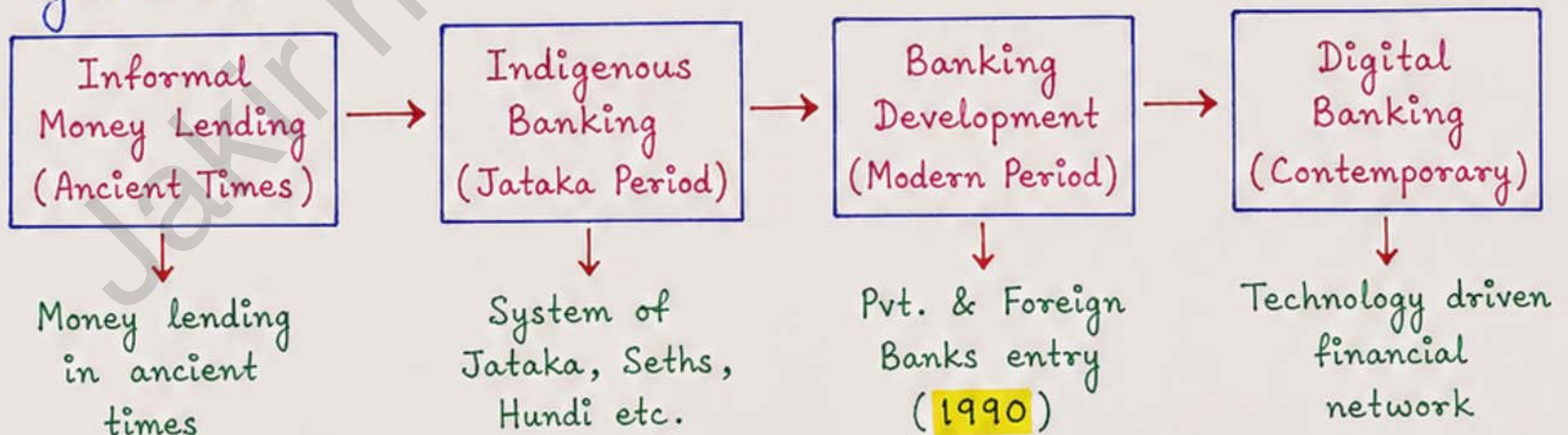
economics liberalization in 1990 led to the entry of pvt and foreign banks.

Digital banking..



conclusion :-

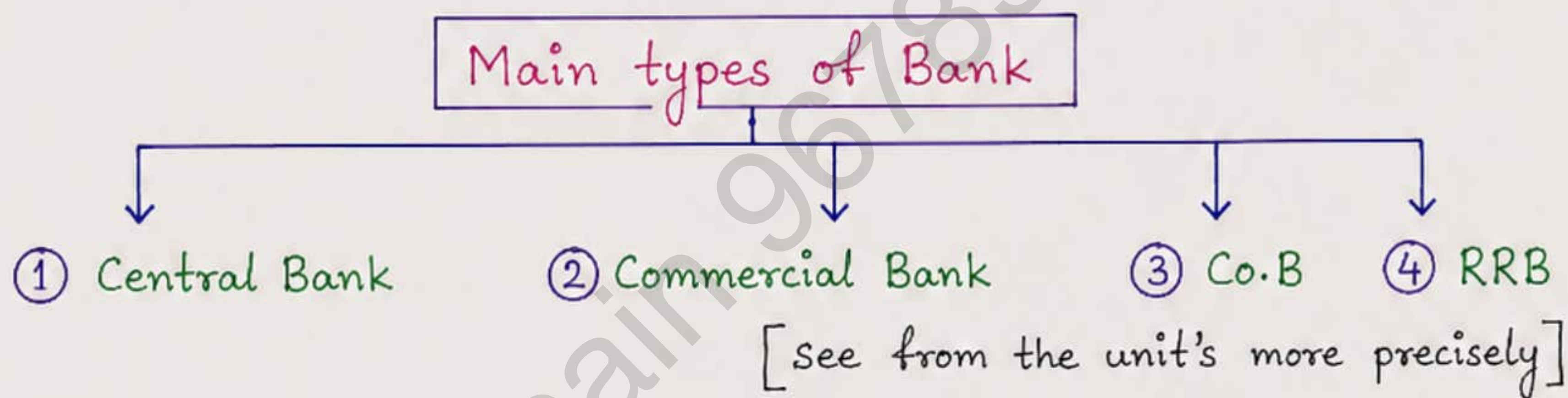
The Indian banking System has evolved from informal money lending in ancient times to a modern, technology driven financial network. From indigenous Bankers to digital platforms, it reflects the Socio - economics transformation of the country, A sound and transparent banking Sys. remains vital for economic growth.



⑨ Diff. types of Banking and its function-

Introduction :-

Banking is the backbone of any economy as it mobilizes **savings**, provide **credit**, and facilitates trade and commerce. Banks are financial institution that accept deposits from the public and provide loan for development over times, various types of banking system have evolved to meet the needs of society and business.



① Central Bank (RBI) :-

The Reserve Bank at India was est. on **1st April, 1935** under Reserve Bank of India Act **1934**. it was stated originally as a Shareholders bank and its paid-up capital was

[Rs. 5 Crore]. After independence, The Government of India, The reserve bank (Transfer to public ownership) act 1948 was passed and the government took over the RBI from pvt share-holder by paying adequate compensation to them.

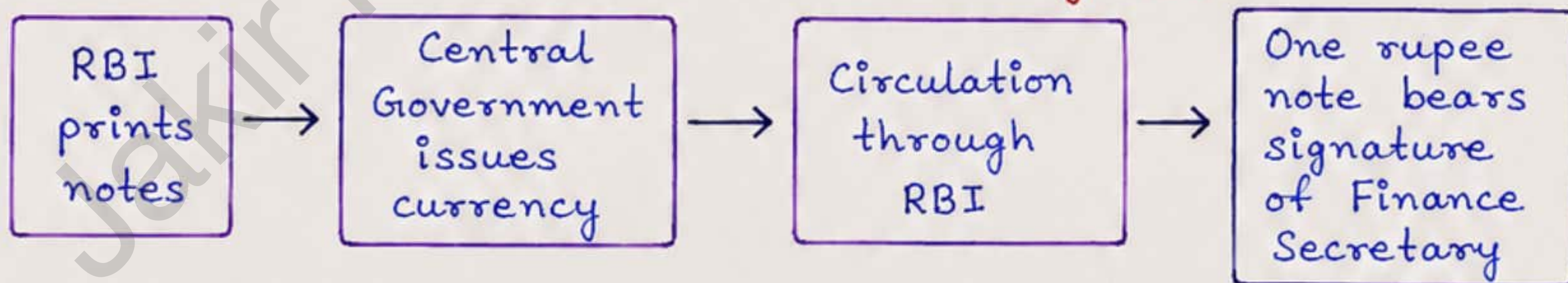
Function of Reserve Bank :-

① Note issue :-

According to Section 22 of RBI act, 1934, RBI shall have the sole right to issue bank notes in India. according to Section 38 of the RBI act, 1934, The central government shall put into circulation rupees, coins and one rupee currency notes through Reserve Bank only.

one rupee notes bear the Signature of the Finance Secretary. Bank notes are issued under the signature of the Governors of RBI.

Note Issue Process by RBI

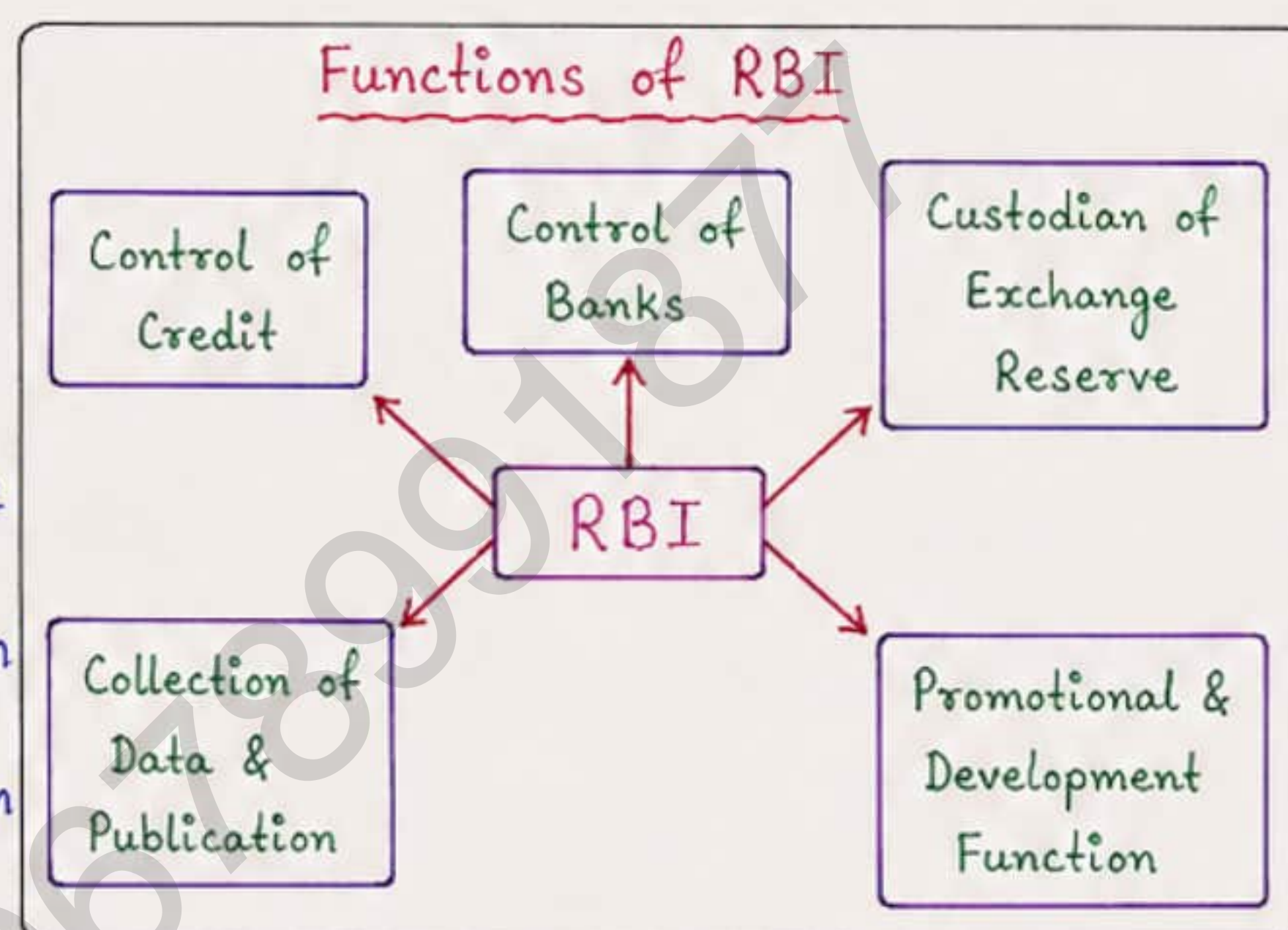


* Bank notes are issued under the signature of the Governors of RBI.

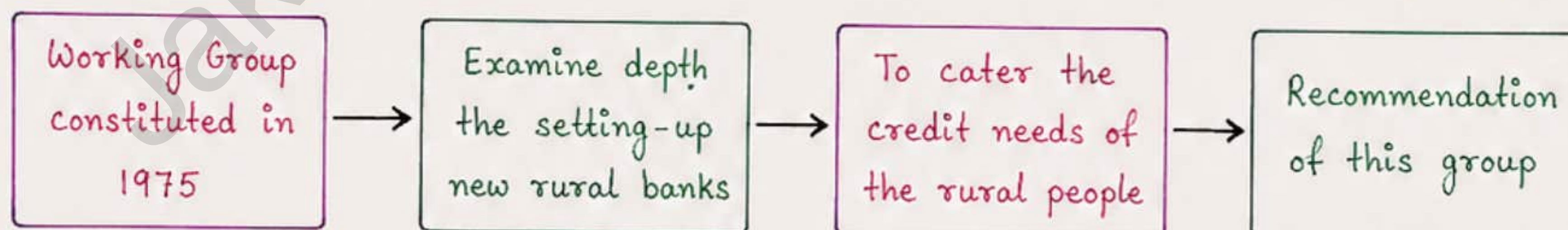
② Bankers to the Government :- The RBI is the Banker to the central government statutorily and to the state government.

③ Bankers Bank and lenders of last resort :-
The RBI serves as a Banker to the Scheduled Commercial Banks in India. All the S.C. Banks keep their account with RBI for the purpose of CRR.

- ④ control of Banks
- ⑤ control of credit
- ⑥ custodian of exchange Reserve
- ⑦ collection of data and publication
- ⑧ promotional and development function



② Regional rural Bank :- The Govt. of India appointed in 1975 a working group to examine, depth. the setting-up new rural banks to cater to the credit needs of the rural people. As a sequence to the recommendation of this group

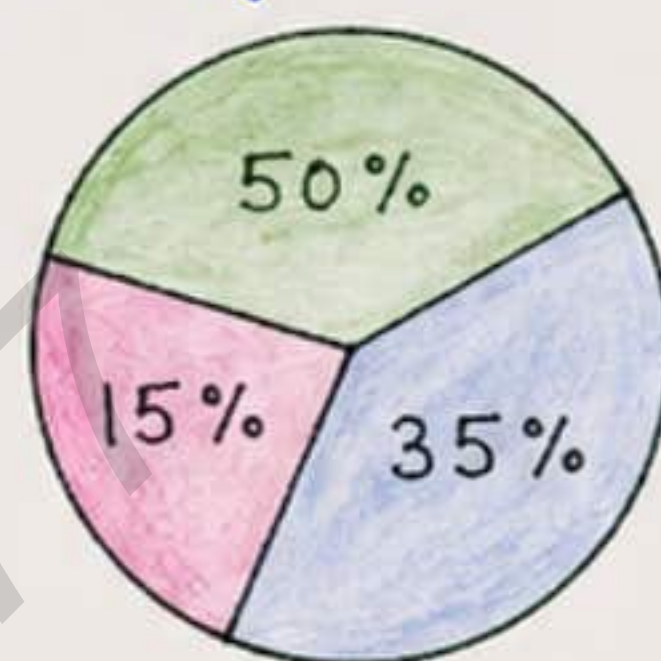


The RRB were est. on 2nd oct 1975. In the last quarter of 1975, six RRB were sponsored by public Sectors Banks. The GOI enacted the RRB act 1976.

Authorised capital

The authorised capital and issue capital of each RRB have been fixed at Rs 5 Crore and at Rs. 1 Respectively.

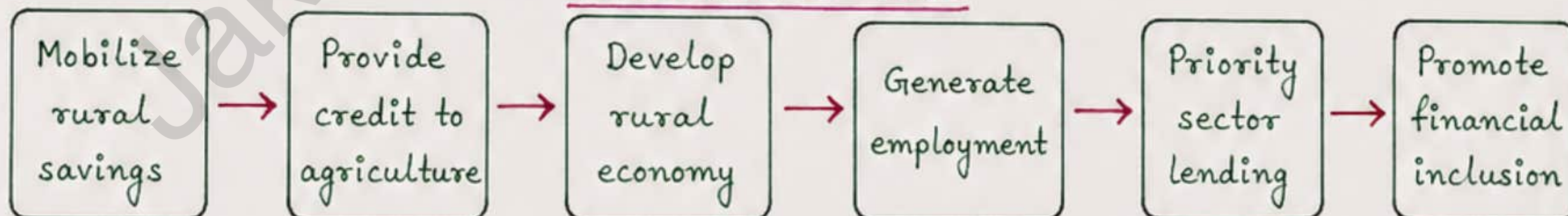
- 50% subscribed by central Govt
- 15% concerned state Govt
- 35% Sponsor Bank



Function :-

- ① mobilization of rural savings :- RRB accepts deposits from rural households.
- ② providing credit to agriculture :- They give short & medium-term loans to farmers.
- ③ Development of rural economy
- ④ Employment generation :-
- ⑤ priority sector lending :- 75% loan for ags.
- ⑥ financial inclusion :- They provide low-cost banking facilities in rural area.

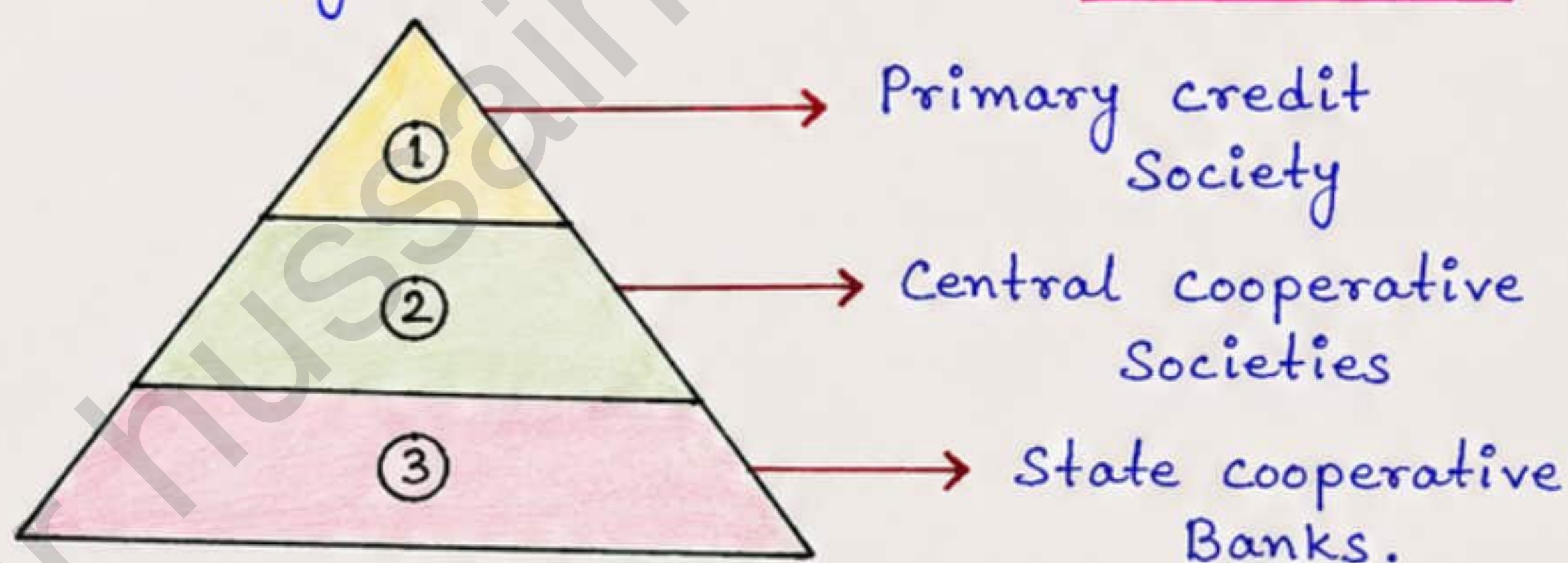
Functions of RRB



③ Cooperative Banks :-

The cooperative movement in India started with the enactment of the Indian Cooperative Society Act 1904. Cooperative Banks started functioning in India under the provision of cooperative Societies act of two states. These cooperative credit societies and banks provide short-term and medium term credit to the agriculture and village industries.

Cooperative Banking Sys. in India has the shape of pyramids, ie. a three tier structure

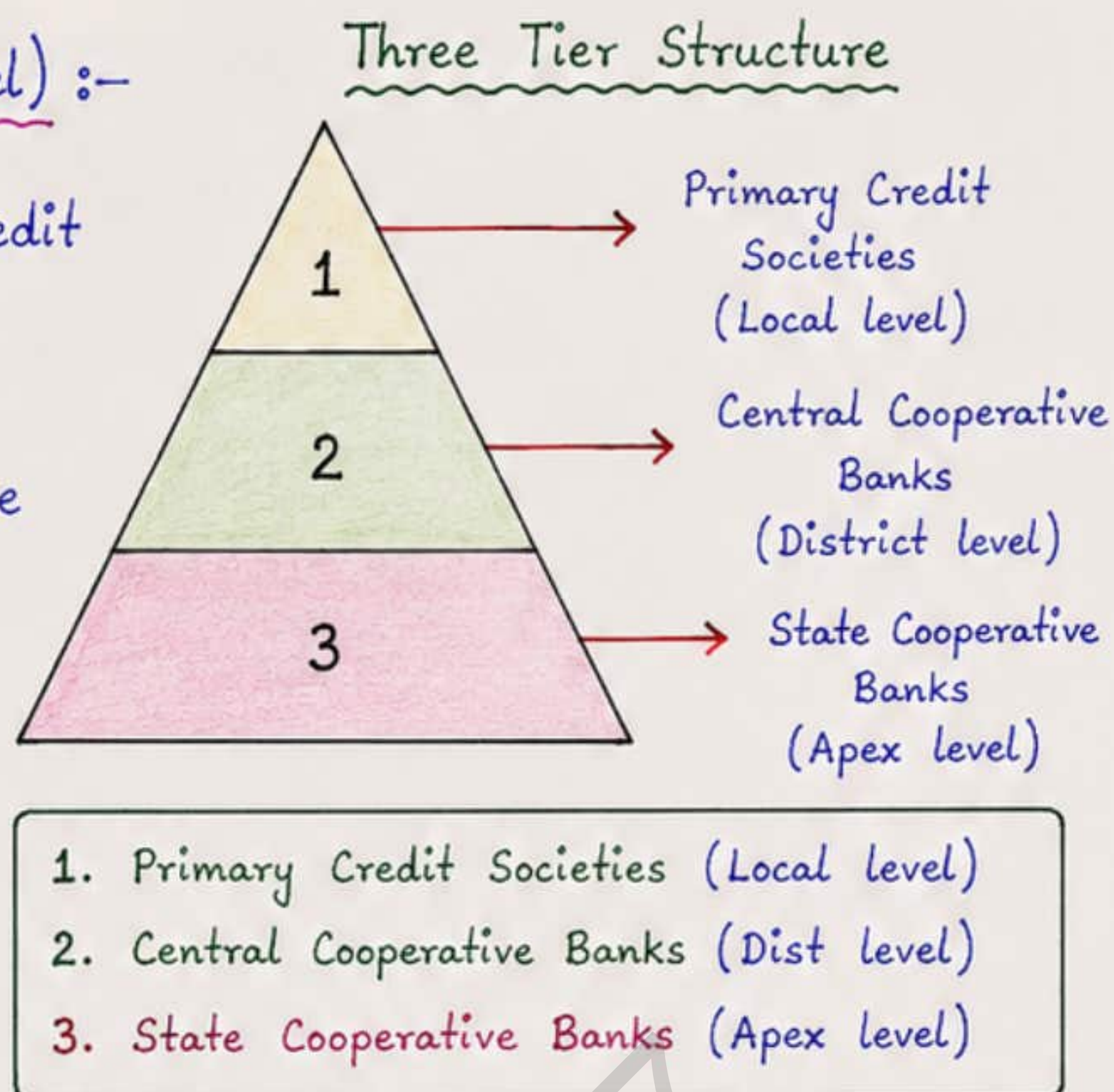


① primary credit societies (local level)

- provide short-term and medium term credit to farmers and rural people.
- collect saving through deposits from members.

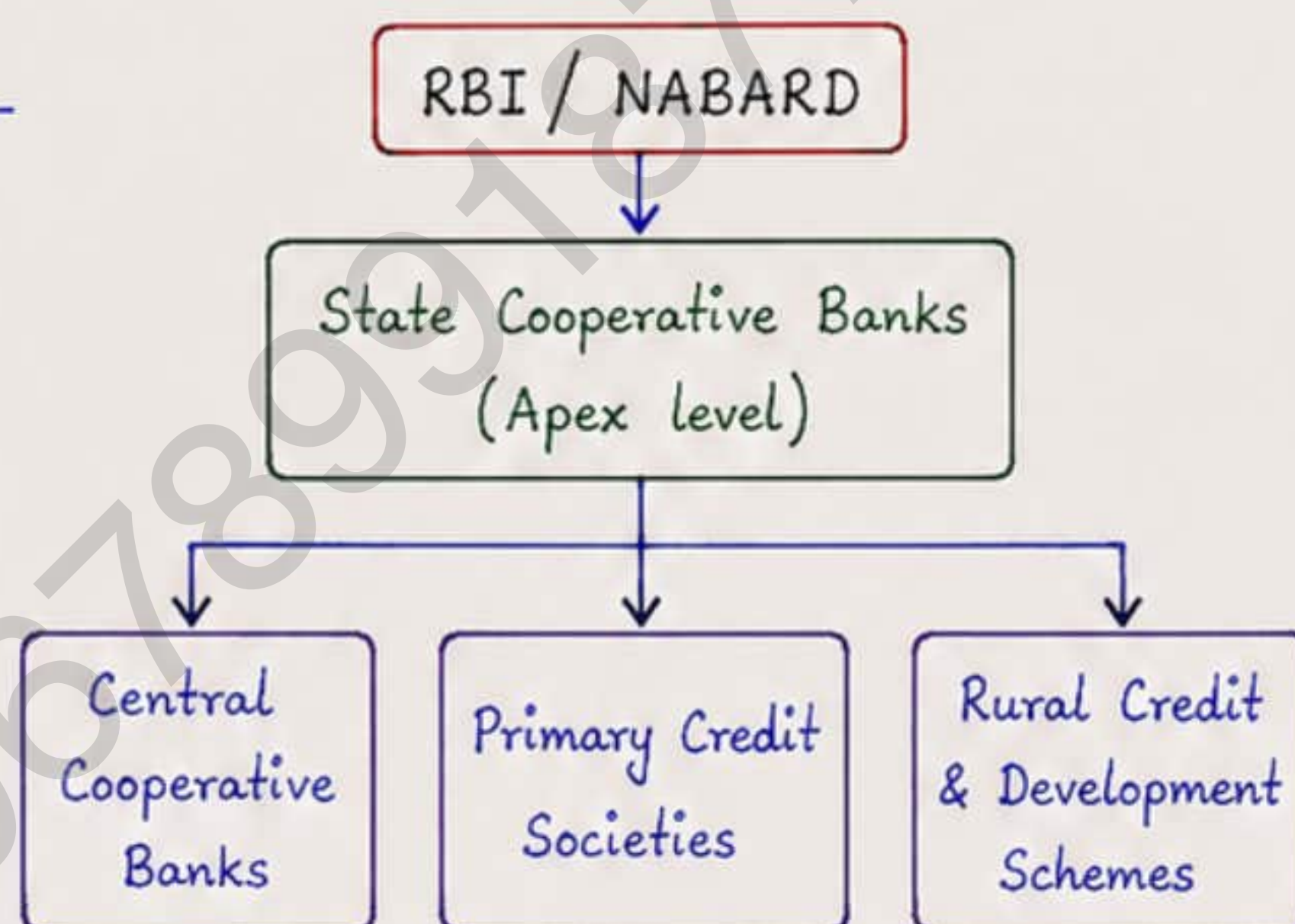
③ Central Cooperative Banks (Dist Level) :-

- act as federation of primary credit societies within a district.
- provide loan to primary cooperative societies.
- implement state & central rural development schemes.



④ State Cooperative Banks (Apex level) :-

- channelize credit from RBI and NABARD to central cooperative banks.
- support rural credit, agriculture and allied activities at a larger scale.



⑤ Commercial Banks :-

Commercial Bank is a financial institution that works on a profit motive. Its main activity is to accept deposits from the public and provide loans for consumption, trade, commerce & industry.

Main Activities of Commercial Banks :-

- accept deposits from the public.
- provide loans for consumption, trade, commerce & industry.
- facilitate payments and remittances.
- issue drafts, pay orders and other banking instruments.
- provide safe custody of valuables.
- act as agents for collection of cheques and bills.

These Banks are governed and regulated by the RBI under the BRA 1949. They form the largest segment of the Banking sector in India and are essential for economic growth by mobilizing savings and channelizing them into productive investment.

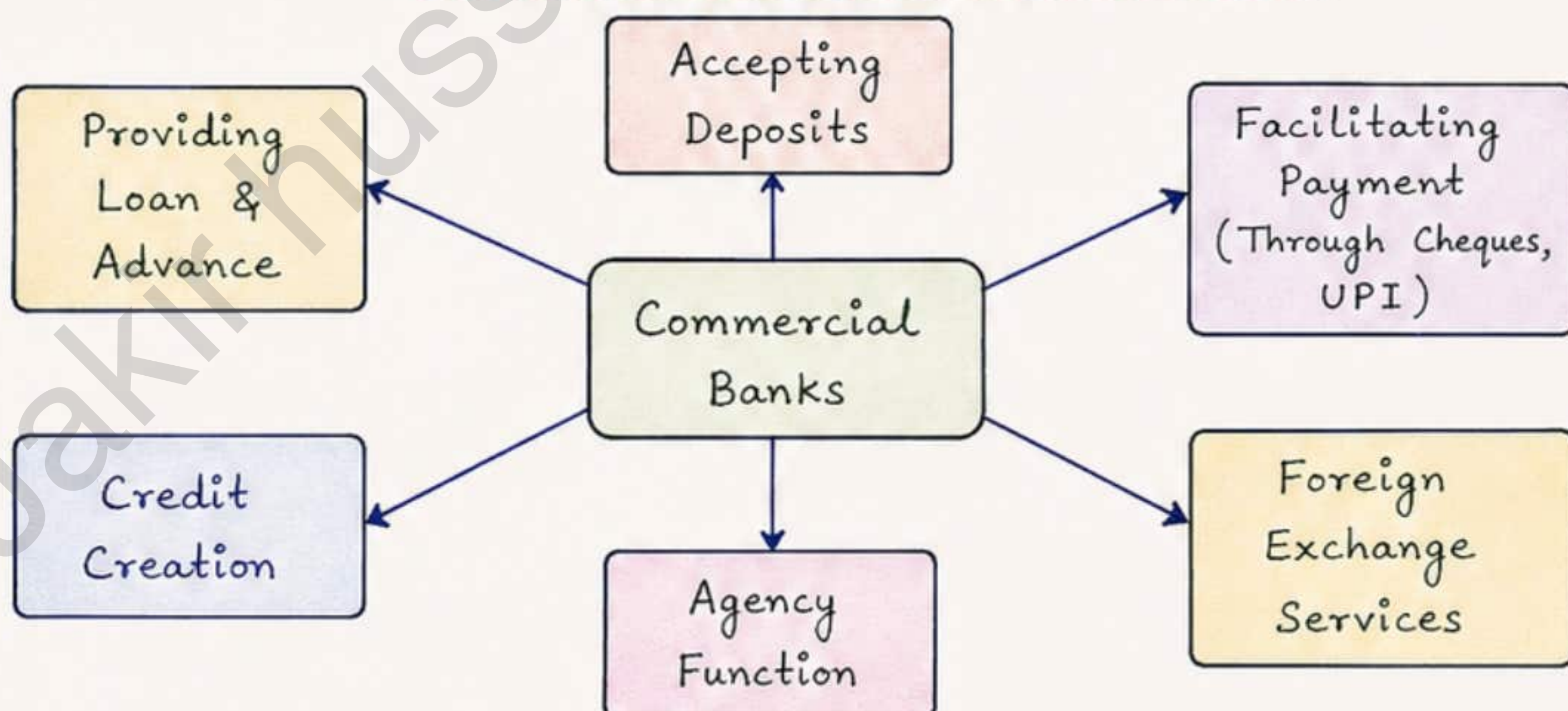
Commercial banks are classified :-

①	Public Sector Banks	:- eg- PNB, SBI
②	Private Sector Banks	:- eg- HDFC, ICICI
③	Foreign Banks	:- eg- HSBC, Citibank
④	RRB (Regional Rural Banks)	

Functions :-

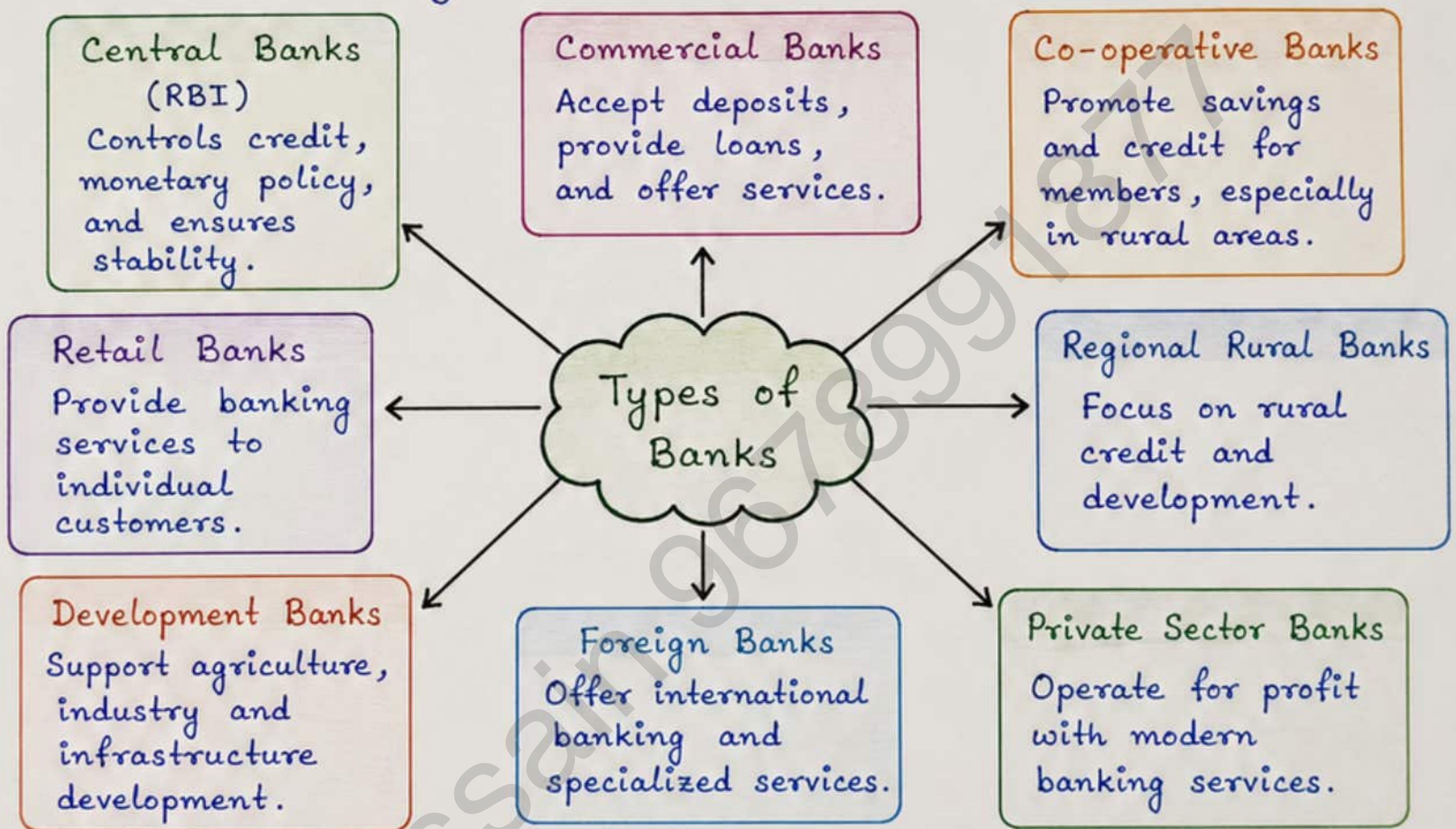
- ① accepting deposits
- ② providing loan & advance
- ③ credit creation
- ④ facilitating payment :- through cheques, UPI
- ⑤ foreign exchange services
- ⑥ agency function.

Functions of Commercial Banks



Conclusion :-

Different types of Banking cater to the diverse needs of individuals, businesses, and the nation. While commercial and retail banks meet day to day requirements, development and central banks ensure economic growth and stability.



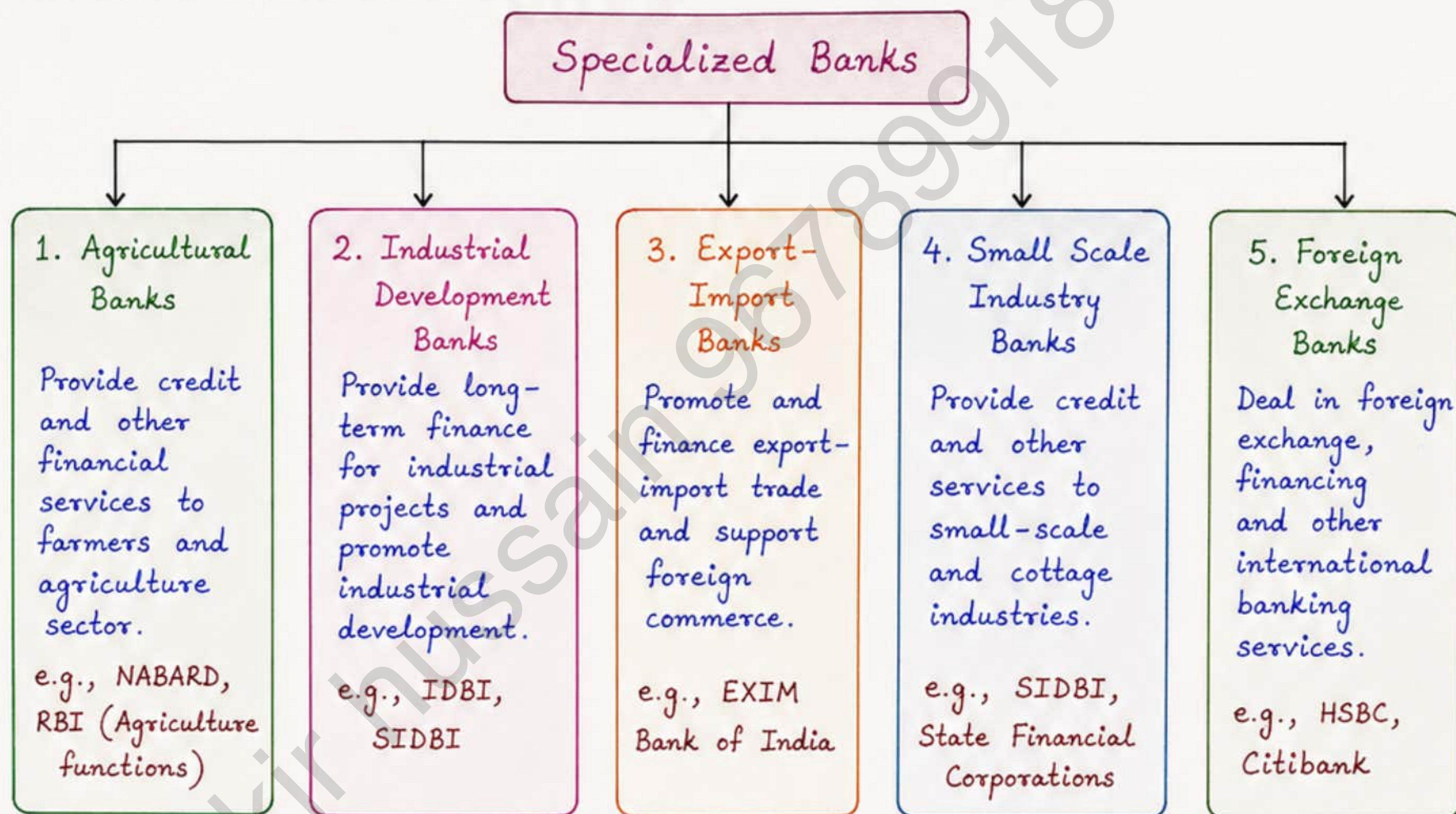
Thus, these banks form the backbone of the Indian banking system, working together to fulfil different needs and contribute towards the overall economic growth and progress of the country.

Q3. Elaborate note on specialized Bank in India

Introduction :-

In addition to commercial banks certain financial institutions are created to cater to the special needs of specific sectors such agriculture, industry, foreign trade and small-scale businesses. These institutions are called specialized banks. Their primary aim is to provide targeted financial assistance, promote economic development and support the overall growth of the economy.

Specialized Banks in India



* Thus, specialized banks play a vital role in strengthening specific sectors of the economy by providing focused financial support, promoting development and contributing to the overall economic progress of the country.

• The Special Banks are —

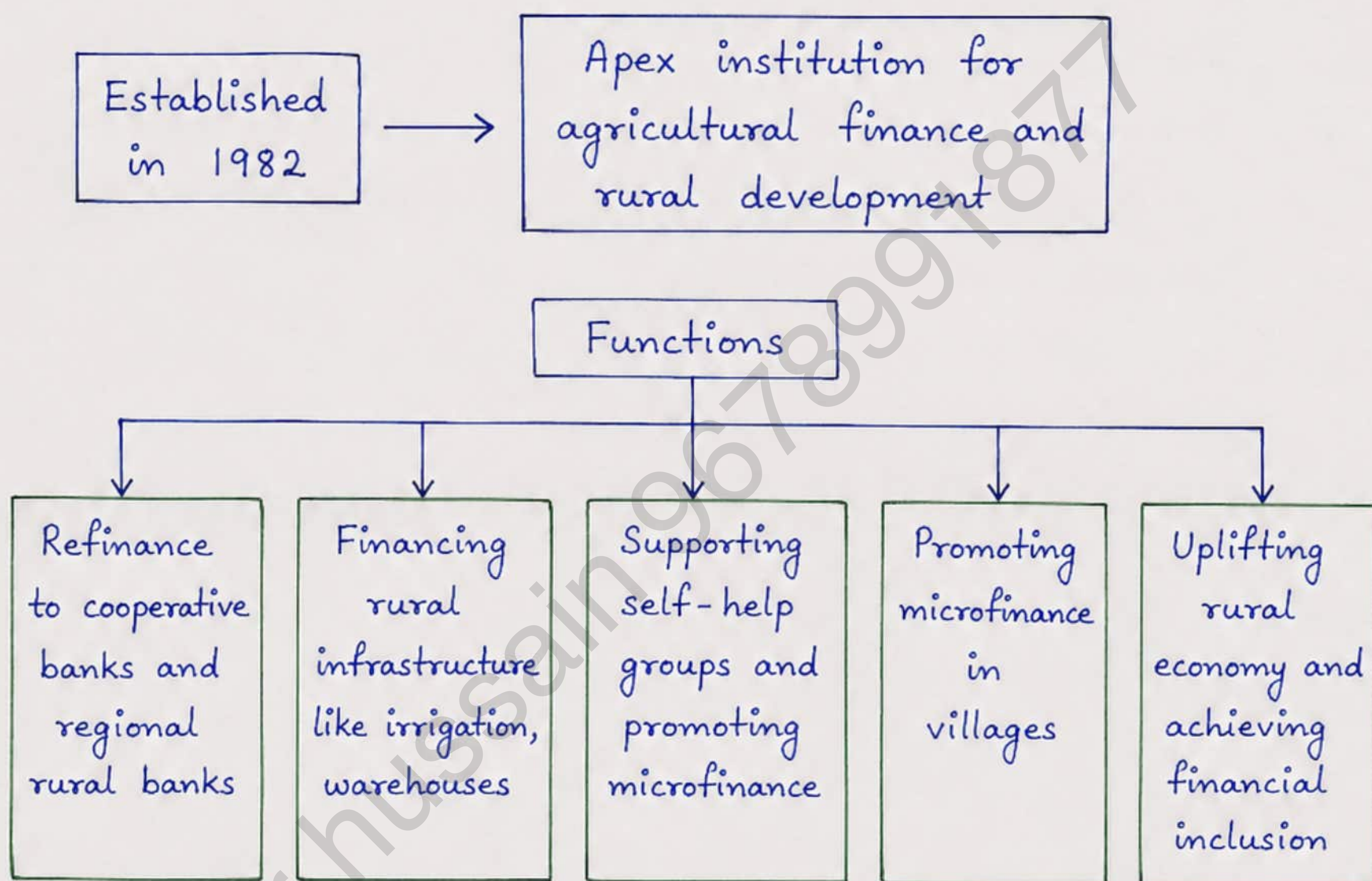
① NABARD

② EXIM

③ SIDBI

① National Bank for Agriculture and Rural Development (NABARD):—

one of the most important specialized banks in India.



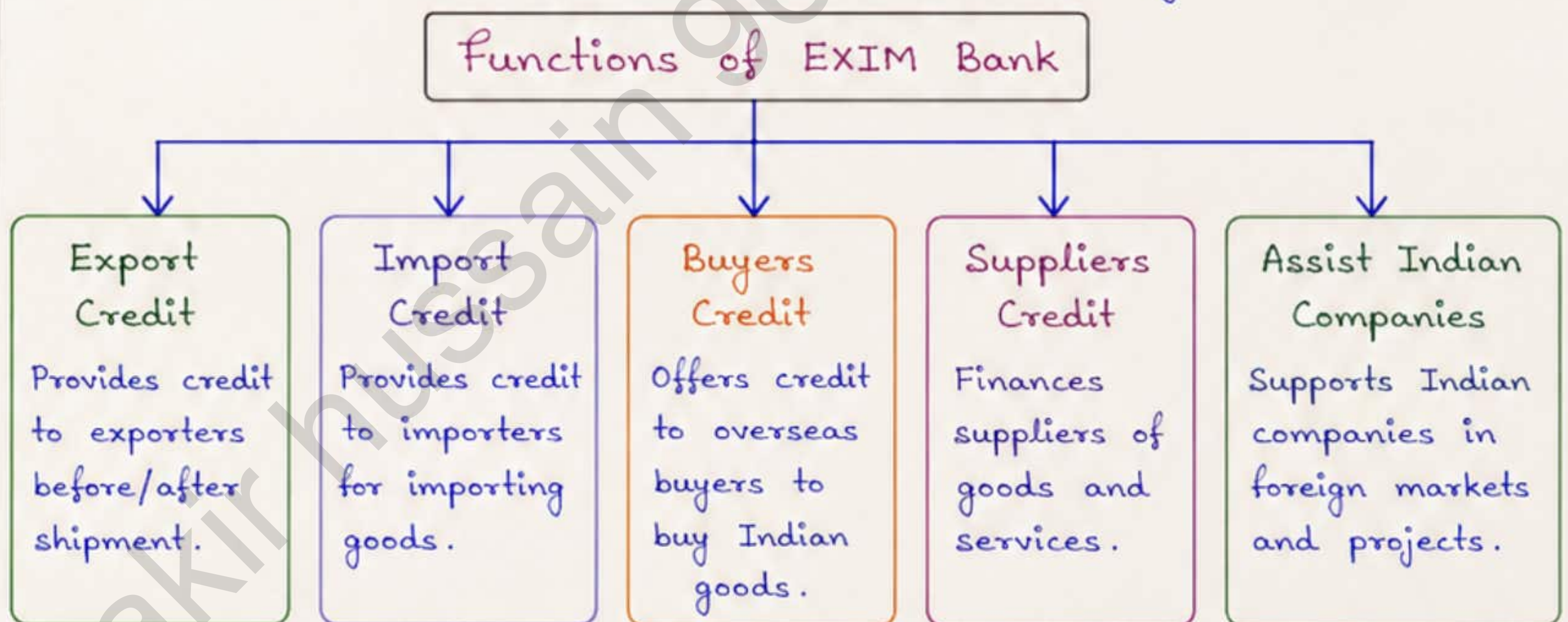
NABARD plays a crucial role in uplifting the rural economy and achieving financial inclusion in villages.

Functions of NABARD

- ① provides refinance to cooperative banks and regional rural banks for agricultural lending.
- ② Finance rural infrastructure projects (roads, irrigation, warehouses).
- ③ promote self-help groups (SHG) and microfinance.
- ④ provides training and consultancy services for rural development.
- ⑤ implement schemes for financial inclusion in rural areas.

② Export-import Bank of India (EXIM):-

Exim bank which was set up in 1982 to promote and finance India's foreign trade. It provides various forms of credit to exporters and importers, such as export credit, buyers credit and suppliers credit. It also assist Indian company in

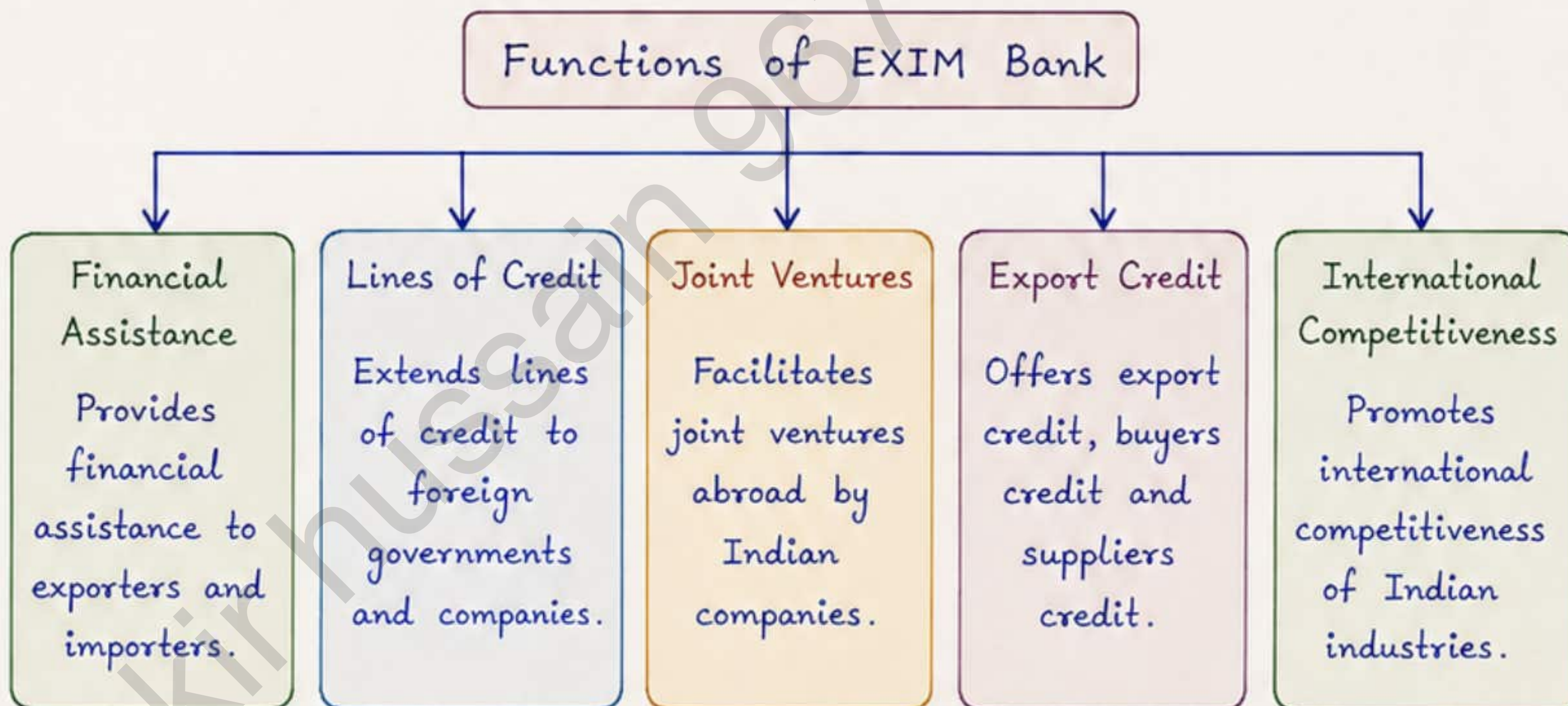


* EXIM bank plays a key role in promoting and financing India's foreign trade and supporting Indian companies in global business.

Setting up joint ventures abroad and gives lines of credit to foreign governments. By helping Indian businesses compete globally, EXIM bank plays a key role in boosting India's international trade.

Functions of EXIM Bank

- ① provides financial assistance to exporters and importers.
- ② extends lines of credit to foreign government and companies.
- ③ facilitates joint ventures abroad by Indian companies.
- ④ offers export credit, buyers credit and suppliers credit.
- ⑤ promotes international competitiveness of Indian industries.



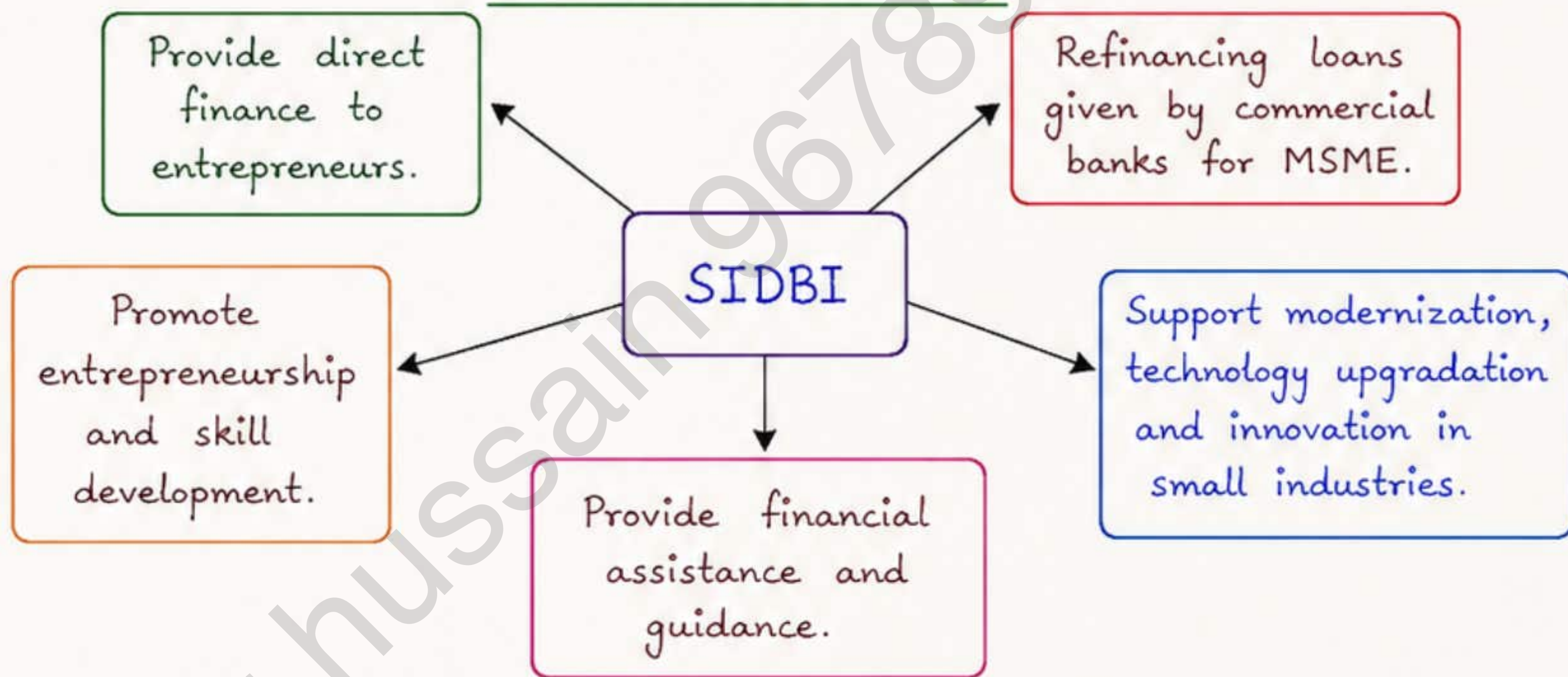
★ Thus, EXIM Bank plays a key role in promoting and financing India's foreign trade and supporting Indian companies in global business.

③ Small Industries Development Bank of India

SIDBI established in 1990.

is another specialized bank that caters to the needs of micro, small and medium enterprises (MSME). Its function include providing direct finance to entrepreneurs, refinancing loans given by commercial banks for MSME and promoting entrepreneurship and skill development. SIDBI also support modernization, technology upgradation and innovation in small industries by providing financial assistance and guidance. It helps in generating employment and strengthening the small business sectors.

Functions of SIDBI



Function

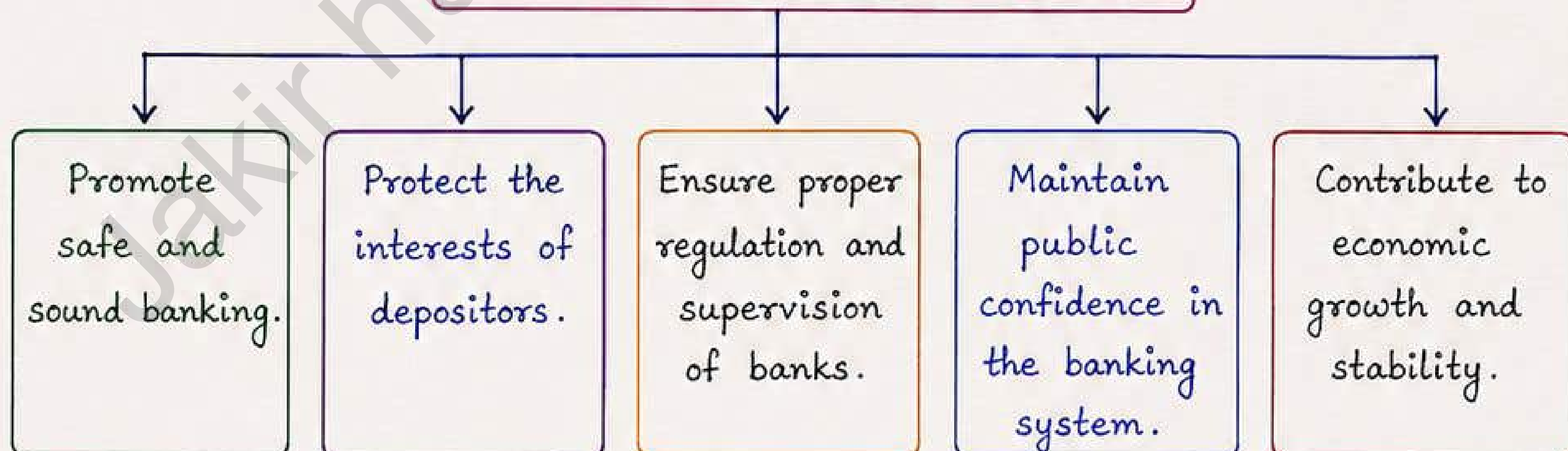
- ① Support technology upgradation, modernization.
- ② Provides venture capital support and equity assistance.

Salient features of BRA 1949

Unit-I

- ① prohibition non-banking companies from accepting deposits repayable on demand.
- ② prohibition non-banking companies trading with a view to eliminating non-banking risks.
- ③ prescription of minimum capital standards.
- ④ limiting the payment of dividends.
- ⑤ int. of a comprehensive Sys. of licensing of banks and their branches.
- ⑥ prescription of special form of balance sheet on the RBI to call for periodical return.
- ⑦ inspection of books and account of bank by RBI.
- ⑧ provision of an expeditious procedure for liquidation.
- ⑨ widening the powers of RBI.
- ⑩ provision for extension of the Act whole India.

BRA 1949 - Overall Objective



System of Banking

★ Broadly speaking

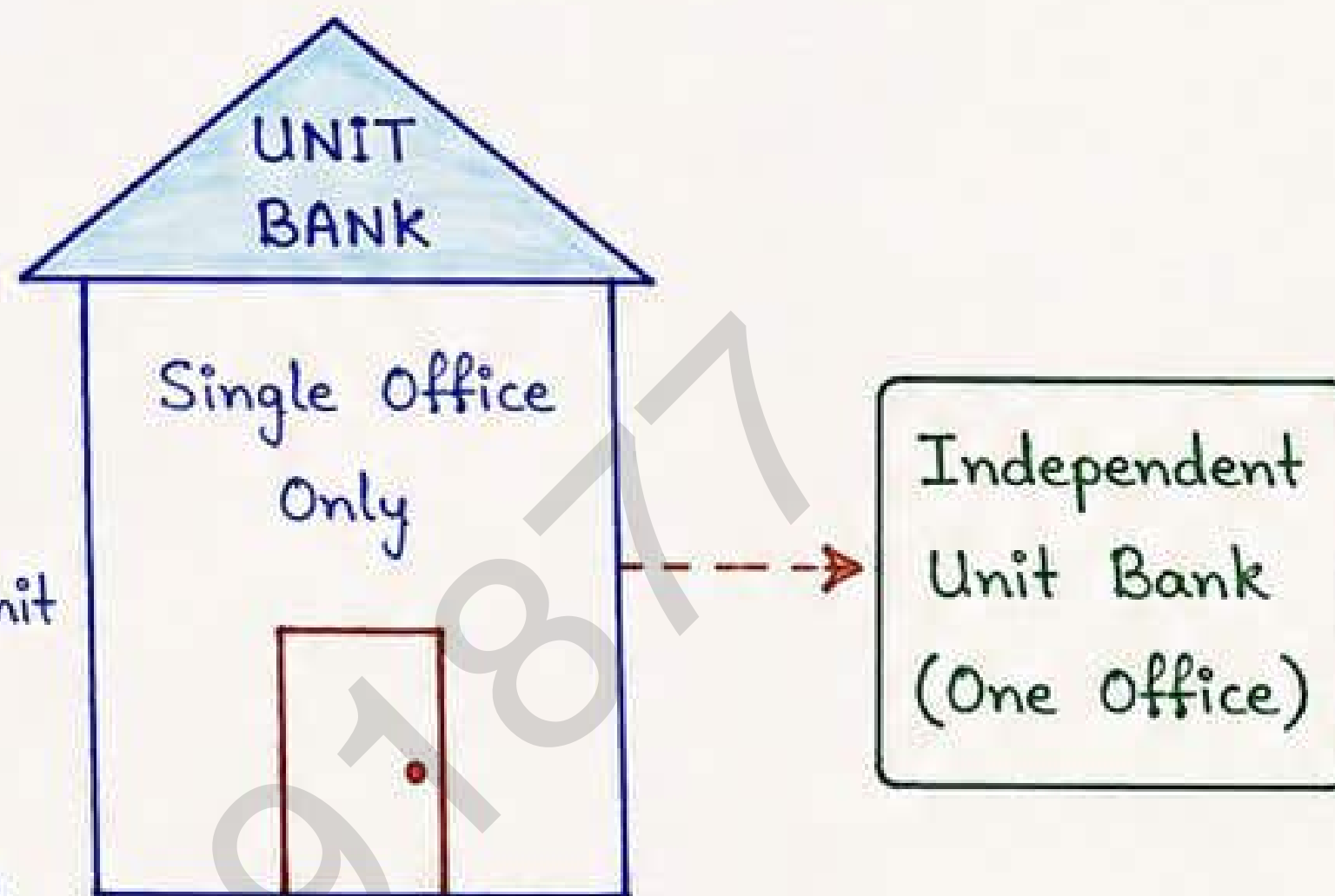
- Unit Banking.
- Branch Banking.
- Group Banking.
- Chain Banking.

★ four types —

- Unit Banking.
- Branch Banking.
- Group Banking.
- Chain Banking.

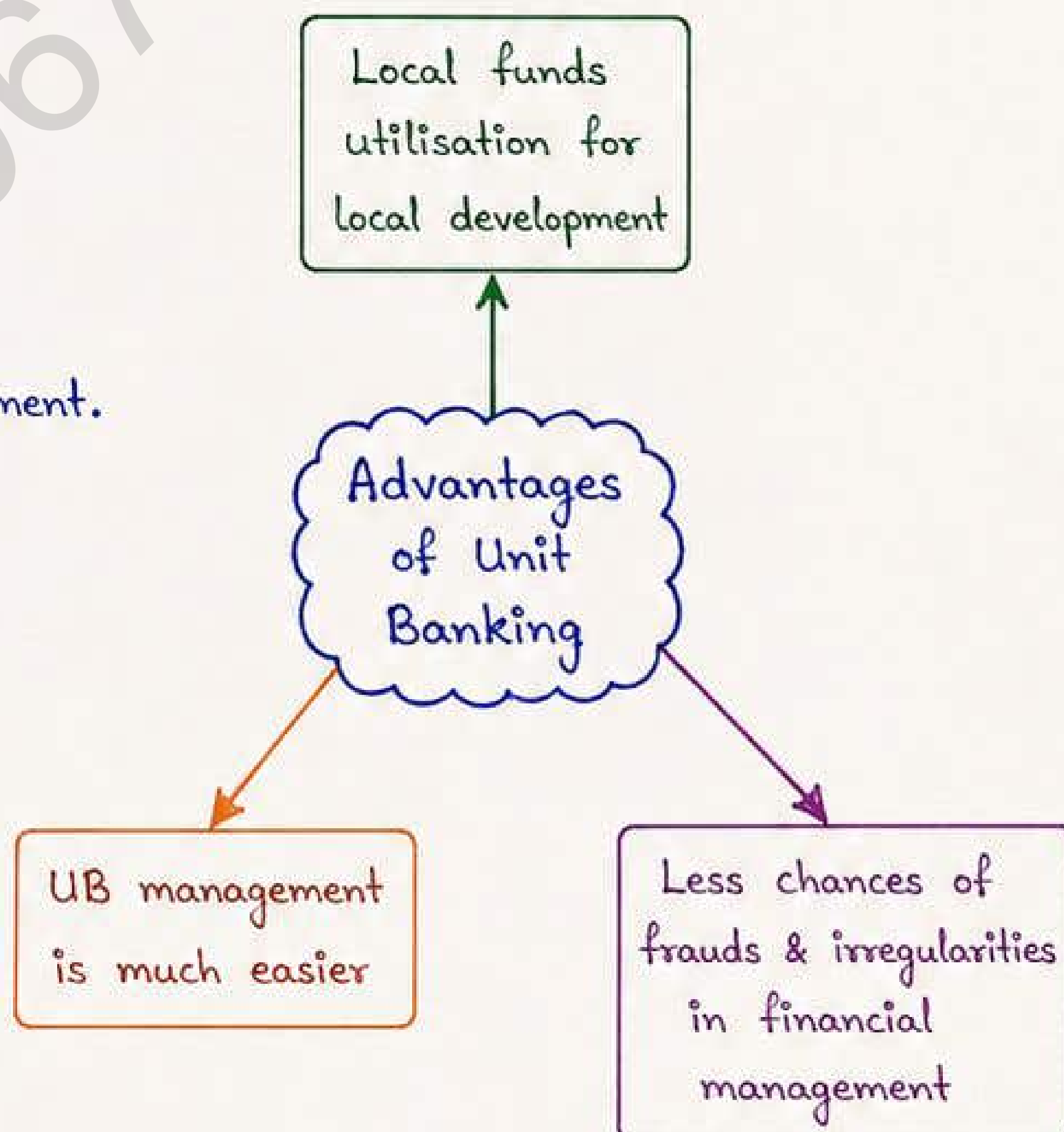
Unit Banking

- Single office only.
- Acc. to Shapiro, Solomon and Whitt → an independent unit bank is a corporation that operates one office and that is not related to others banks either ownership or control.
- Example of unit banking in USA
- USA is a birth place of UB



Advantages

- ① The funds locality utilised for the local development. and not transfer to other areas.
- ② UB management is much easier.
- ③ There are less chances of frauds and irregularities in the financial management.



- ④ UB are imp. in local problems.
- ⑤ There is no possibility of generating monopolistic tendencies.
- ⑥ U/UB sys. There will be no inefficient banks.
- ⑦ UB is free from the diseconomies.

Disadvantages

- ① There will be cut throat competition.
- ② UB lack of benefits of specialisation and division of labour.
- ③ There will be no banking development in backward areas, because UB is uneconomical.
- ④ Limited resources of the UB.
- ⑤ Transfer of funds is very expensive in UB.
- ⑥ There may highly local pressure.
- ⑦ Interest rates tends to vary at diff place.



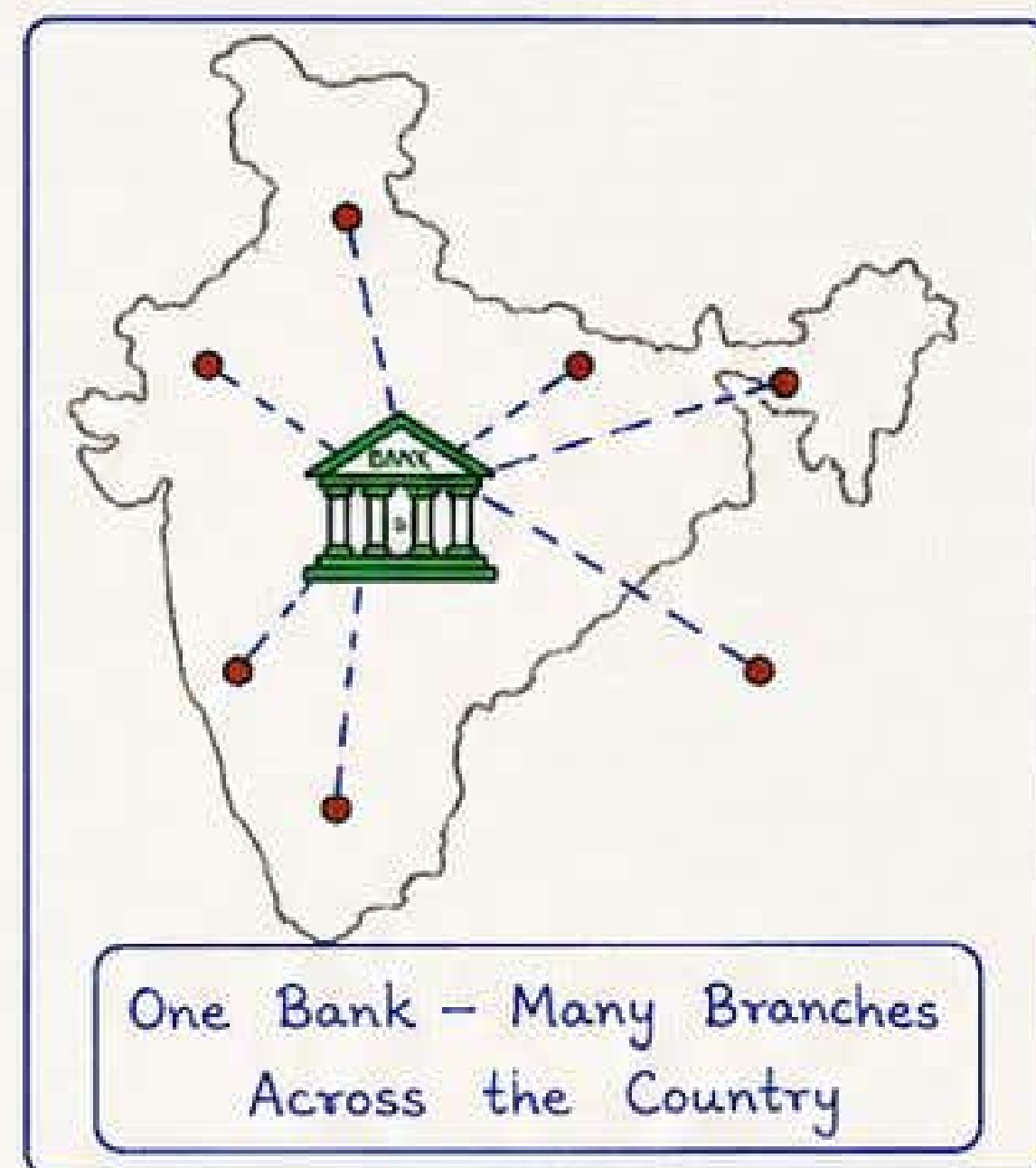
Advantages of UB	Disadvantages of UB
• The funds locality utilised for the local development and not transfer to other areas. • UB management is much easier. • Less chances of frauds and irregularities in the financial management. • UB are imp. in local problems. • No possibility of generating monopolistic tendencies. • UB is free from the diseconomies.	• Cut throat competition. • Lack of benefits of specialisation and division of labour. • No banking development in backward areas, because UB is uneconomical. • Limited resources of the UB. • Transfer of funds is expensive in UB. • High local pressure. • Interest rates tends to vary at diff place.

Conclusion :- Thus, Unit Banking system is most suitable for local needs and problems but has some limitations.



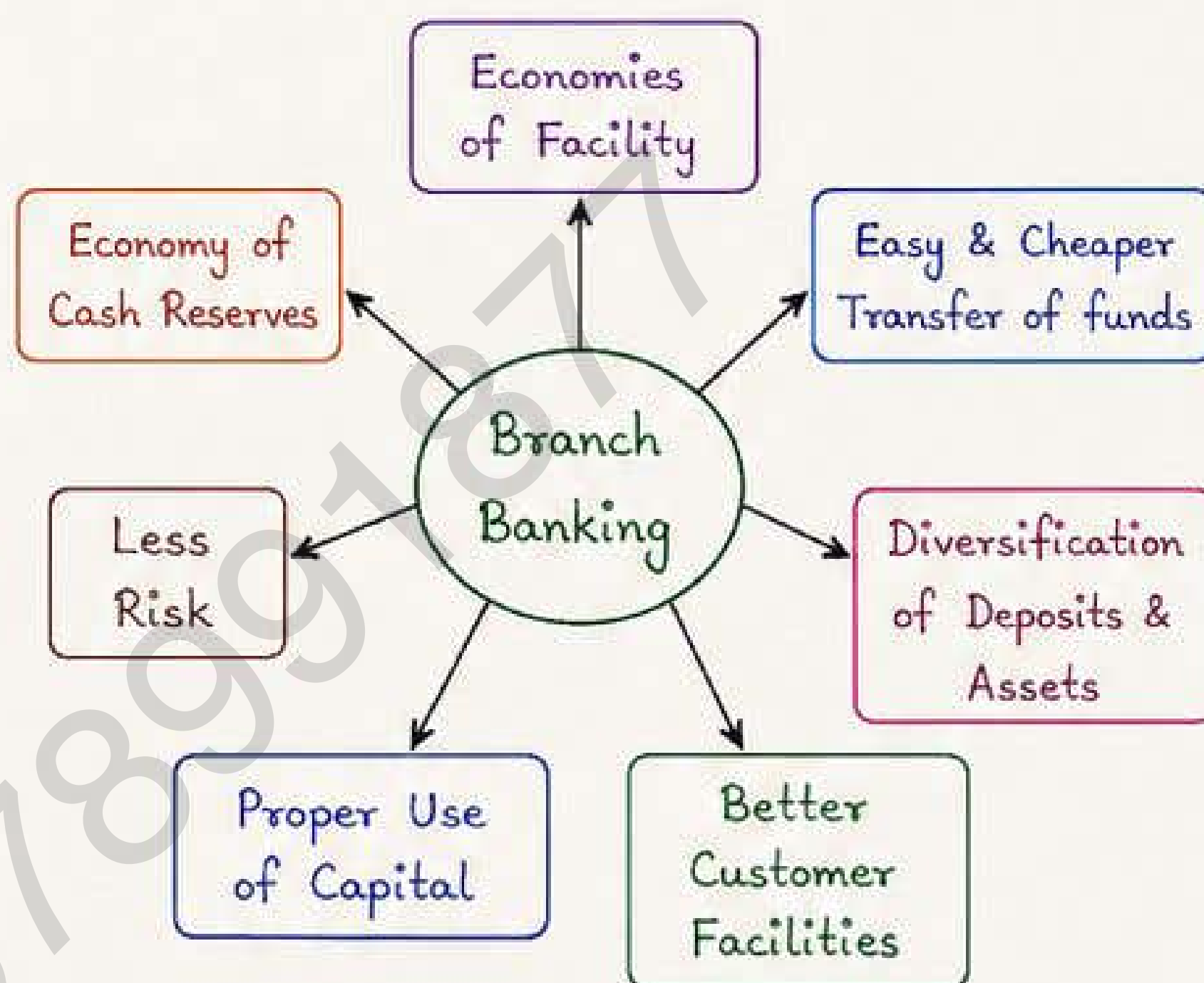
Branch Banking

- U/BB, a Bank. operates as a single institution.
- U/ Single ownership with branches spread all over the country.
- Branch banking developed great britian
- Spread other countries - Canada, Australia, India
- big five banks in England -
Loirs , Barclays, Midland Westminsters
- In India - SBI



Advantages

- ① BB enjoys the adv. and economies facility.
- ② BB results in the country economy of cash Reserves.
- ③ Since Bank branches are spread over the whole country, it is easier and cheaper to transfer of funds from one place to another.
- ④ BB consist less risk.
- ⑤ greater diversification of both deposits and assets u/BB
- ⑥ proper use of capital u/BB
- ⑦ customers get better facilities u/BB



Disadvantages

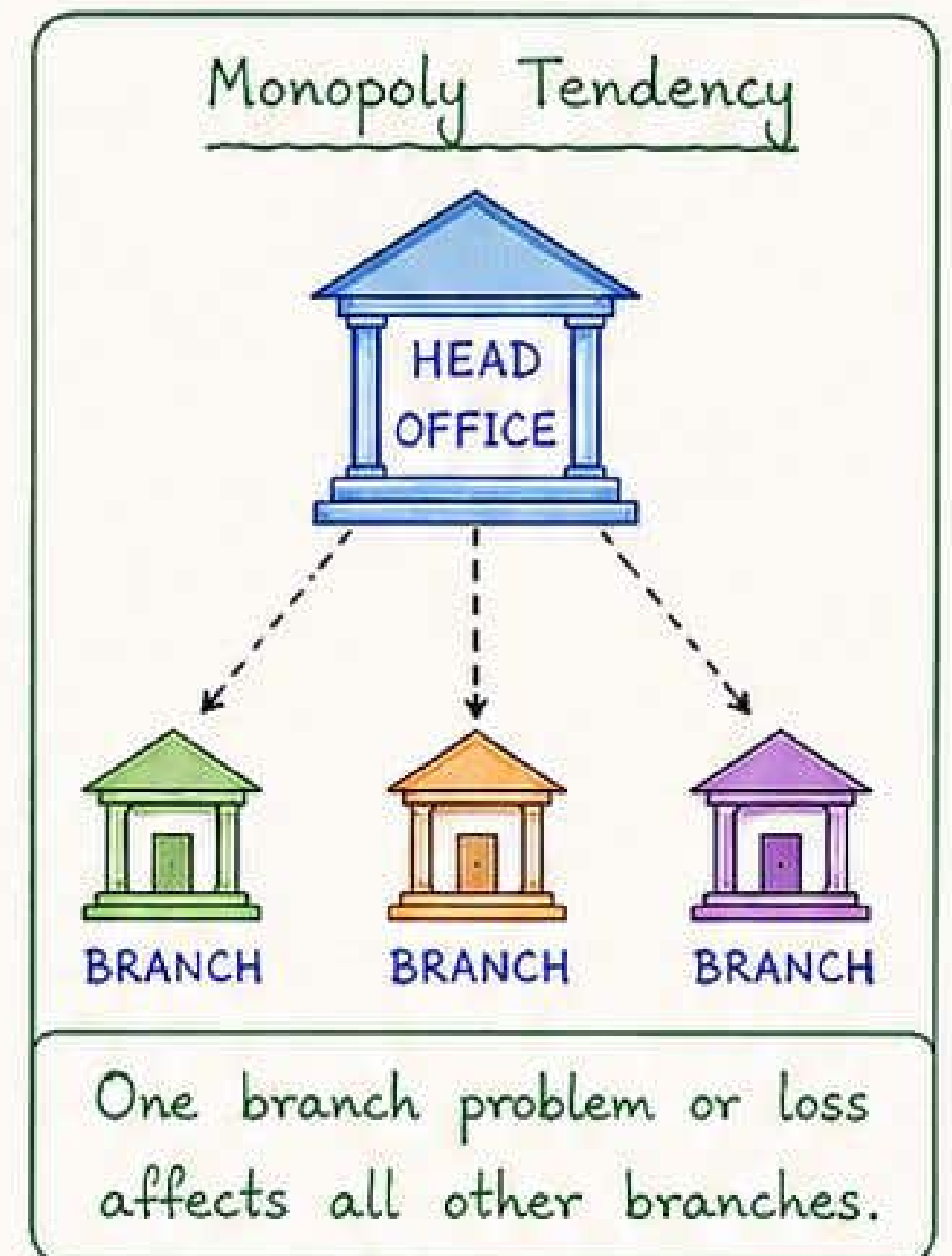
Disadvantage	Explanation
① There will be cut throat competition.	Many branches compete for the same customers.
② BB lack of benefits of specialisation and division of labour.	Branches do similar work; no specialisation.
③ There will be no banking development in backward areas, because UB is uneconomical.	Branches don't open in backward areas due to high cost, low returns.
④ Limited resources of the UB.	Funds and resources are spread thin.
⑤ Transfer of funds is very is expensive u/BB.	Moving funds between branches costs more.
⑥ There may highly local pressure	Banks may face pressure from local groups.
⑦ Interest rates tends to vary at diff place.	Different branches charge/offer diff rates.

Conclusion :- Thus, Branch Banking system is very useful for spreading banking services and improving economy, but it has some limitations which should be properly managed.



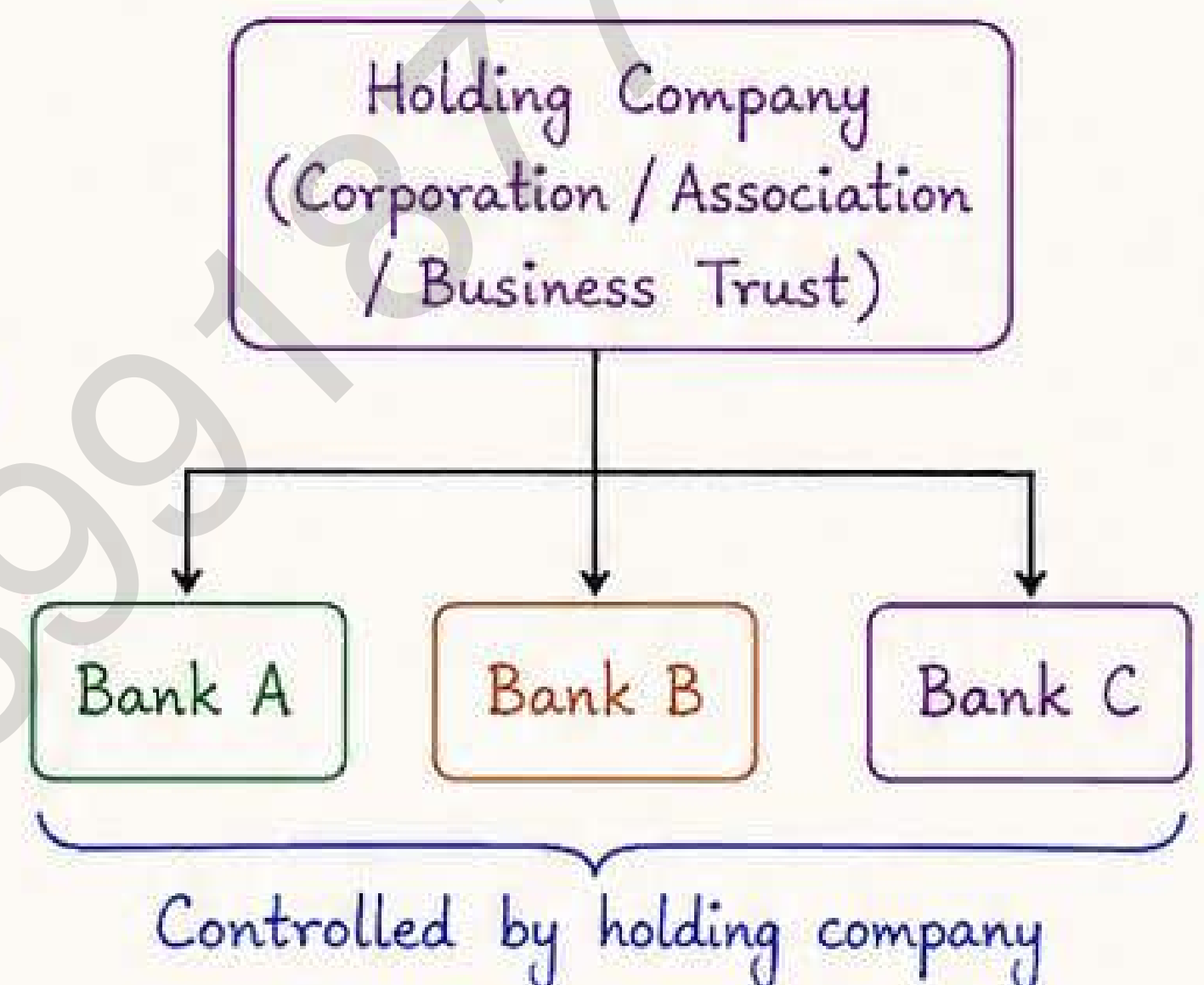
Disadvantages

- ① Difficult supervision and scrutinizing.
- ② Red-tape and delay due to less authority of branch managers.
- ③ Impersonal dealing with customers.
- ④ Creates monopoly tendency.
- ⑤ Losses in one branch affect others.
- ⑥ Unhealthy competition among branches.
- ⑦ Preference to branches near head office.



Group Banking

- In group-banking sys., two or more banks are directly controlled by a corporation, an association or a business trust.
- The holding company may or may not be a banking company.
- Popular in USA.
- At present there is no such banking sys.



Advantages	Disadvantages
• Easy to raise large capital. • Better management and control. • Economies of scale. • Diversification of risks. • Stronger position in market.	• Difficult supervision and scrutinizing. • Red-tape and delay due to less authority of branch managers. • Impersonal dealing with customers. • Creates monopoly tendency. • Losses in one branch affect others. • Unhealthy competition among branches. • Preference to branches near head office.

Conclusion : Group Banking system helps in raising large capital and spreading risks, but it has some limitations which should be properly managed.

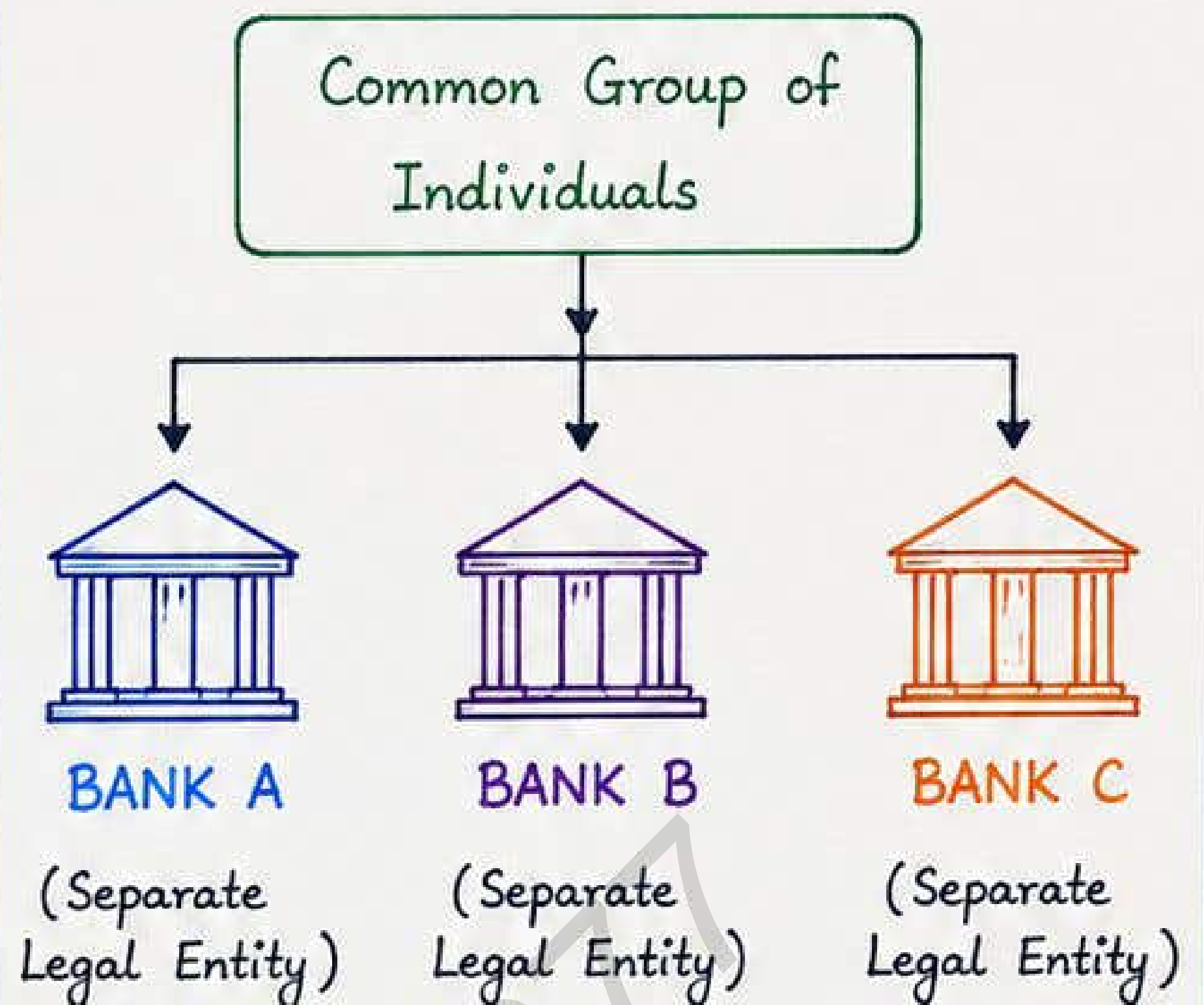


CHAIN BANKING

INTRODUCTION :

Chain banking is a system in which two or more banks are controlled by the same group of individuals through common ownership or management, without forming a holding company. Each bank retains its separate legal identity.

STRUCTURE OF CHAIN BANKING



ADVANTAGES

- ① Better coordination among banks.
- ② Greater liquidity and mobility of funds.
- ③ Economies of scale in banking operations.
- ④ Expert management and improved credit facilities.

DISADVANTAGES

- ① Failure of one bank may affect others.
- ② Risk of monopoly and concentration of control.
- ③ Possibility of misuse of common management.
- ④ Reduced independence of individual banks.

CONCLUSION :

Chain banking improves coordination and resource sharing among banks, but excessive concentration of control may reduce competition and increase systemic risk.



Jakir hus

UNIT - 2

Jakir hussain 9678991877

UNIT → II

Q.4. Customers & Bankers and The relationship b/w bankers and customer ?

Introduction :-

The Banking Sys. plays a vital role in the economy by providing financial services to individual and businesses. The connection b/w a banker and a customer is based on **mutual trust** and a legal contract. The relationship varies depending on the nature of the service provided.

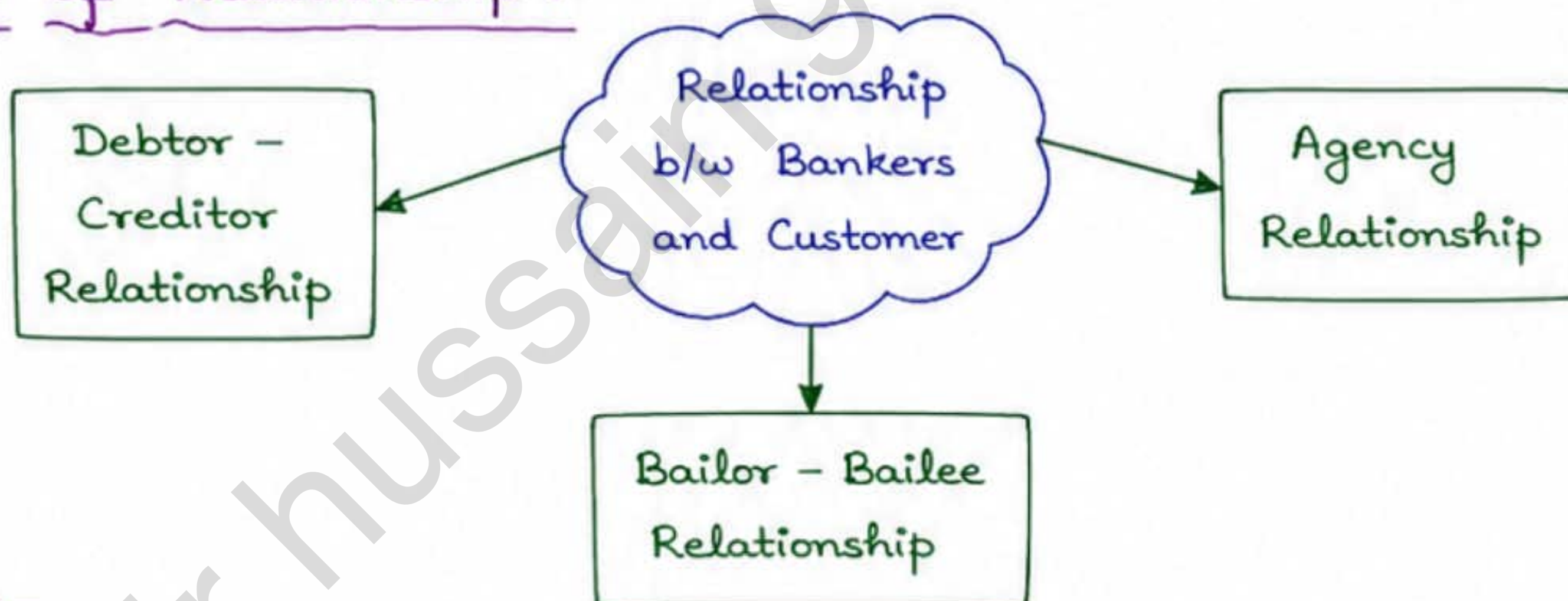
Meaning of customer :-

Dr. last State that a customer is one who has an account with a bank or for whom a banker habitually undertakes to act such.

Meaning of Bankers :-

According to **Section 5(b)** of Bankers means a person who carries on the business of banking.

Types of Relationship :-



Note :-

- * Bankers provide various services like accepting deposits, granting loans, etc.
- * Customers rely on bankers for safe keeping of money and financial support.
- * The relationship is governed by rules, regulations and contract.

Banking Regulation Act 1949

States Banking & means the accepting for the purpose of lending or investment of deposit of money from the public and repayable on demand or otherwise.

Relationship b/w Banker and customers :-

The banker and customers relationship changes according to the type of transaction. The major relationship are -

① Debtors and creditor :-

The relation of a banker and customer is primarily that of debtors and creditor. When a customer deposit money the banker become the debtors and the customer is become the creditors.

The banker must repay the amount/money on demand of the customer.

Relationship between Banker and CustomerNote :-

- * Bankers provide various services like accepting deposits, granting loans, etc.
- * Customers rely on bankers for safe keeping of money and financial support.
- * The relationship is governed by rules, regulations and contract.

UNIT → II

Joachimson
v.
Swiss Banking cor 1921

in this case The court held that an express demand by a customer in writing is essential to get back the deposit money.

② principal and Agent :-

Section 182 of ICA 1872 defines

that "an agent" is a person employed to do any act for another or to dealing with third person. The person for whom such act is done is called the principal. The Bank acts as an agent when performing services like collecting cheques, paying bills on behalf the customer.

DPF TBP MLG

③ Fiduciary relationship :-

every relationship of trust and confidence is a fiduciary relation. This is a relationship of trust, where the

Banker safeguards the customers interest especially in advisory service and maintaining confidentiality. example - keeping customers financial details secret.

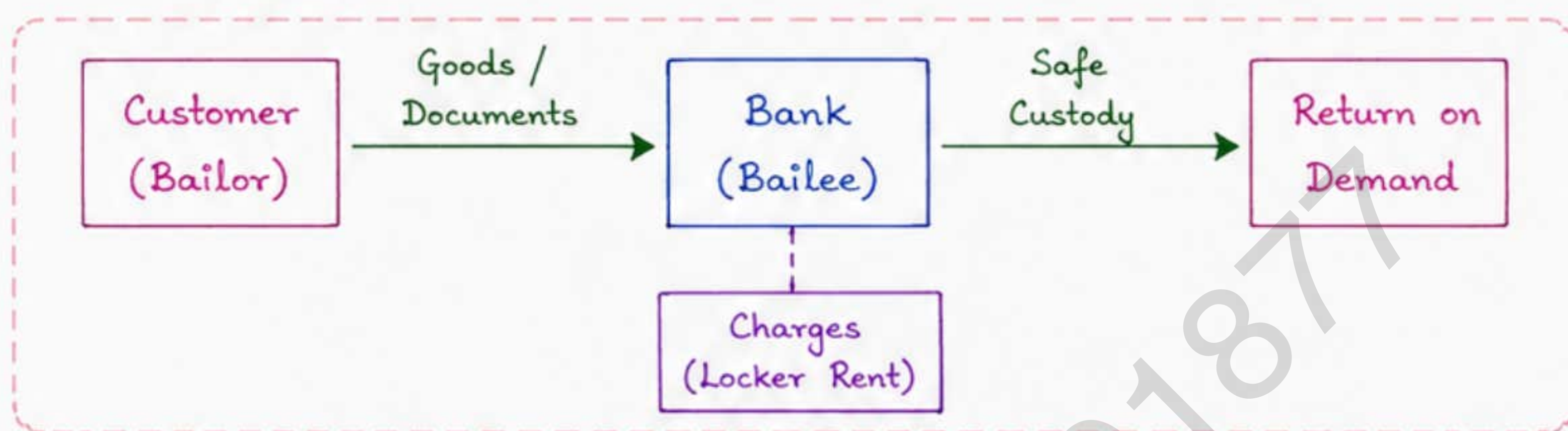
④ Trustee and beneficiary :-

Section 3 of the trust Act 1882 defines the term "trustee" as one to whom property is entitled entrusted to be administered for the benefits of another. The beneficiary is one who is beneficially entitled to in property. Banker becomes a trustee under certain circumstances for instance, when money is deposited for a specific purpose, till that purpose is fulfilled the banker is regarded as a trustee for the money.

⑤ Bailee and bailor :-

The bailee is the party of whom personal property is delivered under a contract of bailment. The bank acts as bailee when customer's valuables or documents are kept in safe custody.

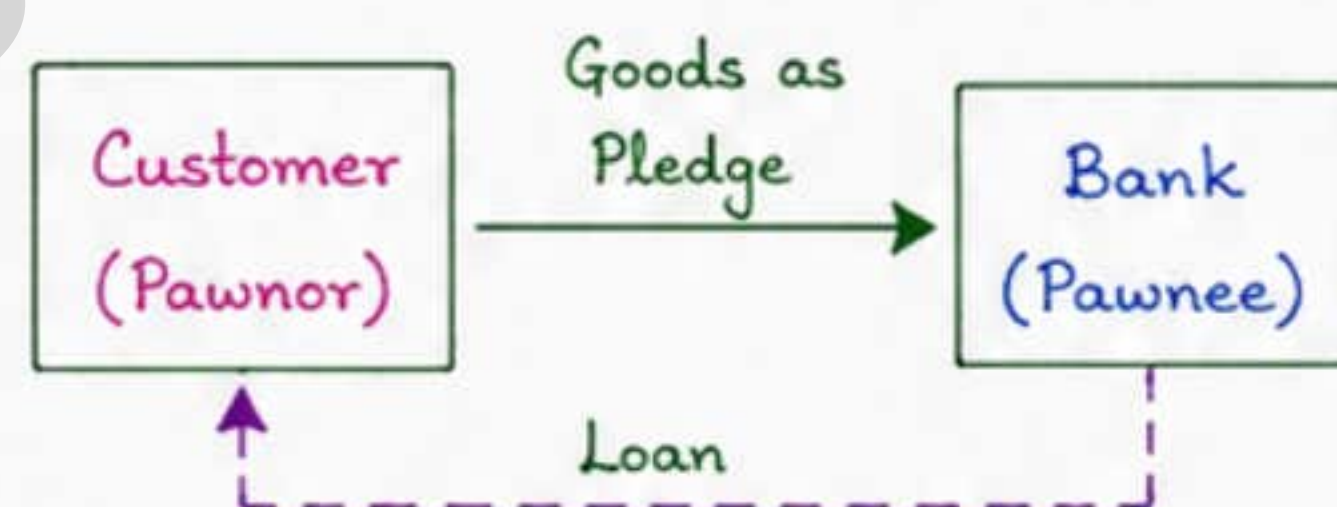
a contract of bailment. The bailor is the party who bails or delivers goods to another under a contract of bailment. A Banker becomes a bailee, it happens when the bank receive gold or ornament and important document for safe custody. The banker takes charges for the goods, articles etc., it is the customer who pays the rent for the lockers. So bank bankers act as a bailee.



⑥ Pawnee and Pawnor :-

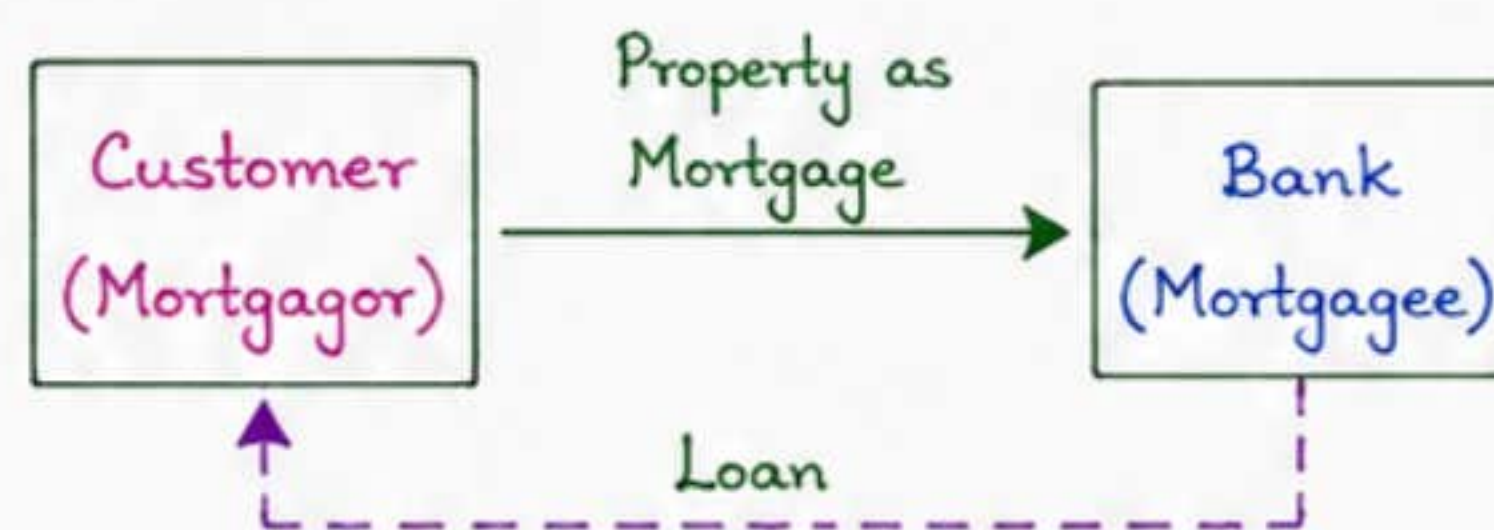
When goods are pledged or mortgaged for a loan.

The banker is the pawnee and the customer is the pawnor. The bank has a right to retain the goods until repayment.



⑦ Mortgagee and Mortgagor :-

When property is mortgaged to the bank, the bank becomes the mortgagee and the customer is the mortgagor.



Key Point :-



- * Banker acts in many capacities depending on the nature of transaction.
- * These roles are based on trust, responsibility and legal provisions.
- * Customer's interest is protected through banking safeguards.

In this case court held The bank was held liable to compensate the mortgagor for the loss suffered as the mortgagee had failed to carry out instruction of the mortgagor.

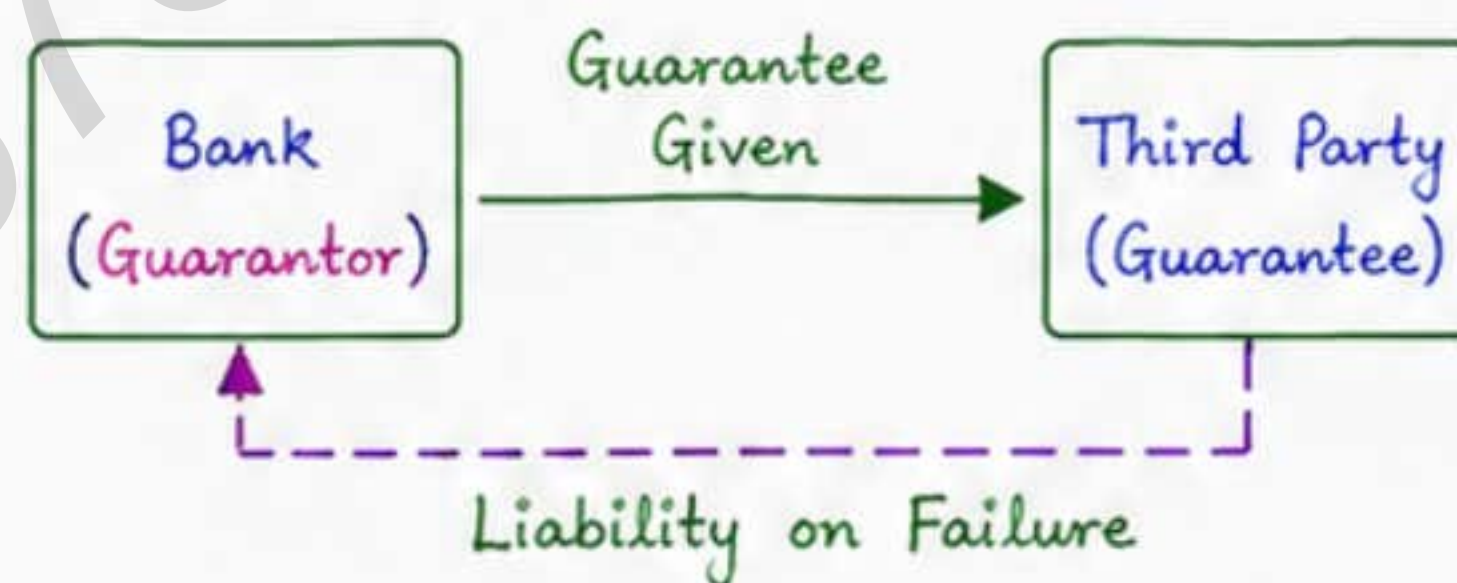
8) Lessee & lessors :-

a legal relationship created b/w the customers as lessors and the bank as lessee in respect of the lockers taken on hire, is not that of a banker and customer.



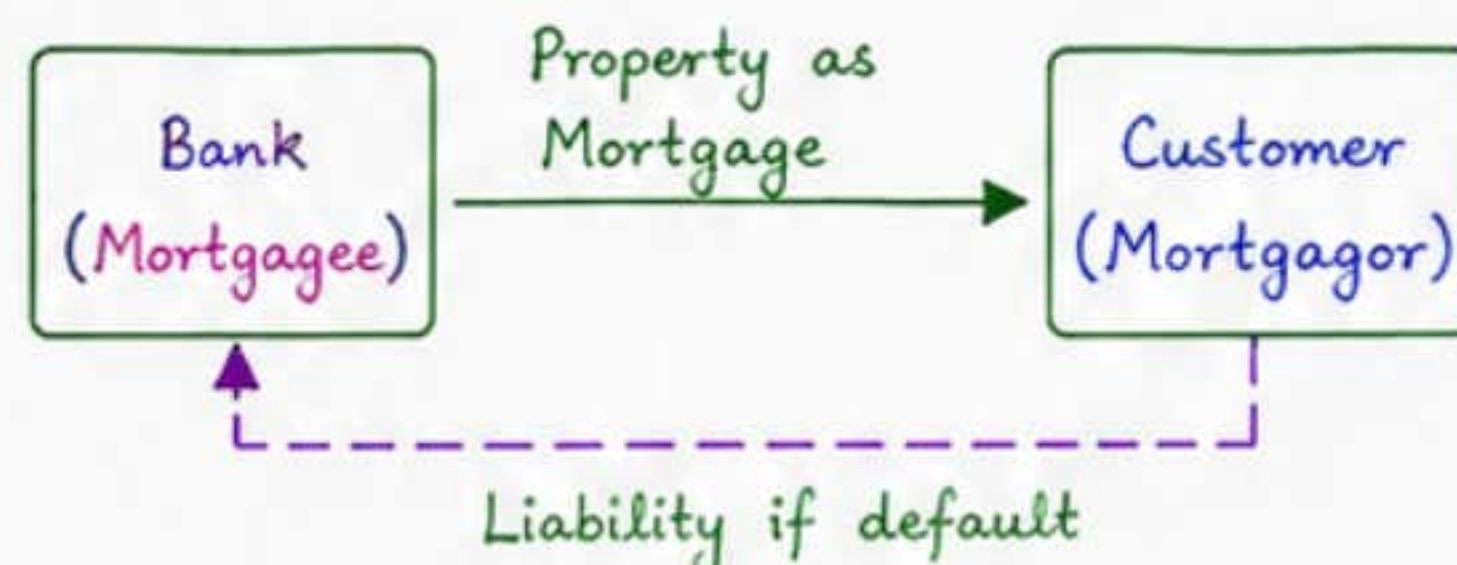
9) Bank Guarantor & Guarantee :-

Guarantor is one who gives a promise to answer for the payment of some debt or the performance of some duty in the case of failure.



10) Mortgagee and Mortgagor :-

When property is mortgaged to the bank, the bank becomes the mortgagee and the customer is the mortgagor.



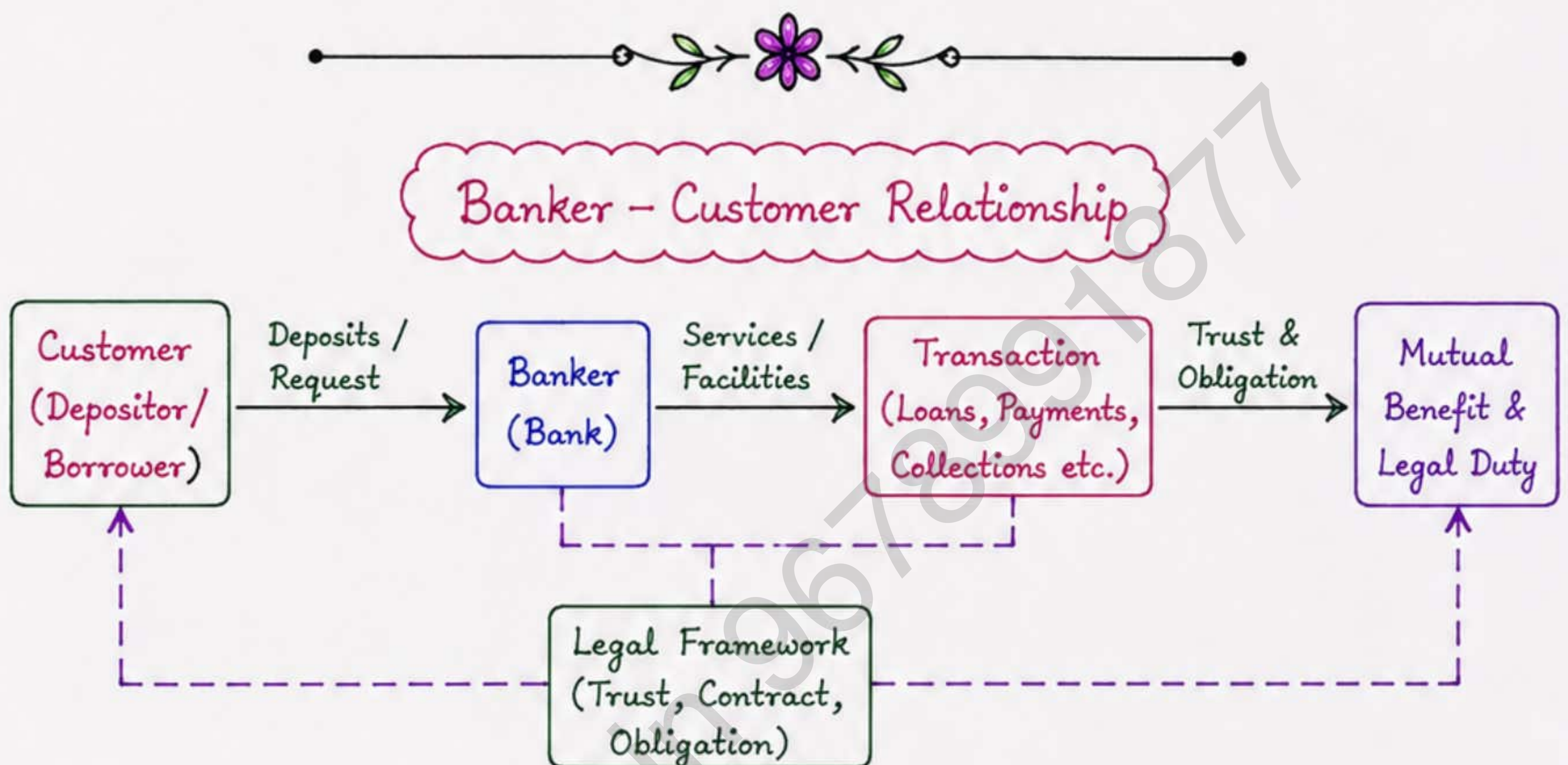
Key Points :-



- ★ Banker acts in various capacities depending on the nature of transaction.
- ★ These roles are based on trust, responsibility and legal provisions.
- ★ Customer's interest is protected through banking safeguards.

Conclusion :-

The Banker and customer relationship is not limited to a single role of charges with the nature of the transaction. It is built on trust, legal obligation and mutual understanding.



Key Points



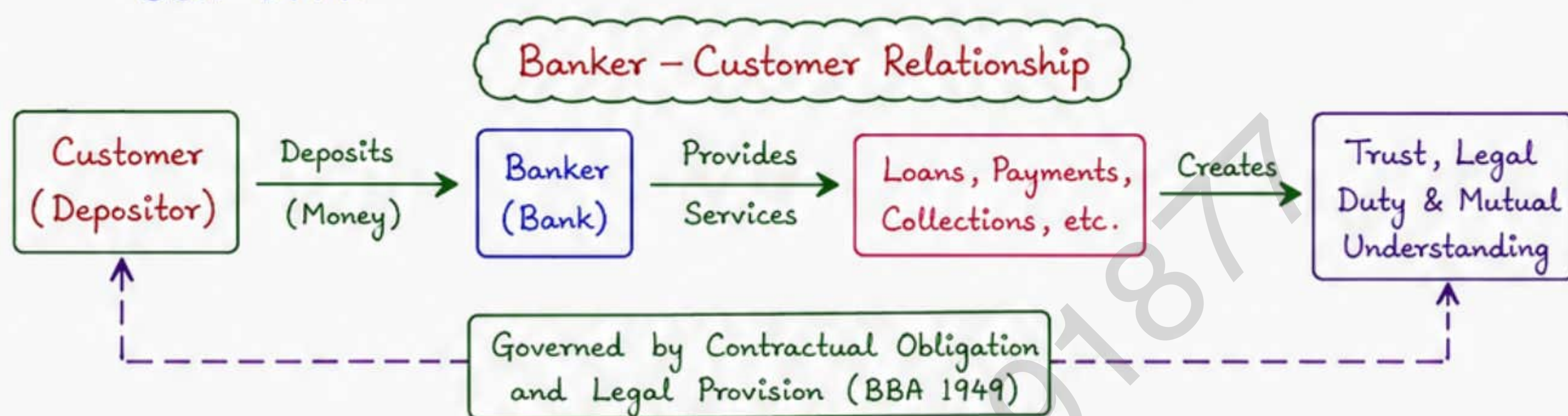
- ★ Banker acts in various capacities depending on the nature of transaction.
- ★ These roles are based on trust, responsibility and legal provisions.
- ★ Customer's interest is protected through banking safeguards.

⑤ Elaborately discuss the right and obligation of Bankers towards its customers ?

Introduction :-

A Banker is a person or institution engaged in the **business of banking**, which primarily involves accepting deposits and lending money.

The relationship b/w banker and a customer is governed by contractual obligation and legal provision u/s BBA 1949.



Rights of Bankers



- Right to receive and honour cheques, drafts, etc.
- Right to set off balances.
- Right to charge interest on loans and advances.
- Right to close accounts as per terms of the contract.
- Right to retain documents and goods in case of default (Lien).

Obligations of Bankers

- Duty to honour cheques and orders as per mandate.
- Duty to keep customer's information confidential.
- Duty to exercise due care and skill in transactions.
- Duty to act in good faith and fairly.
- Duty to follow legal and regulatory provisions.



Key Takeaway



- ★ Banking is based on trust, contract and law.
- ★ Both banker and customer have rights and obligations which ensure smooth and fair banking operations.



Rights of a Bankers

① Rights of general lien (Sec. 171, ICA 1872)

★ The "lien" means a legal claim to hold property as security. The lien is two types –

① Specific lien and ② General lien.

★ The Banker has a general lien over the goods and securities of the customers in the absence of any agreement to the contrary.

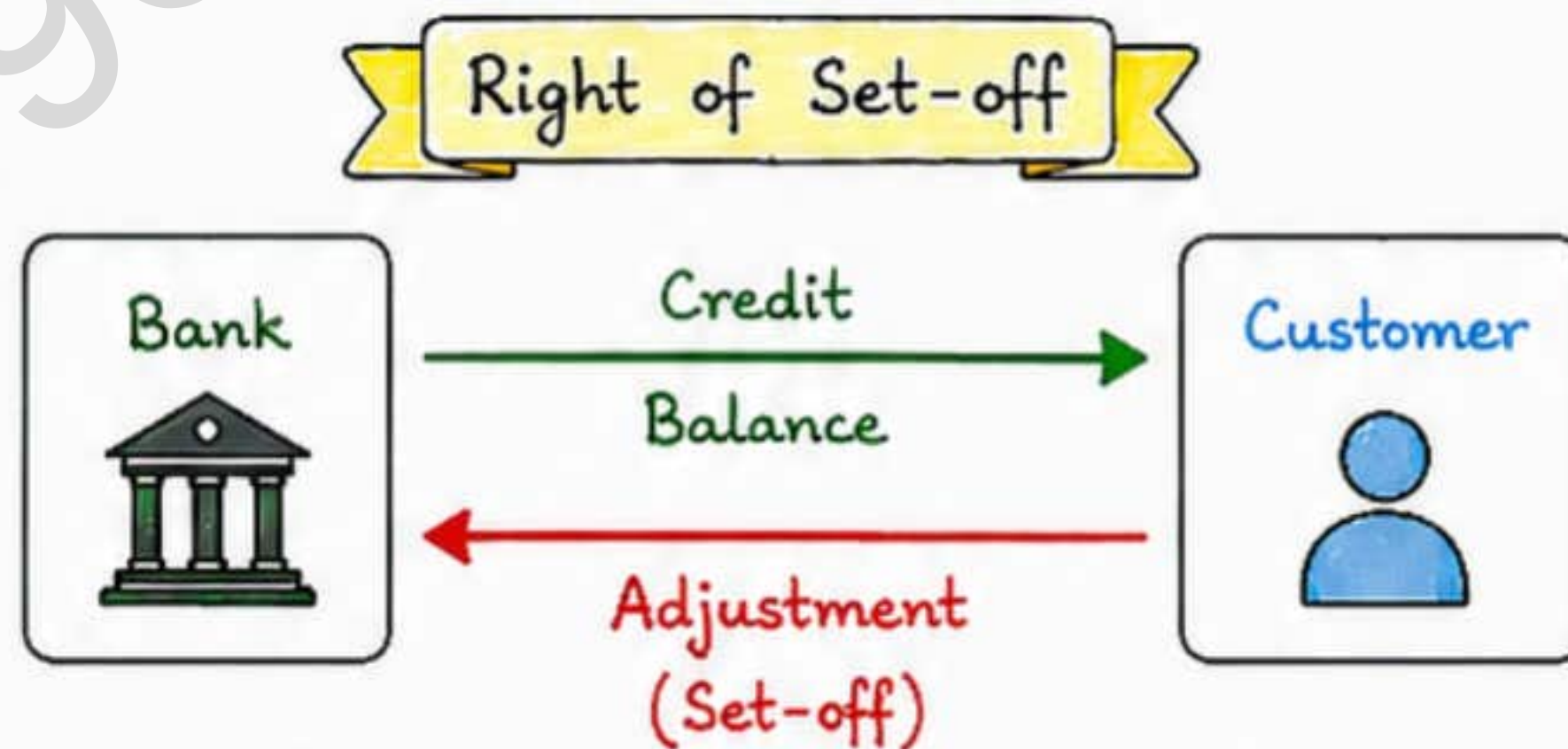


Syndicate Bank
v.
Vijay Kumar 1992

★ In this case the court held that Bankers can retain goods and securities until debt is cleared.

② Right of set-off :-

★ The Bankers has the right to adjust the credit balance of a customer.



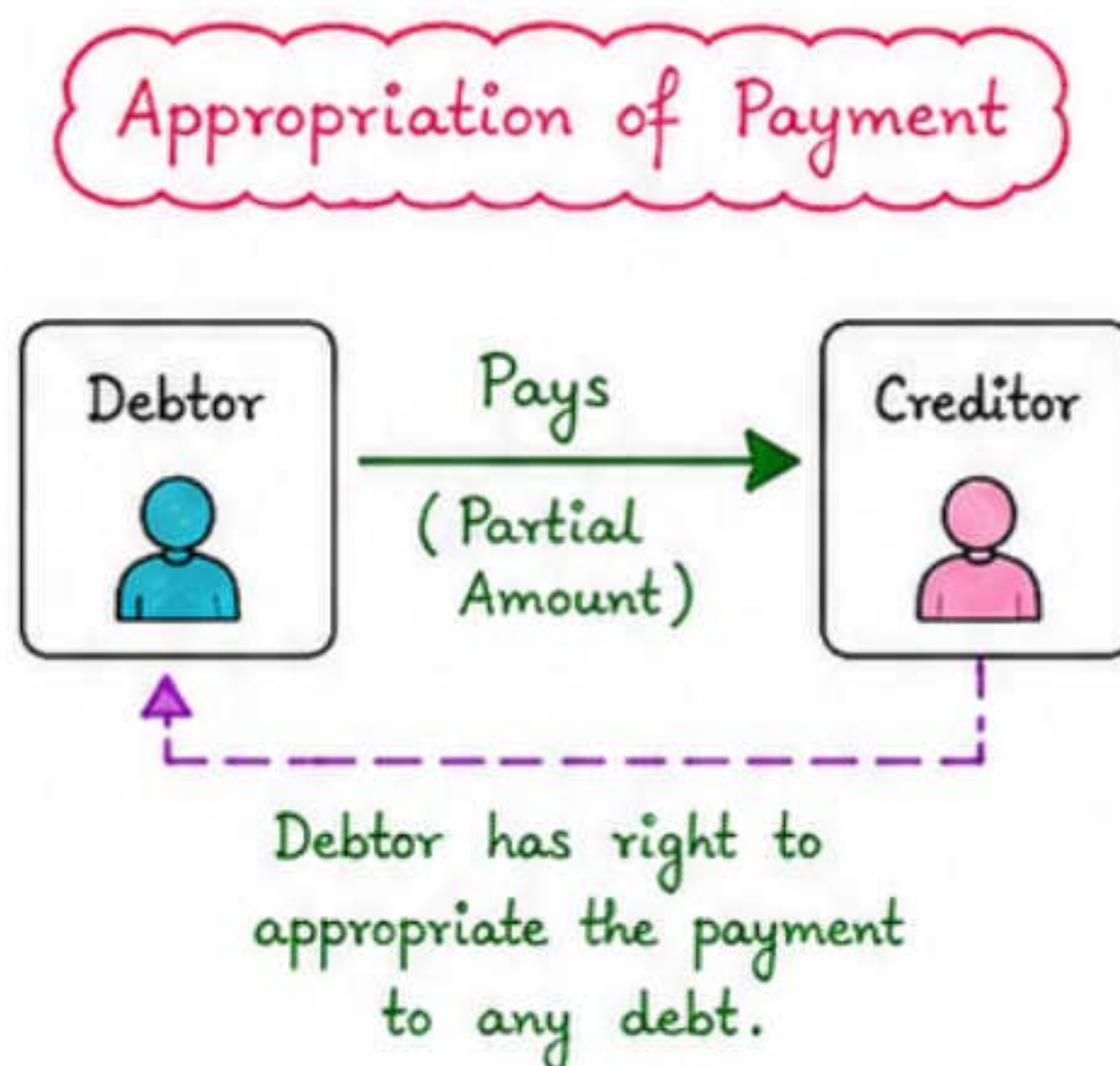
Key Points



- ★ Lien gives the banker a right to hold property as security.
- ★ General lien exists in the absence of any agreement.
- ★ Set-off allows the banker to adjust mutual balances.

③ Appropriation of Payment :-

- ★ Appropriation arises only when debtors owes two or more different debt to the creditors and he pays some amount – which is not sufficient to meet any debt.



④ Right to Claim Incidental Charges :-

- ★ Relationship that exists between a banker and a customer is that the banker may claim incidental charges on unremunerative accounts. It is a form of service charge.



⑤ Right to Charge Compound Interest :-

- ★ As per general law, levying of compound interest is strictly prohibited.



Key Points



- ★ Bankers have various rights to protect their interest and ensure smooth functioning.
- ★ These rights are based on legal provisions and mutual understanding.
- ★ They help maintain trust, discipline and efficiency in banking operations.

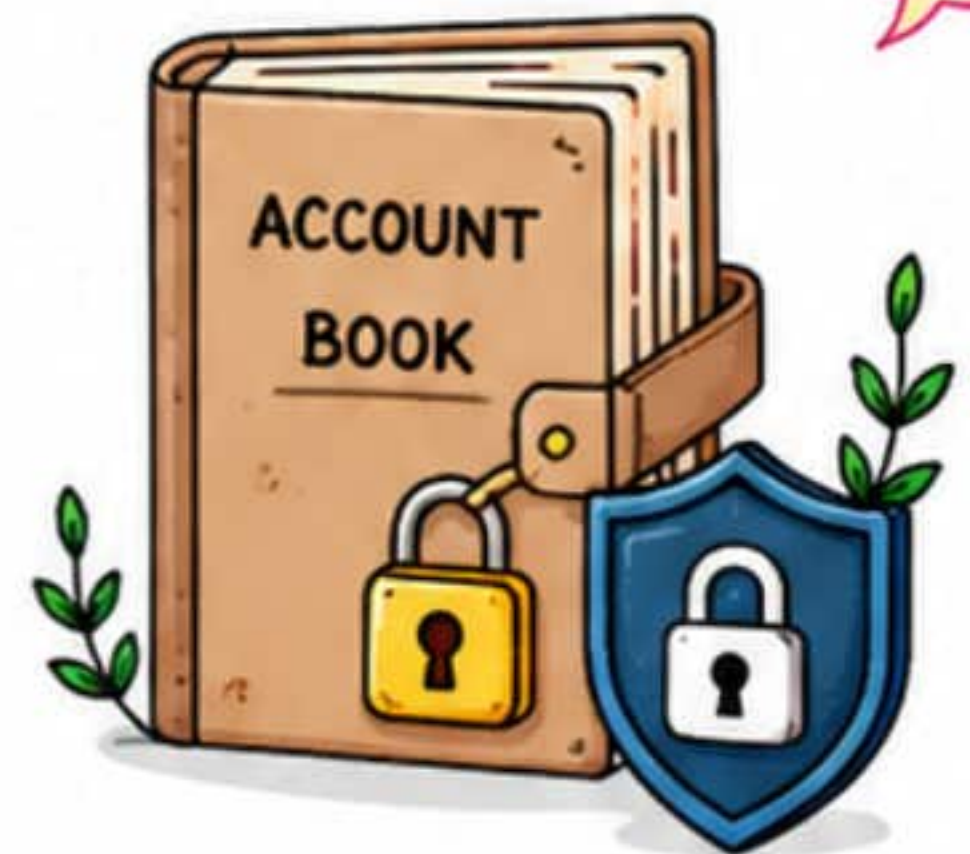


OBLIGATIONS OF A BANKER

Trust is the foundation of banking.

1 Obligation to Maintain Secrecy

- ★ Secrecy is meant that the account books of the bank will not be thrown open to the public or government officials and the bankers will take all necessary precautions to ensure that the state of affairs of a customer's account is not made known to others by any means.



2 Obligation to Collect Cheques and Bill Properly

- ★ The Banker must act as a collecting agent with reasonable care.



3 Obligation to Give Proper Notice Before Closing Account

- ★ The Bank must give proper notice to the customer before closing the account.



4 Obligation to Provide Statement of Accounts

- ★ The Banker should provide periodic statement and correct errors promptly.



KEY TAKEAWAY



- ✿ A banker must maintain secrecy of customer accounts.
- ✿ He must collect cheques and bills with reasonable care.
- ✿ He must give proper notice before closing accounts.
- ✿ He must provide periodic statements and correct errors.

PRESENTATION OF CHEQUES

Presentation of cheques within working hours of business.

Presentation of cheques within a reasonable times.

Cheque should be presented at the branch where the account is kept.



OTHER IMPORTANT POINTS



④ Signature of the customer



⑤ Proper form of the cheque



⑥ Material alteration



⑦ Reasonable time for collection

Note

These conditions ensure smooth transaction and legal validity.



② OBLIGATION TO MAINTAIN SECRECY AND DISCLOSURE OF INFORMATION



The foundation of a Banker and customer relationship is of confidence and secrecy. The Banker is under an obligation to take utmost care in keeping secrecy about the account of the customers. By keeping secrecy, the Banker fulfills his duty of confidentiality.

KEY TAKEAWAYS



- ★ Cheques must be presented in proper time, place and form.
- ★ Bankers must maintain secrecy and protect customer information.
- ★ Confidence and trust are the foundation of banking relationship.
- ★ These obligations ensure legal compliance and smooth banking operations.



- ★ but a banker is given a special privileges of charging compound interest.

Bank of India



In this case S.C. held that banks cannot charge compound interest with periodic rest for agricultural loans.

Obligation of a Banker

① Obligation to honour cheques :-

- Bankers accept the deposits from the customers with an obligation to repay it to him by way of honouring the cheque drawn upon the banker.
- The banker is under a statutory obligation to honour his customers cheques because it recognised in Section 31 of the Negotiable Instrument Act 1881.



Key Point

Honour of cheque is a legal duty and a part of the banker's promise to his customer.

Condition of honour cheques :-

Sufficient balance.



Right to charge compound interest :-

As per general law, levying of compound interest is strictly prohibited.



Key Takeaways



- ★ Banker has special privilege to charge compound interest.
- ★ Banker's obligation includes honouring cheques and repaying deposits.
- ★ These obligations are governed by law and ensure trust in banking system.

CASE LAW

Fleming
v.
Bank of Newzealand

In this case held that the duty of banker to pay cheques of his customer who keeps a current account.

Shankarsal
v.
SBI 1987

In this case court held that out of the duties of the banker towards the customer among these duties may be reckoned the duty of secrecy.

CONCLUSION

The relationship between a banker and a customer is based on mutual trust and legal compliance. While the banker enjoys certain rights like lien and set-off to safeguard its interest, it also has significant obligations like honoring cheques, maintaining secrecy and acting with care.



- ★ The banker must pay cheques of his customer who keeps a current account.
- ★ The banker owes a duty of secrecy towards the customer.
- ★ The relationship is based on mutual trust and legal compliance.
- ★ The banker has rights like lien and set-off to safeguard interest.
- ★ The banker has important obligations like honoring cheques, maintaining secrecy and acting with care.



Q.3. Write a Note on the Types of Bank Account

Introduction :-

A bank account is a financial arrangement through which a customer deposits and withdraws money safely. Banks provides different types of account to meet the needs of individual, business and investors. The major types of bank are - Savings account, Current, Fixed and recurring account.

Types of Bank Account.

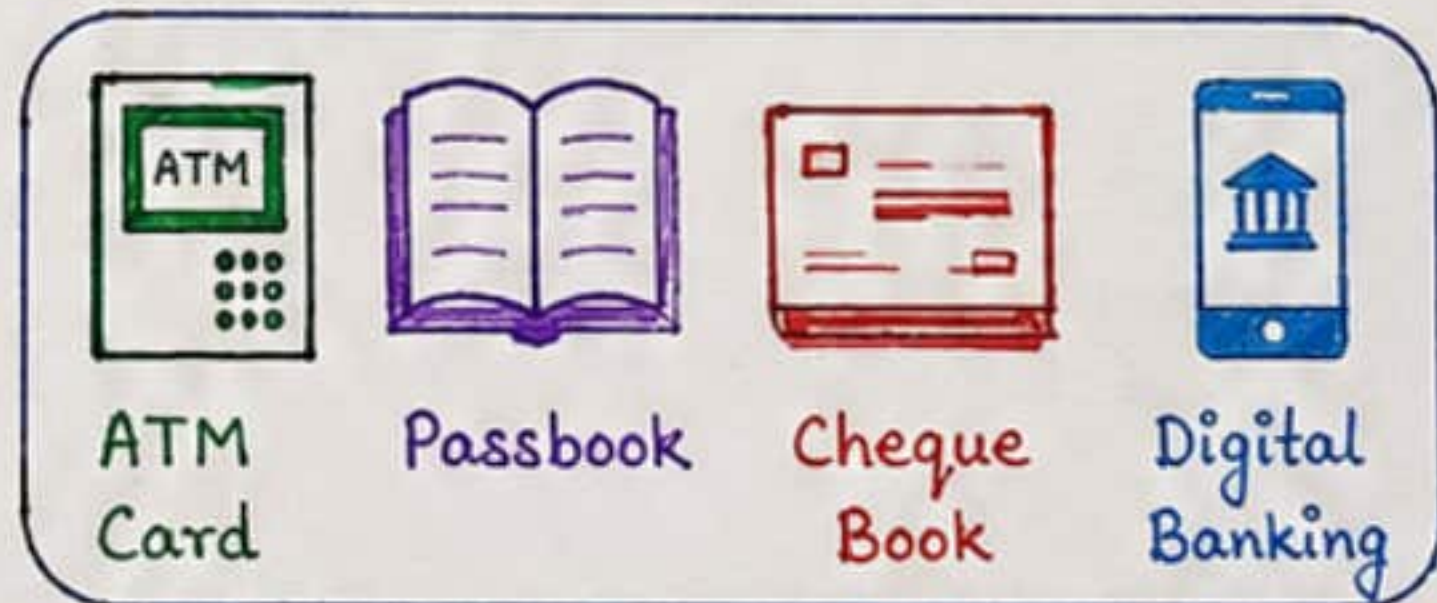
① Saving Bank account :-

A Saving account is the most common type of account used by individual. Its main purpose is to encourage small and regular savings.

people deposit their surplus money and withdraw it whenever needed, it is suitable for salaried person, students, pensioners and general customer who want to keep money safely and earn interest.

Features

- ① Customers can deposit and withdraw money as per Bank rules.
- ② Interest is paid on the saving balance.
- ③ Banks provide ATM card, passbook, cheque book and digital banking.



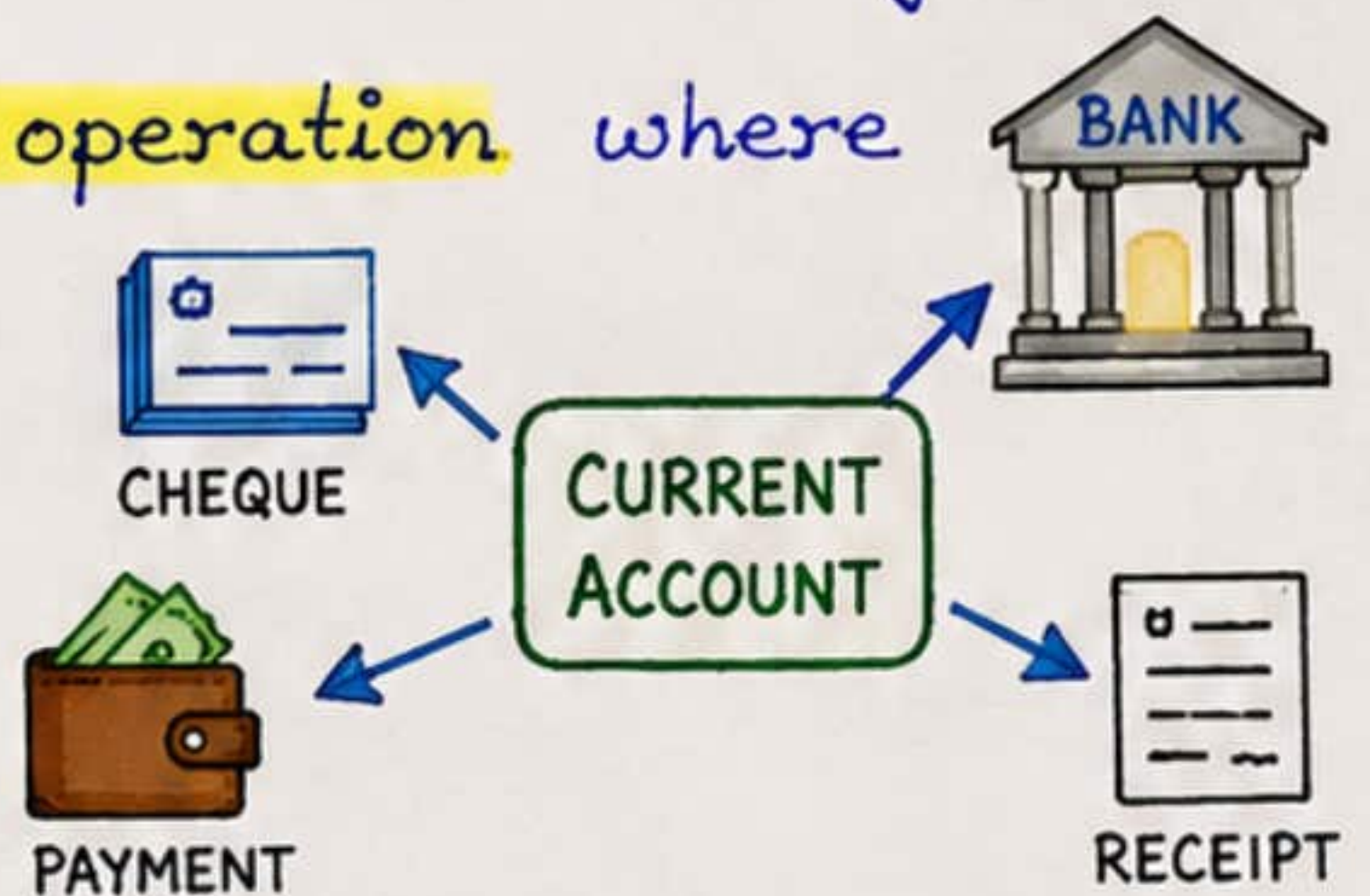
② Current Account:



Current Account
for smooth
and regular
transactions

A current account is designed mainly for traders, businessmen companies and organisation that require frequent and large transactions.

frequent and large transaction. It allow quick payment and receipts without restriction. It is not meant for saving but for smooth business operation where funds move daily.



Features :-

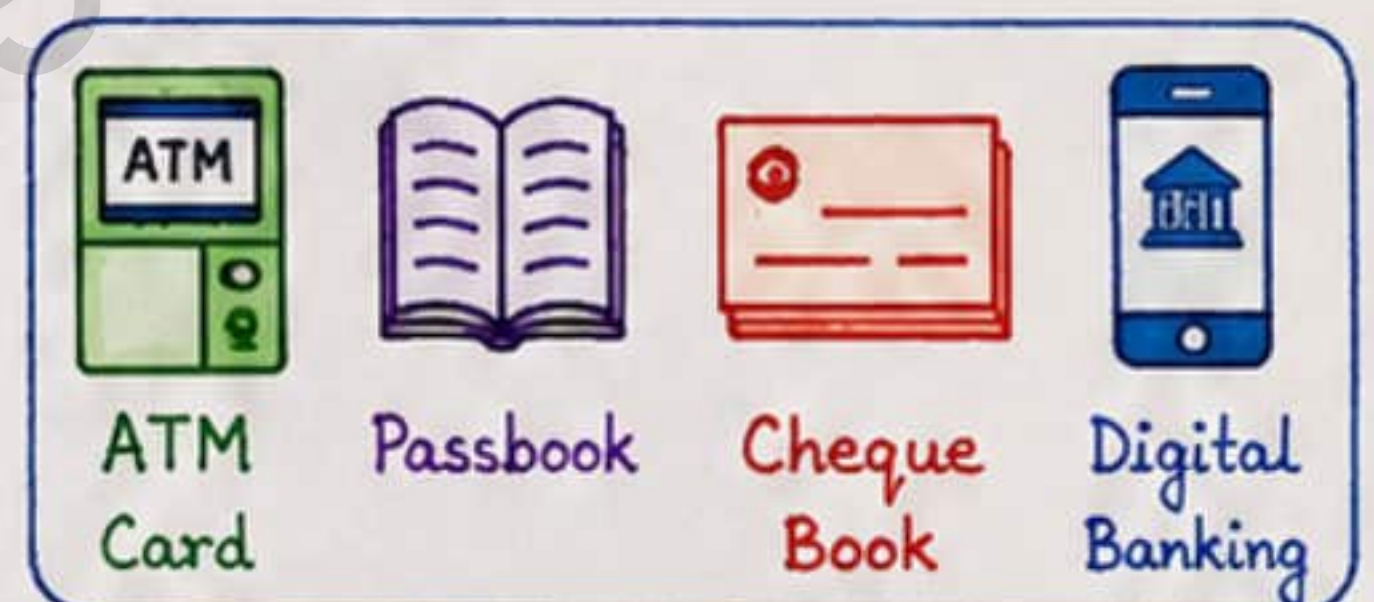
(i) Unlimited deposite and withdrawal in a day.



(ii) No interest is paid on the account balance.



(iii) Banks provide ATM card, passbook, cheque book and digital banking.



(iv) Overdraft facility is available.

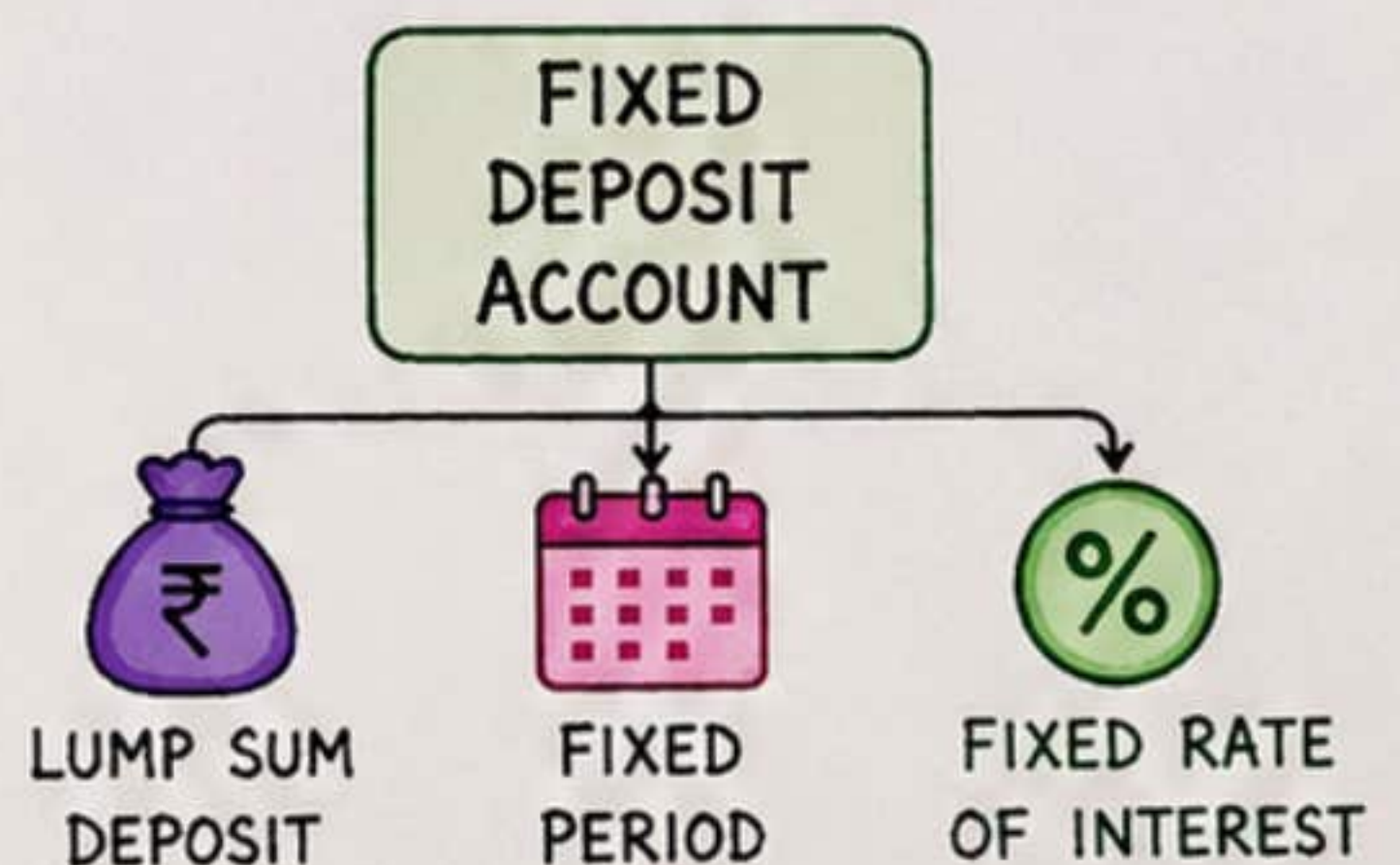


(v) Very useful for high-volume business transaction.



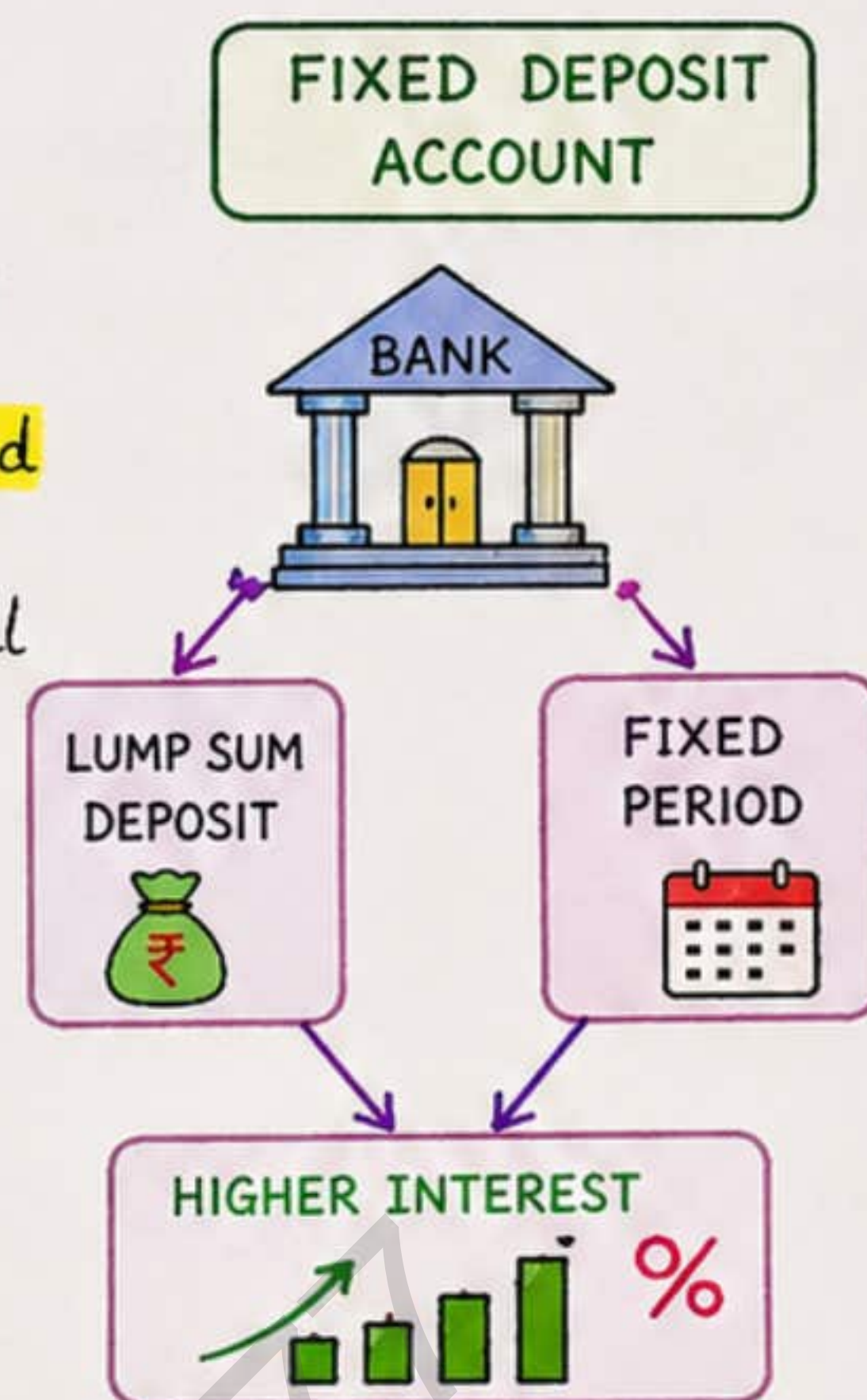
3) Fixed Deposit Account :-

A Fixed Deposit Account is meant for safe investment of a lump sum for a fixed period at a fixed rate of interest.



3. Fixed Deposit Account :-

A fixed deposit account is a time-deposit account where a customer deposits a lump sum of money for a fixed period ranging from a few days to several years. The money cannot be withdrawn before maturity without penalty. It is mainly used for earning higher interest in a safe and stable manner.



Features :-

i) Money is kept for a fixed tenure (7 days to 10 years).



ii) Provides higher interest rate.



iii) Premature withdrawal is allowed but a penalty.

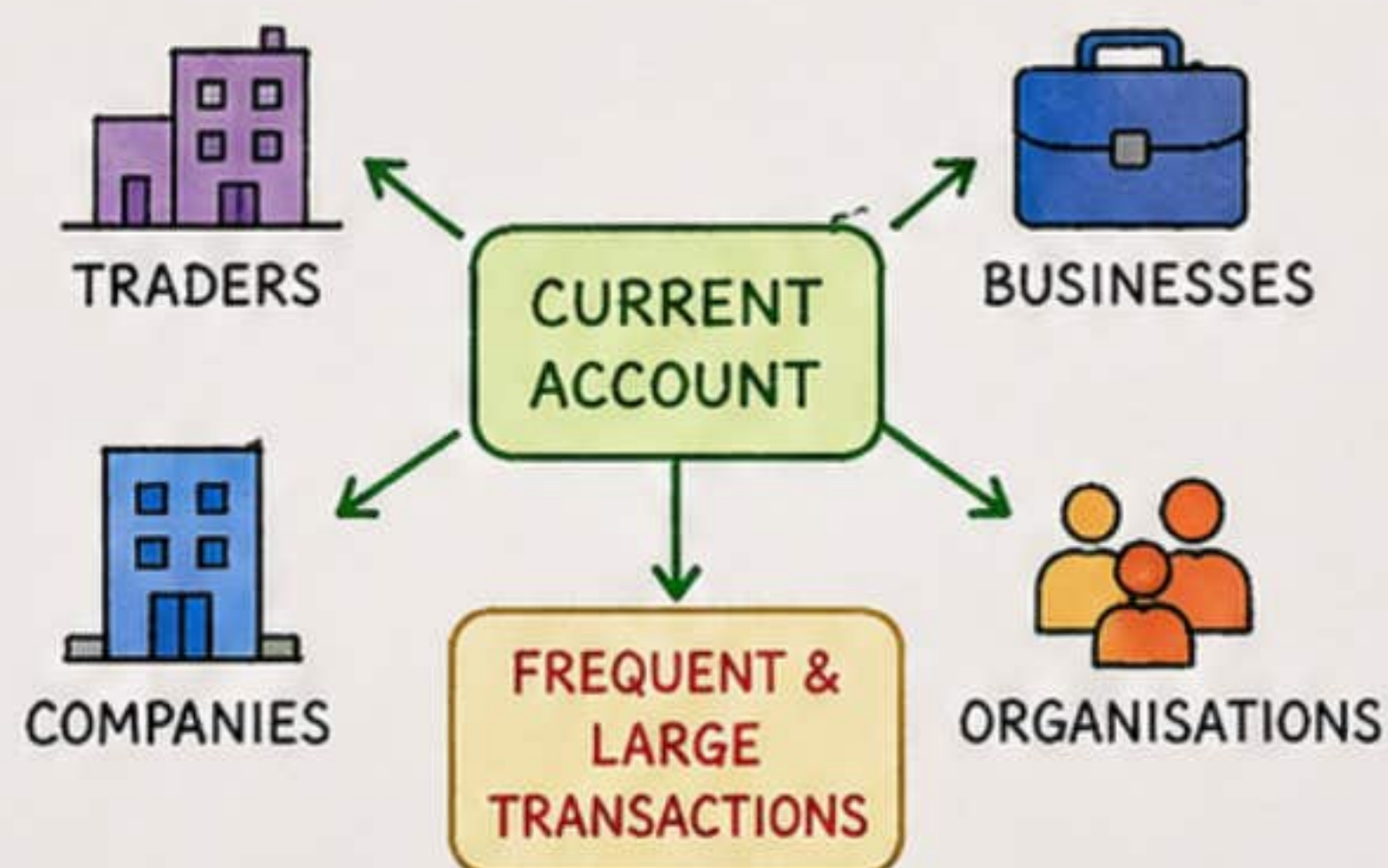


iv) Considered a safe.



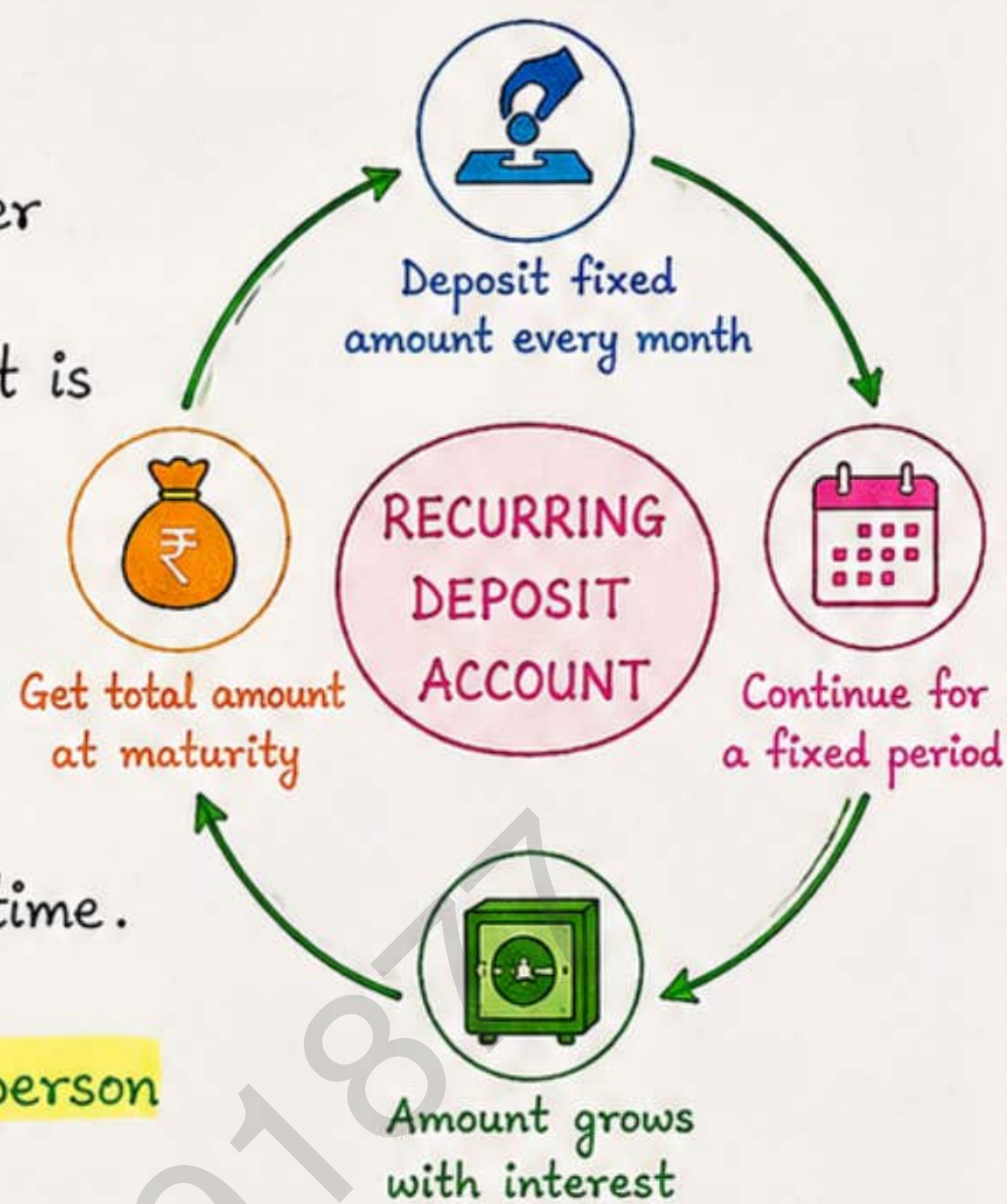
③ Current Account :-

A current account is designed mainly for traders, businessmen, companies and organisation that require frequent and large transactions.



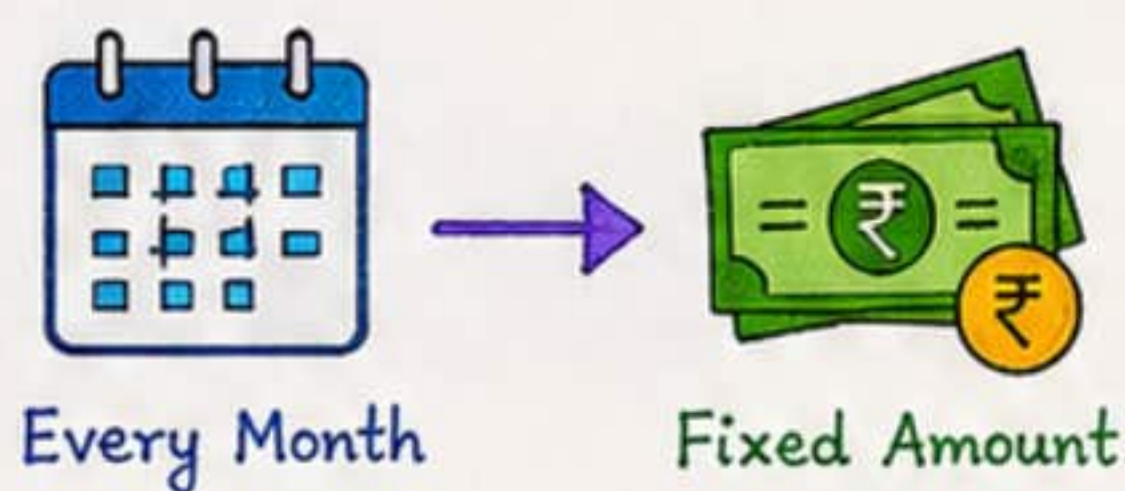
④. Recurring Deposit Account :-

A **Recurring deposit Account** is a **saving scheme** where a customer deposits a **fixed amount** **every month**. It is **ideal for individual** who cannot deposit a **large amount at once** but want to **build saving gradually** over time. It is helpful for **students**, **salaried person** and even **small earners**.



Features :-

- (i) Fixed amount is **deposited every month** for a **chosen period**.



- (ii) Interest is **similar to FD** and paid on **maturity**.



- (iii) Helps build a **regular saving habit**.



Jakir hus

UNIT - 3

Jakir hussain 9678991877

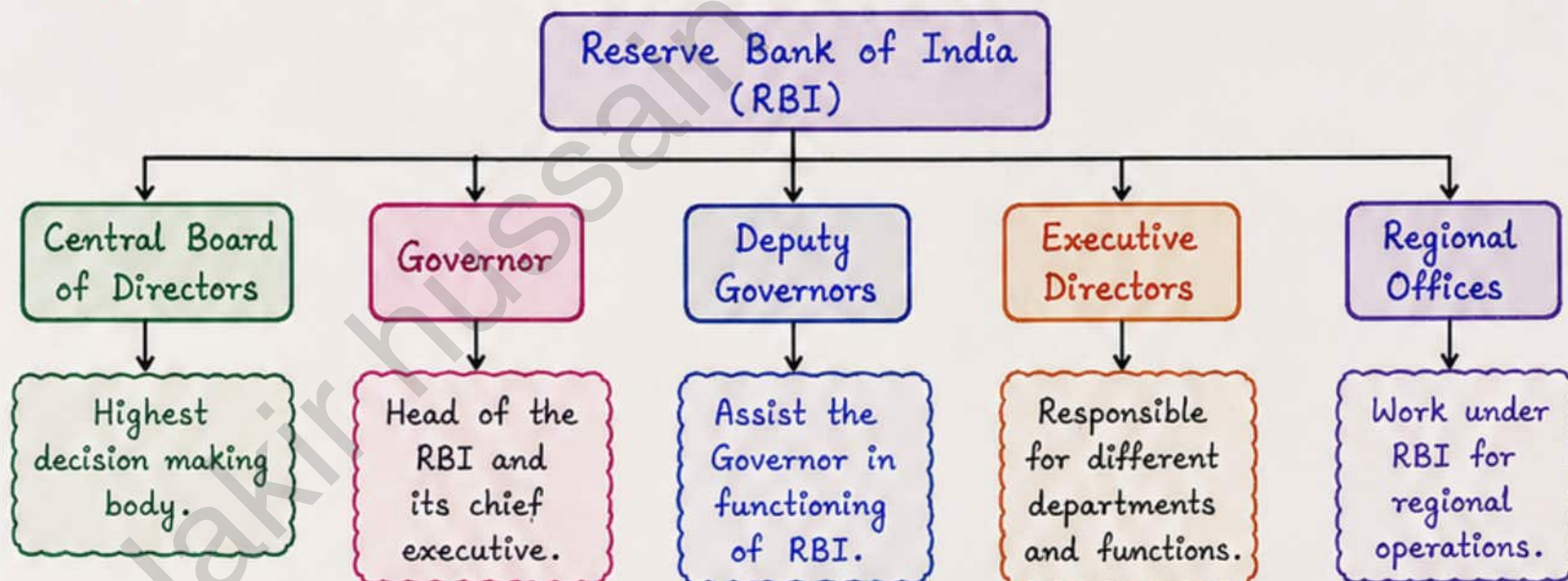
Q1. Write a note on the organisation and structure of RBI. primary and Secondary function of RBI ?



Introduction :-

The Reserve Bank of India (RBI) is the central Bank of India, established under the RBI Act 1934. It plays a key role in regulating Banking system, maintaining financial stability, and formulating monetary policy. RBI works as the Banker to the government, Banks, and the public. Its structure and organisation ensure smooth administration and control over the financial sectors.

Organisation and structure of RBI



① Central Board of Directors :-

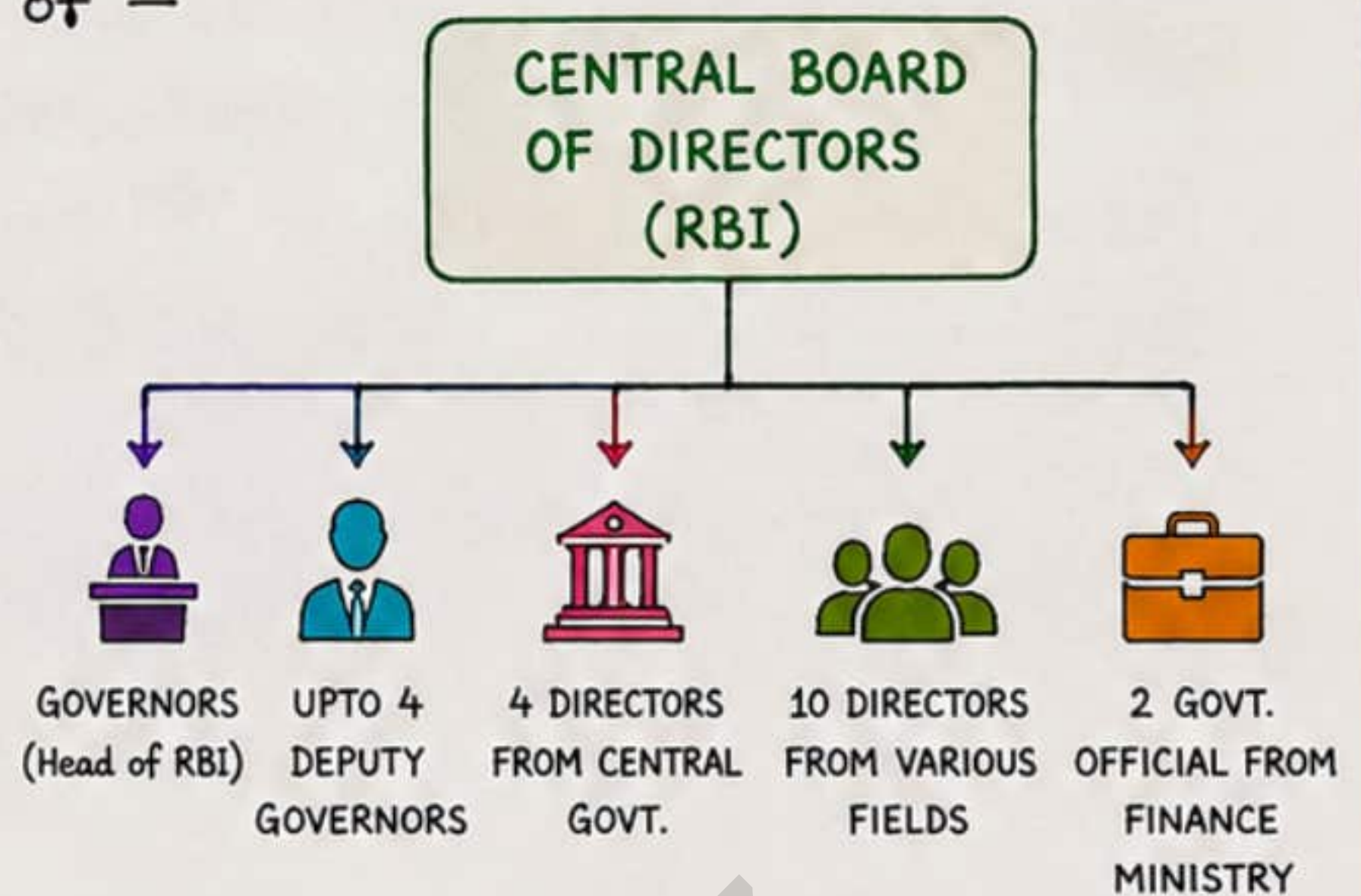
The RBI is managed by a Central Board of Directors.



Unit - 3

① Central Board of Directors : which is the apex governing body, it consist of -

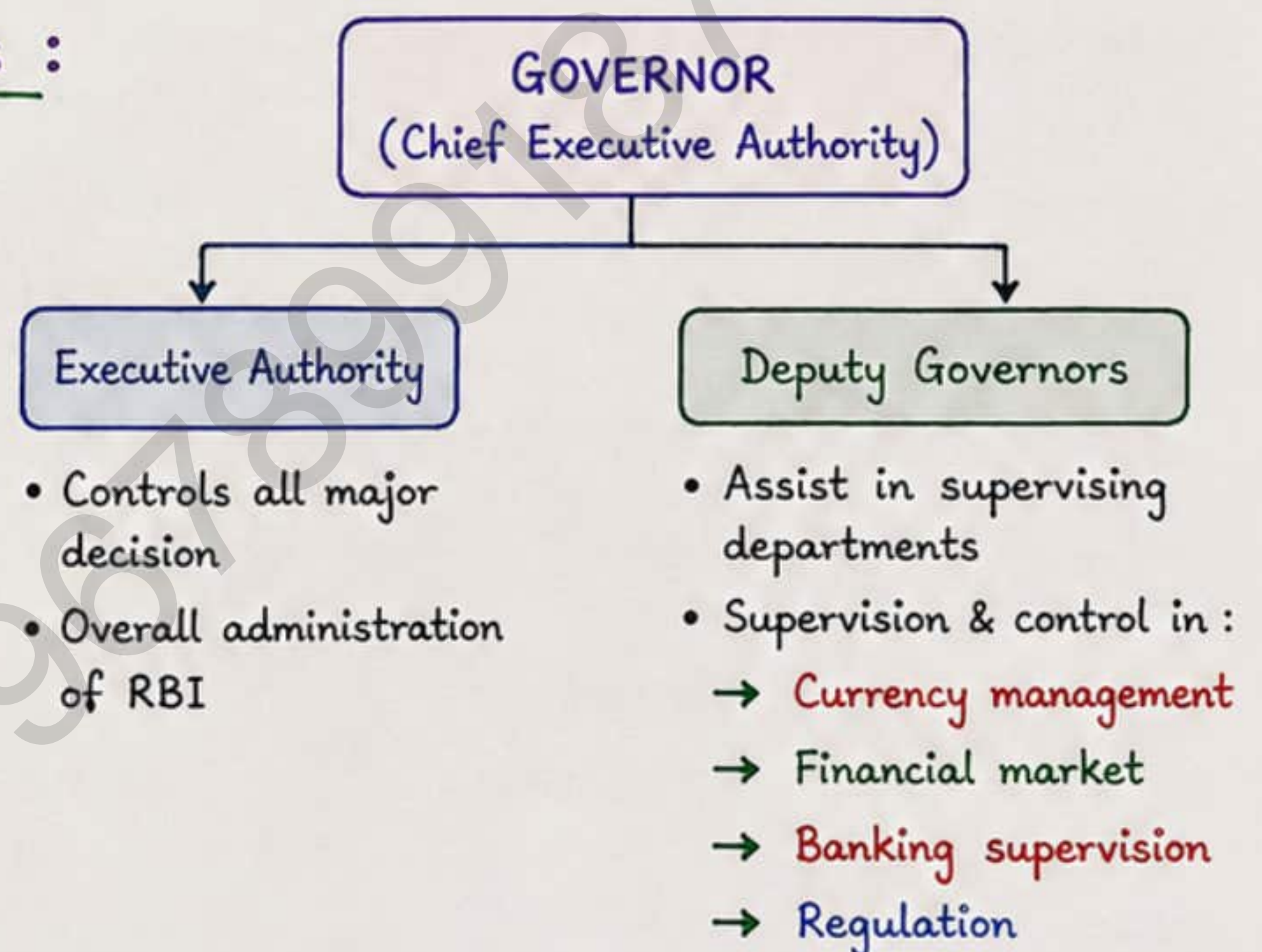
- ⇒ Governors (Head of RBI)
- ⇒ up to 4 Deputy Governors
- ⇒ 4 Directors from Central Govt.
- ⇒ 10 Directors from various fields
- ⇒ 2 Government official from finance ministry.



② Governors and Deputy Governors :

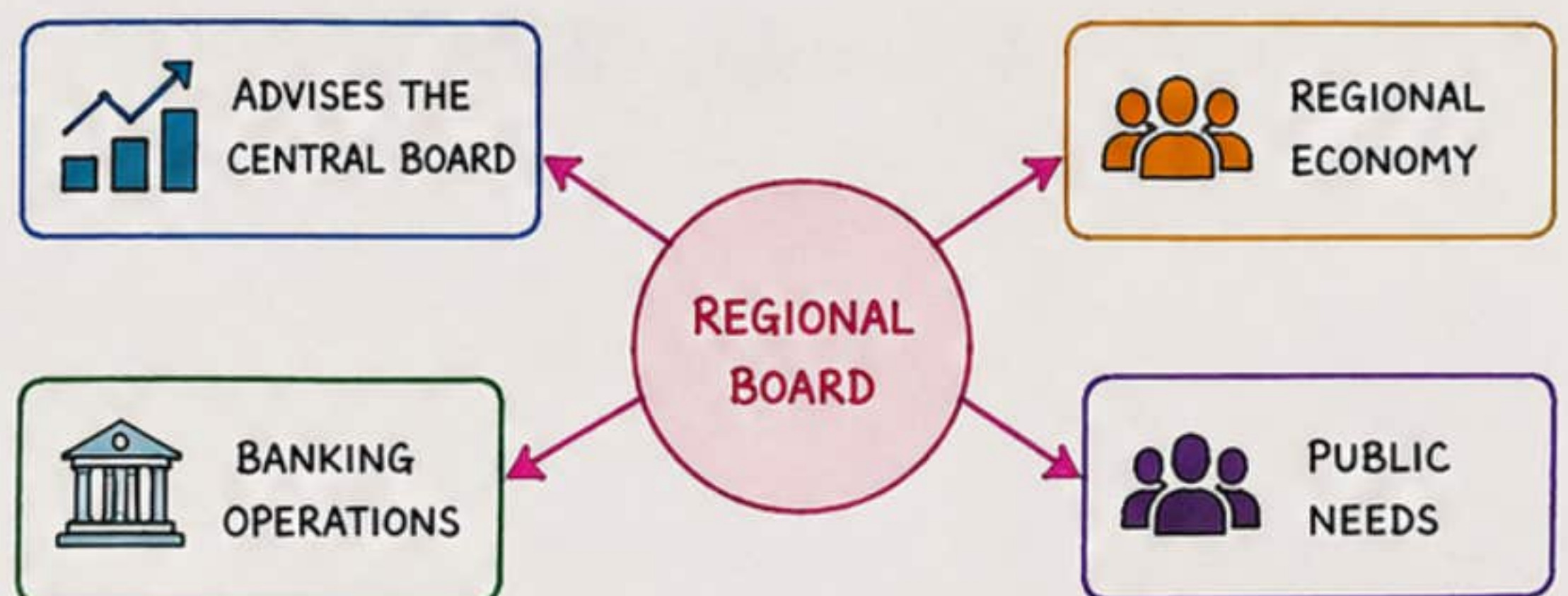
The Governor is the chief executive authority of RBI and control all major decision.

Deputy Governors assist in supervising departments such as currency management, financial market, banking supervision and regulation.



③ Regional Board :

The Regional Board advises the Central Board on matters relating to regional economy, banking operations and public needs.



RBI has regional offices in major cities like Mumbai, Delhi, Kolkata, and Chennai. Regional board helps in various fields like — implementing RBI policies.



4 Department of RBI :-

RBI consist of several specialised departments such as —

1. Department of Banking Regulation



2. Department of Currency Management



3. Department of Financial Markets



Function of Primary function of RBI :-

1 Note issue :-

According to Section 22 of the RBI Act 1934, RBI has a sole right for issuing bank note not in India. Bank note issued under the signature of Governor.

RBI NOTE ISSUING POWER



(Governor)

Other Departments of RBI

- * Banking Regulation
- * Currency Management
- * Financial Markets



Regulating Banks



Managing Currency



Monitoring Financial Markets

② Monetary Policy Formulation:

RBI uses tools like Bank Rate, Repo Rate, CRR, SLR and open market operation to control inflation and stabilize the economy in the country.

TOOLS OF MONETARY POLICY

- **Bank Rate** → Rate at which RBI lends to commercial banks. 
- **Repo Rate** → Rate at which RBI borrows against securities. 
- **CRR** → Cash Reserve Ratio. 
- **SLR** → Statutory Liquidity Ratio. 
- **Open Market Operation** → Buying or selling securities in the open market. 

③ Issue of Currency:

RBI has the exclusive authority to issue Banknotes (except ₹1 note printed by Government). It maintains currency supply preventing counterfeiting.

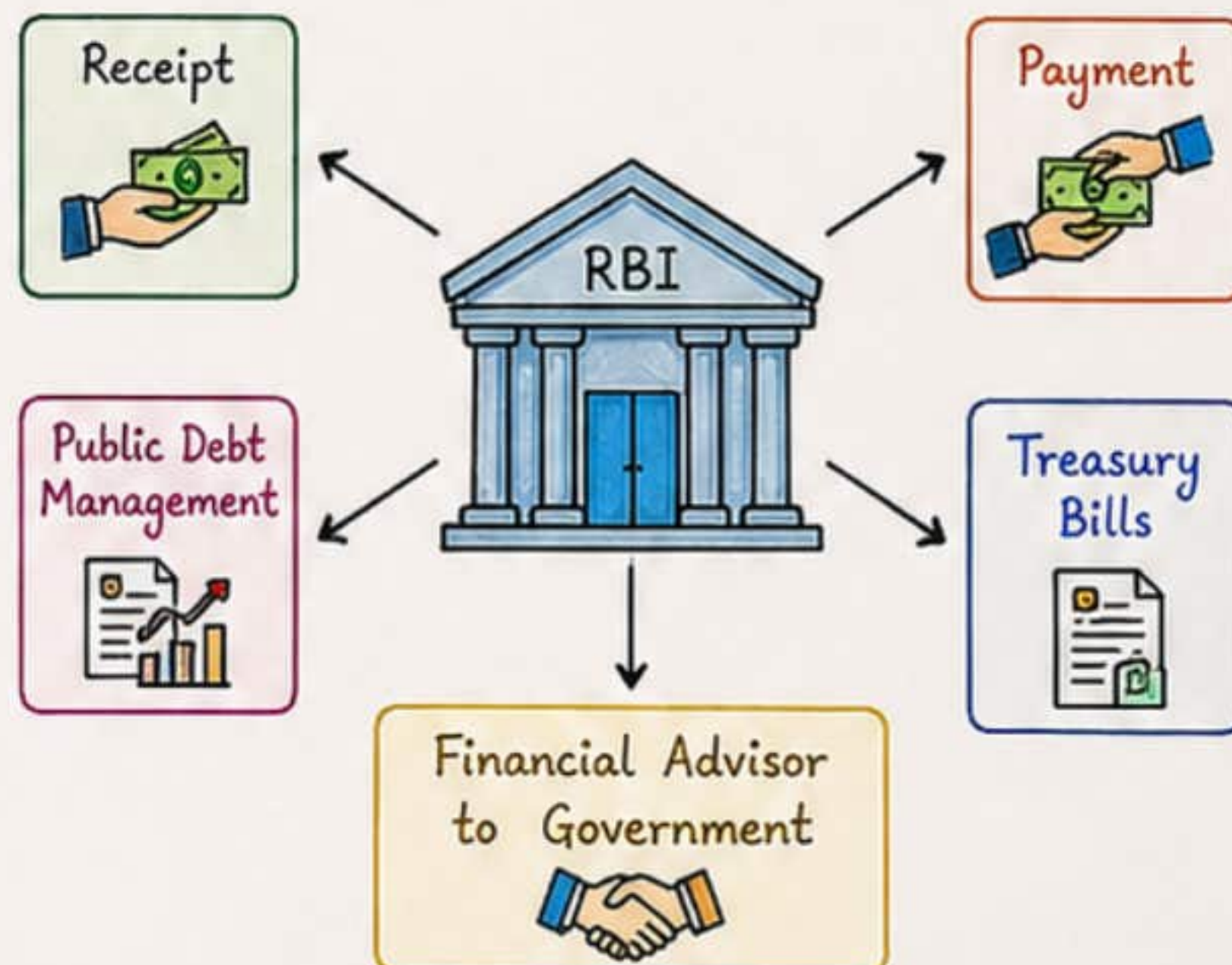
RBI's Role

- ✓ Authorised issuer of Banknotes
- ✓ Maintains adequate currency supply
- ✓ Ensures quality and security of notes
- ✓ Prevents counterfeiting



④ Banker to the Government:

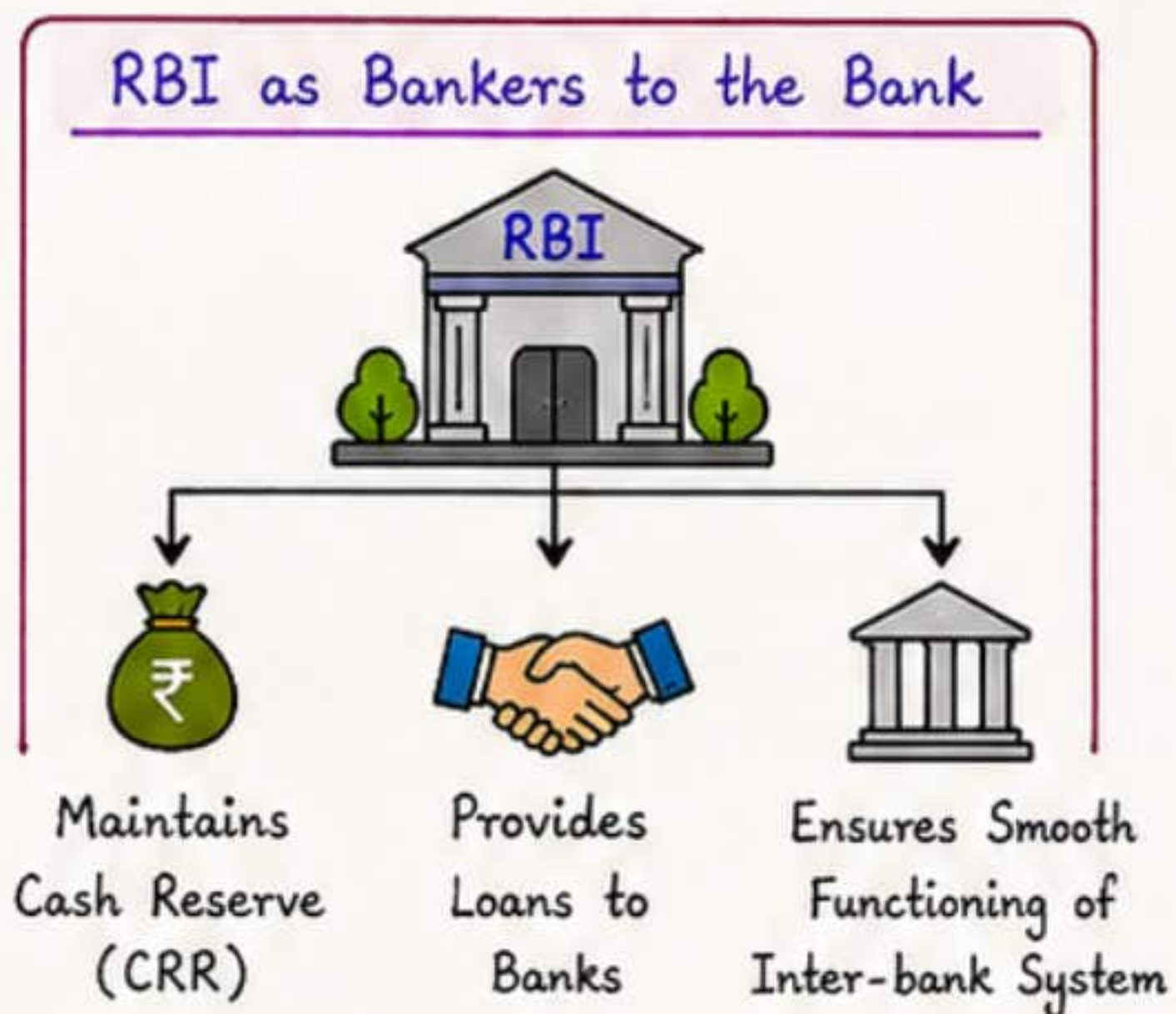
RBI manages the banking transaction of Central and State Government including receipt, payment, public debt management, and treasury bills. It acts as financial advisor to the Government.



⑤ Bankers to the Bank :

RBI maintains cash reserve

Ratio (CRR) of commercial Banks, provides loans to Banks, and ensures the smooth functioning of the inter-bank system.



⑥ Controller of Credit :

RBI monitors and regulates the amount of credit created by the Banks.

How RBI Controls Credit ?

- Fixes Bank Rate
- Changes CRR / SLR
- Open Market Operations
- Moral Suasion & Guidelines



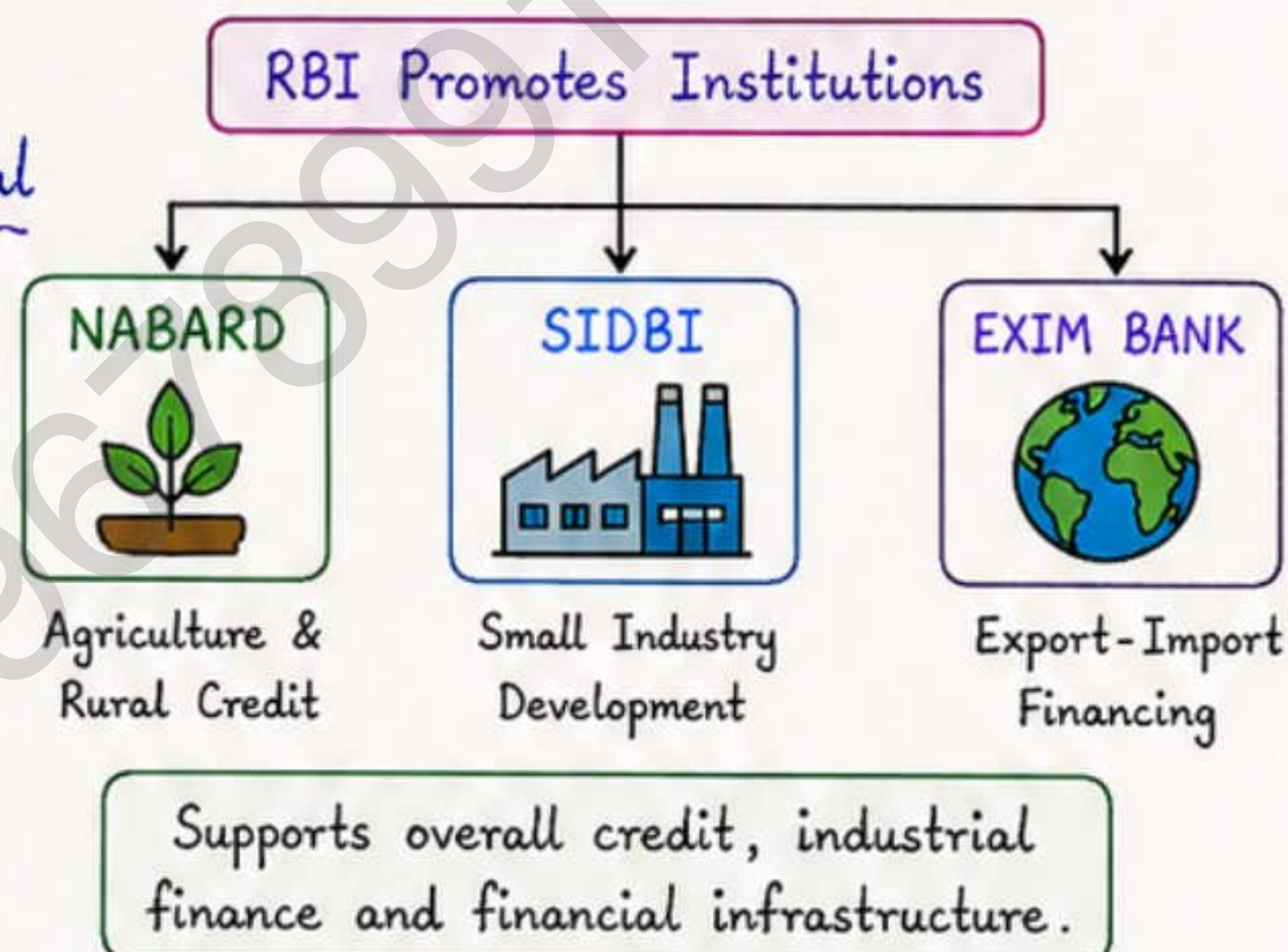
Secondary function of RBI

① Promotion of Banking and Financial Institutions :

RBI promotes institutes like

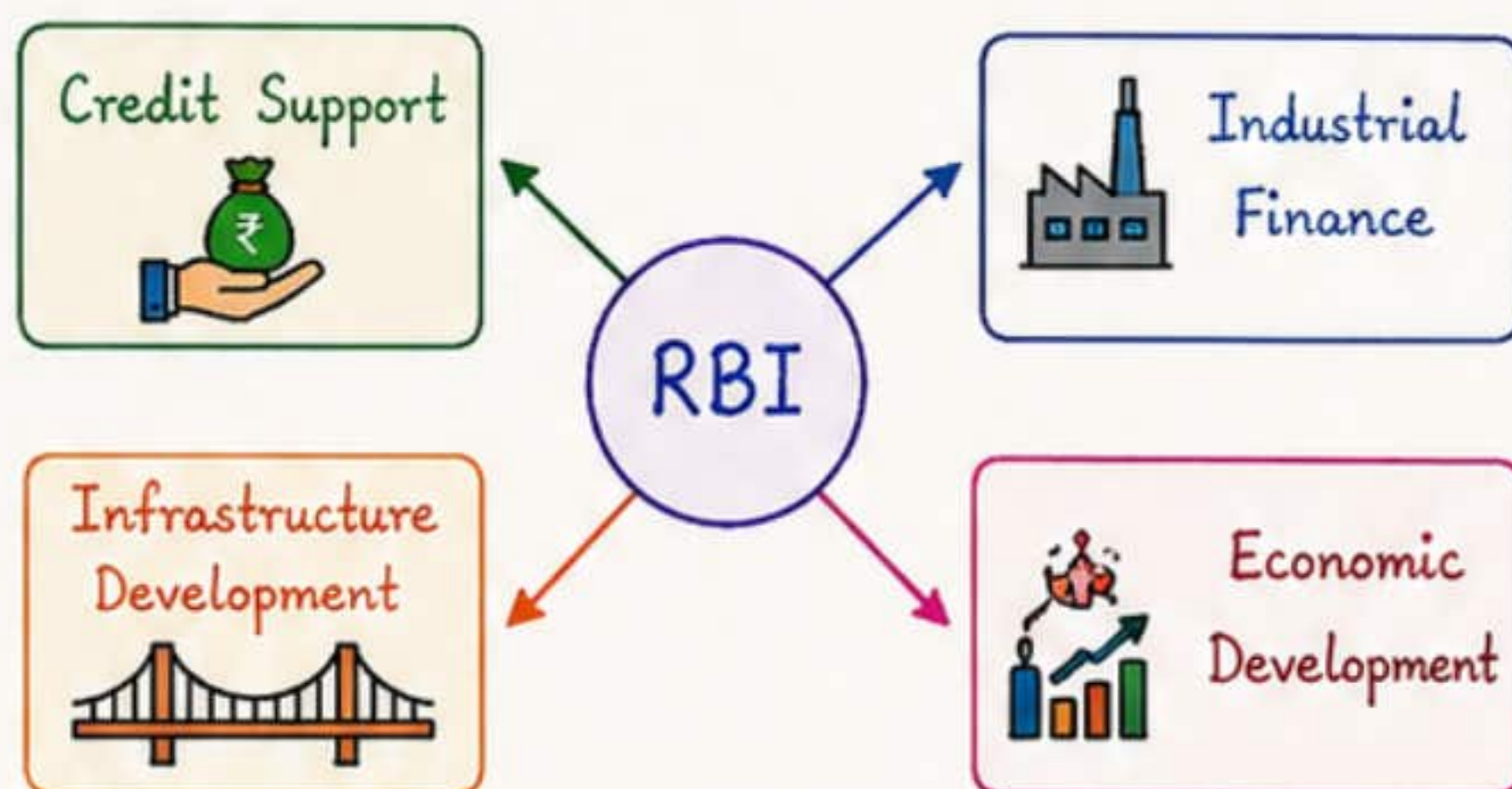
NABARD, SIDBI, EXIM Banks

and develops financial infrastructure.



② Developmental Role :

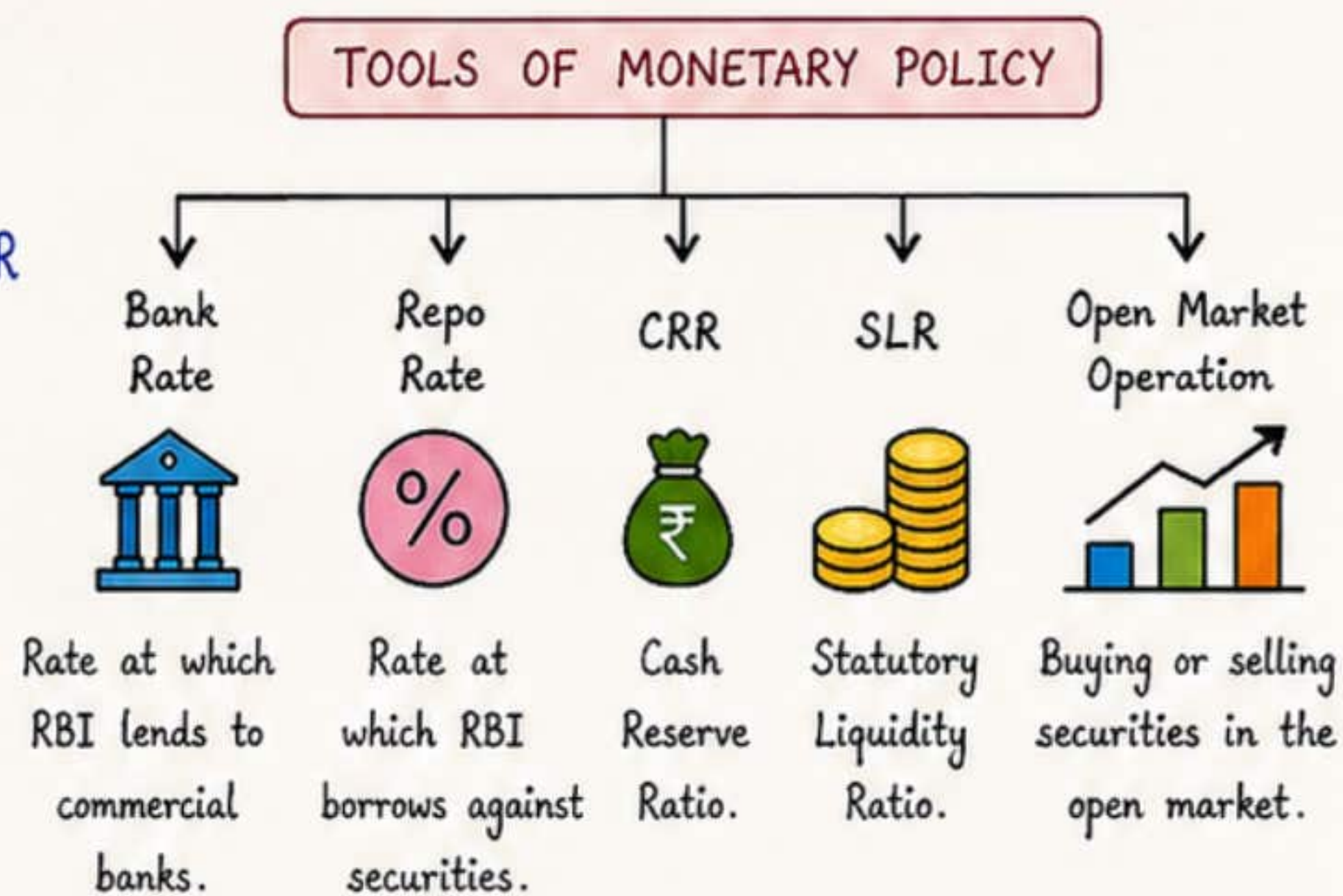
RBI supports overall economic development by providing credit support, industrial finance and infrastructure development.



★ Through these roles, RBI acts as the financial advisor and financial guardian of the Government.

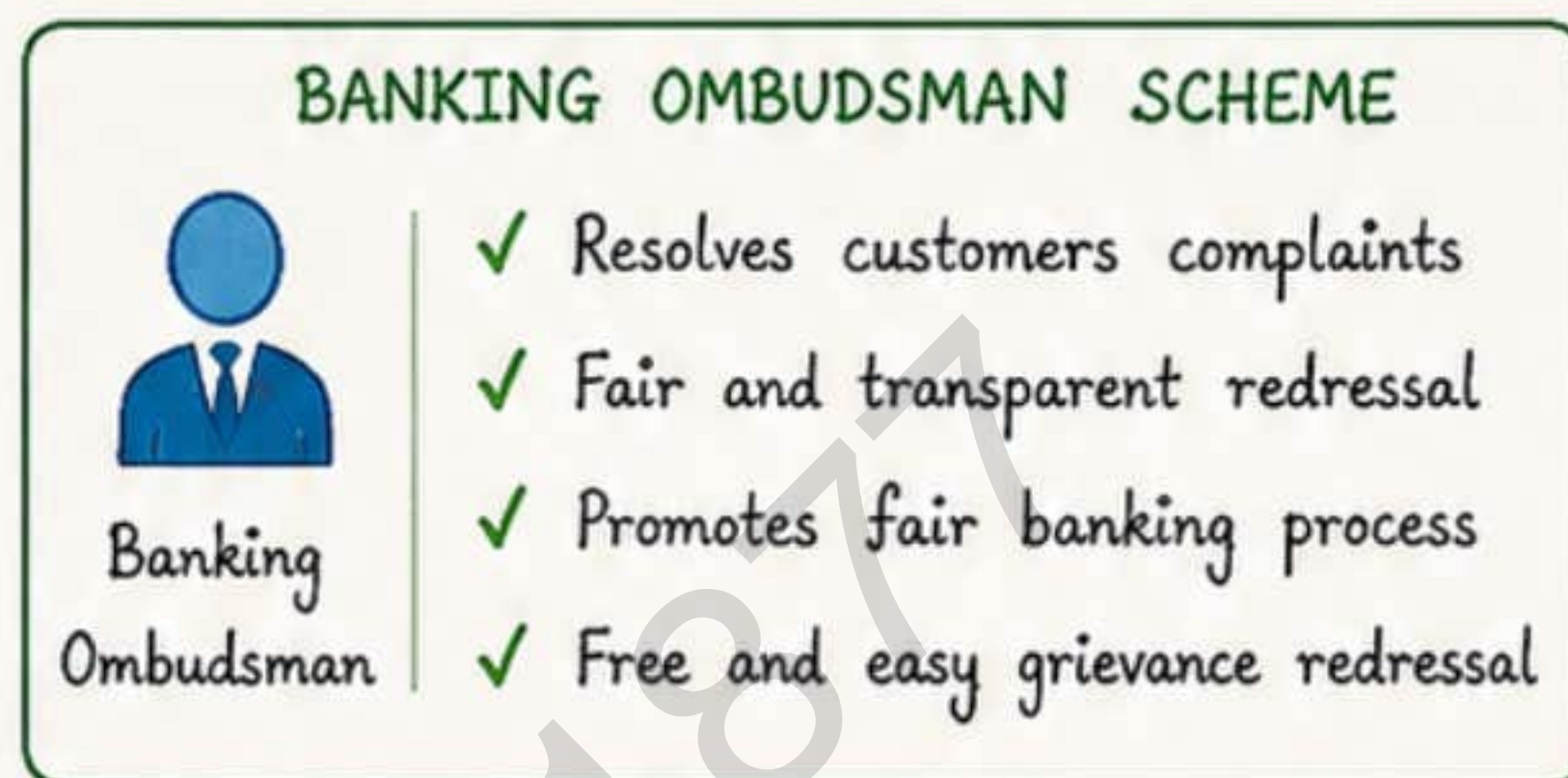
② Monetary Policy Formulation :

RBI uses tools like Bank Rate, Repo Rate, CRR, SLR and open market operation to control inflation and stabilize the economy in the country.



③ Consumer Protection :

Through the Banking Ombudsman Scheme RBI resolves customers complaints and promote fair banking process.

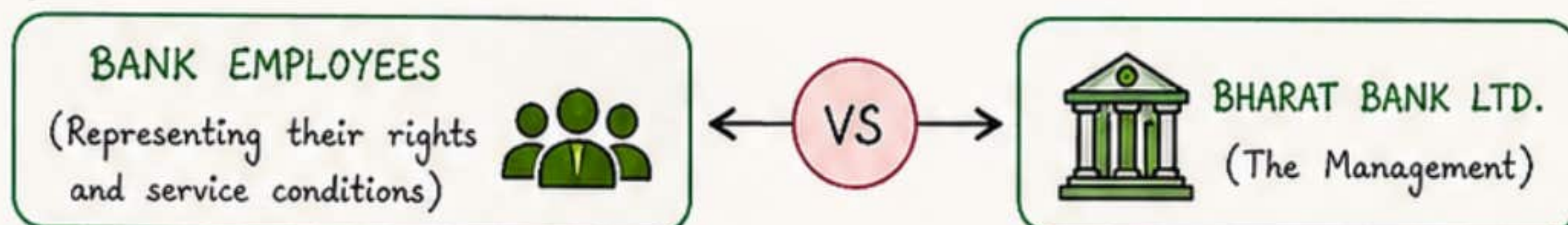


④ Publication of Research and Statistics :

RBI publishes weekly, monthly and annual reports on macro-economic indicators, banking trends, and monetary development. This helps policy making.



In this case - The Dispute arose between



a bank and its employee regarding wages

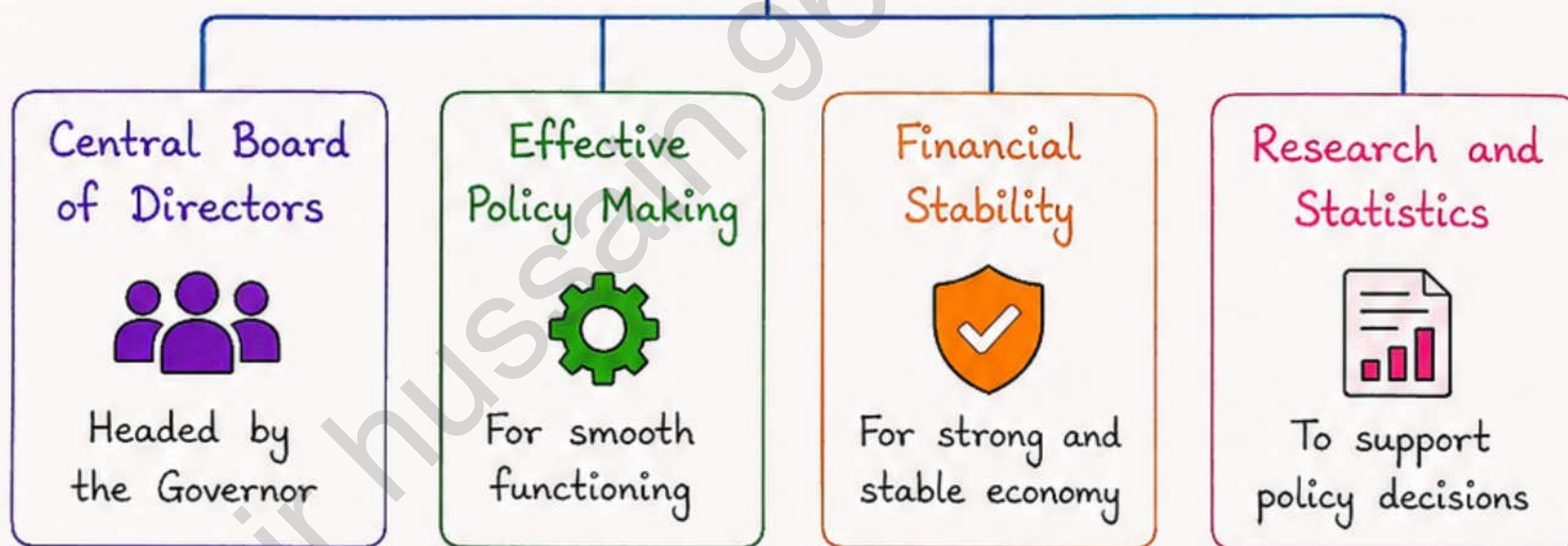
The Supreme court held that the RBI is the **ultimate authority** to supervise the functioning of **Banks** and ensure fairness in the financial sectors.



Conclusion :

The Reserve Bank of India

is the **Backbone** of the Indian Financial System.



Its well structured organisation headed by the central board of Directors allow smooth functioning, effective policy implementation.

② Elaborate the organisational structure of the RBI ?

Introduction :

The Reserve Bank of India (RBI), est. under the RBI Act 1934, is the central Bank of the country, responsible for monetary stability financial regulation and economic development, To carry out these wide function, RBI has a well-design organisational structure. This structure ensure efficient administration, strong supervision and coordinated decision-making across India's financial system.



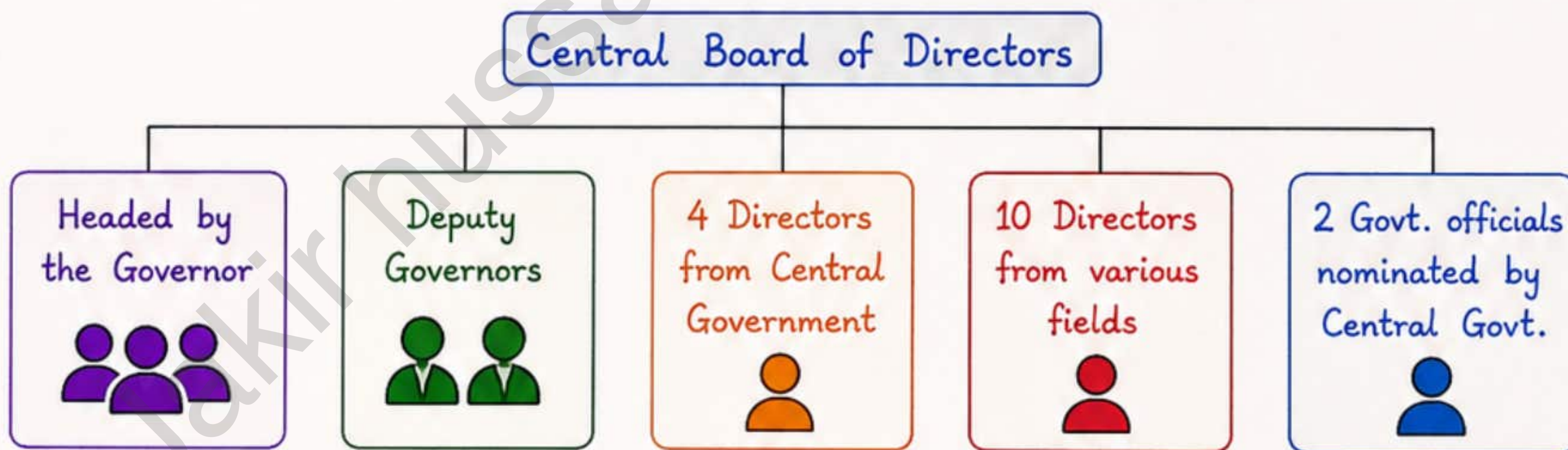
Wide Functions of RBI

- ₹ Monetary Stability
- 🛡️ Financial Regulation
- 📈 Economic Development
- 👥 Efficient Administration
- 🤝 Coordinated Decision-making

Organisational structure of RBI

① Central Board of Directors :

see q. no. 1



★ The Central Board of Directors lays down broad policies, approves budgets and general administration of RBI.

The highest decision-making authority of RBI. It consist of Governors, up to 4 Directors, Deputy Directors, Governor, 4 Directors nominated by the central govt. 10 Directors representing various fields, and 2 government official.

The Board frames policies on monetary affairs, currency management and supervision bank.

RBI Board Composition



Governor
Chairperson



Up to 4 Deputy Governors
Members



4 Directors
Nominated by Central Govt.



10 Directors
Representing Various Fields



2 Government Officials
Members

② Governor (Chief Executive Authority) :



Governor

The Governor is the head of RBI and holds overall executive powers.

He/She is responsible for implementing policies framed by central government board.

The Governor represent RBI in national and international institution.

Key Responsibilities

- Head of RBI
- Overall executive powers
- Implements policies framed by the board
- Represents RBI in national and international institutions

★ The Governor represents RBI in national and international institutions.

③ Deputy Governor :

RBI can have up to four Deputy Governors appointed by the central government.

Each Deputy Governor supervises major departments such as Banking Regulation, Currency Management, Financial Markets and Monetary Policy. They are responsible for policy execution.

Departments Supervised by Deputy Governors



Banking Regulation



Currency Management



Financial Markets



Monetary Policy



Policy Execution

④ Executive Directors :

RBI has several Executive Directors who head different specialised departments. They assist the Deputy Governors and ensure smooth managerial functioning. Their responsibilities include supervision of Banks, payment system, foreign exchange and financial inclusion.

Responsibilities of Executive Directors



Assist Deputy Governors



Ensure Smooth Managerial Functioning



Supervision of Banks



Payment System



Foreign Exchange



Financial Inclusion

⑤ Regional offices and Local Boards :

RBI operates through regional offices located in major cities such as Mumbai, Delhi, Kolkata, Chennai, and others financial centres. These offices handle currency distribution, bank inspection and implementing policies at the state level. Each regional office has a local board consisting of members representing agriculture, industry, commerce and cooperative sectors.

Functions of Regional Offices



Currency Distribution



Bank Inspection



Implementing Policies at State Level



Local Board with Members from Various Sectors

⑥ Departments of RBI :

RBI has more than 25 specialised department to manage its board function. Important departments include —

- Monetary Policy Department
- Department of Currency Management

Specialised Departments of RBI



- Monetary Policy Department
- Department of Currency Management

- Department of Banking regulation.
- Financial market operation department
- Enforcement department.

⑦ Committees and Sub-Committees :

RBI function through several **internal committees**. The most important is the **monetary policy committee**, which decides the repo rate and **monetary policy stance**.

Committees like the Board for financial supervision and Board for regulation & supervision of payment system.

Important Committees



Monetary Policy Committee

Decides repo rate and monetary policy stance



Board for Financial Supervision

Oversees financial supervision



Board for Regulation & Supervision of Payment System

Supervises payment system and regulation

⑧ Subsidiaries of RBI :

RBI has established some **subsidiaries** for **specialised functions**.

The key subsidiaries' entities was '**Bharatiya**'.

Key Subsidiary



Bharatiya

Established for specialised functions.

Reserve Bank note Mudran Pvt. Ltd (RBNMPL) which prints currency notes.

Bharate Bank LTD
v.
Employees 1950

In this case a dispute arose between Bank and its employees regarding wages. The Supreme court held that RBI plays a crucial regulatory role over the Banking system and has the authority to ensure fairness and stability in the financial sectors.

Conclusion :—

The organisational structure of RBI is well-designed to ensure smooth functioning, effective supervision, and sound economic policy. With the control board at the apex. Supported by Governors.

Recent Amendment under the BRA : ~~2017~~ to 1949
(AIA 2012)

Introduction :-

The BRA 1949 is the main **legislation** governing the **functioning**, **supervision**, and **control** of Banking companies in India. Over time, the Banking Sector expanded, new risk emerged and financial system required tighter **regulation**.

AIA 2012

① Enhanced powers to RBI

→ RBI can now **supervise**, **inspect** and **regulate** Bank more strictly. can issue **binding** direction.

② power to approve appointment of Bank Directors and + CEO :-

→ RBI's approval is **mandatory** for the appointment of **chairman**, **managing directors** and **CEO** of Banks.

③ ↑ shareholder limit for investors :-

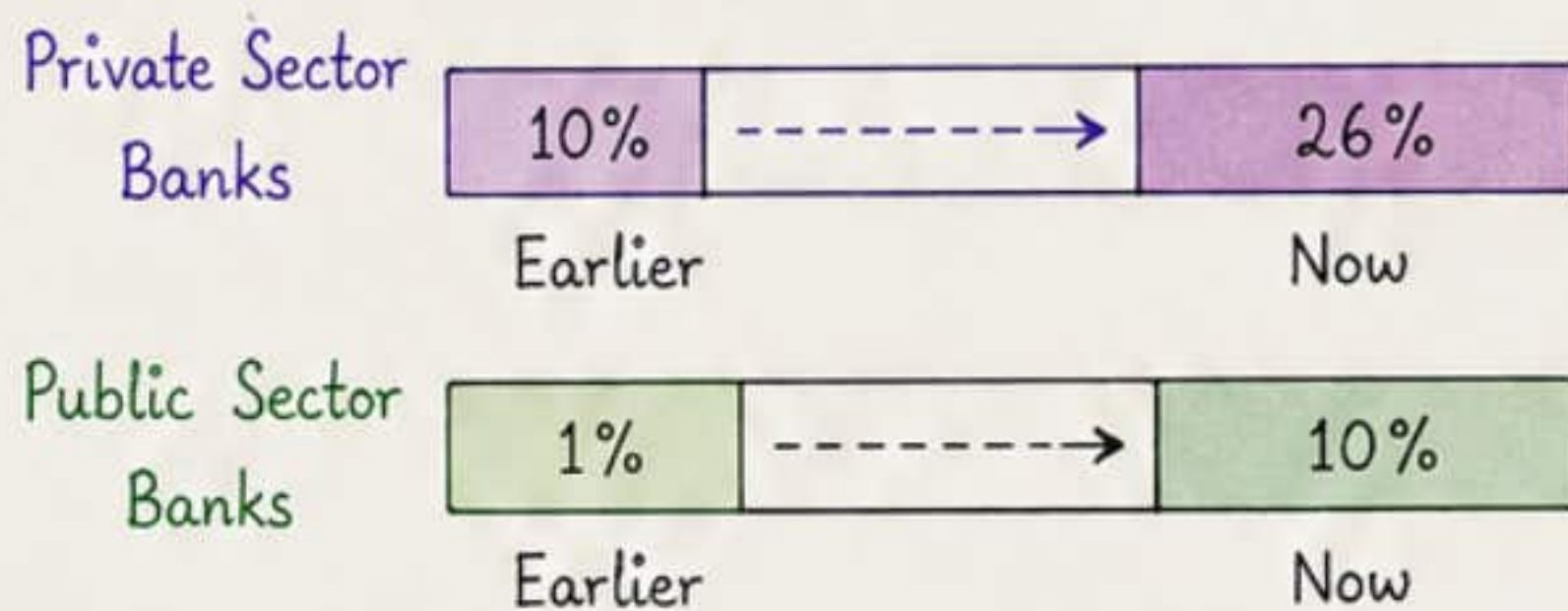
→ earlier **10%** limit now up to **26%**.

IV Voting Right :

→ private sector Bank voting right ↑ from 10% to 26%.

→ public sector banks " " ↑ 1 to 10%.

Voting Right



V Establishment of Depository Corporation :

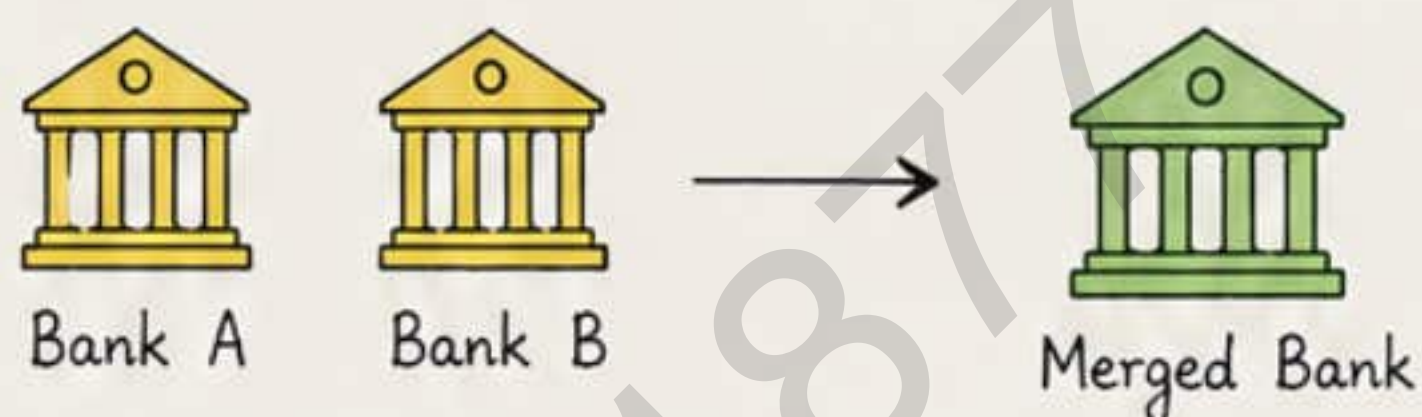
→ Better trading of Govt bonds.

→ transparency in securities transaction.



VI Power relating to Banking mergers and acquisition :

→ RBI has authority to merge two Banks.



VII Better protection for depositors :

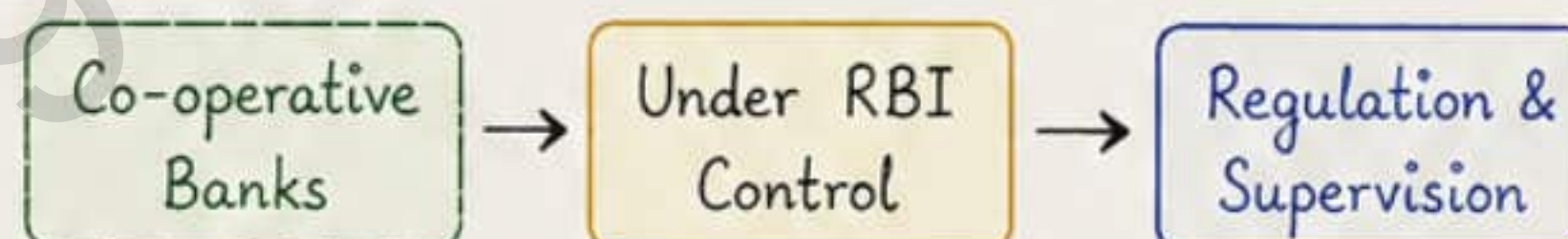
→ monitoring deposits acceptance

→ ensuring Banks maintain capital and liquidity.



VIII Inclusion of cooperative Banks u/ RBI control :

→ cooperative Banks brought under RBI regulation and supervision.



IX Restriction on Business activity of Banks :

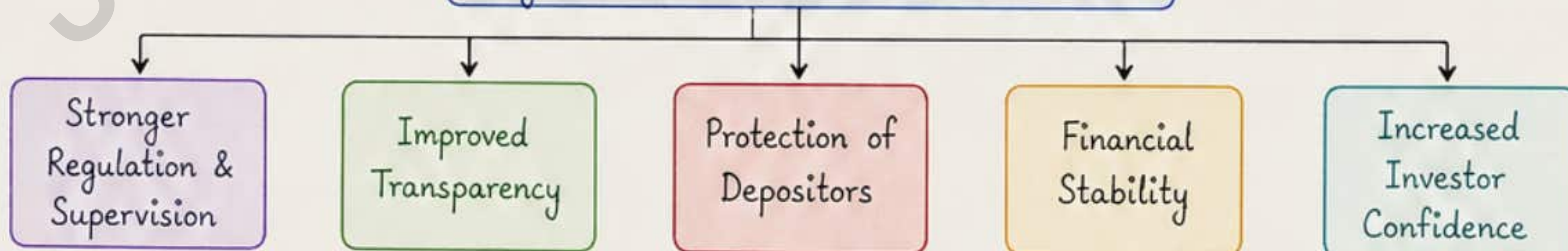
→ Banks to focus on core banking activities.



X Conclusion :

Banking Regulation (Amendment) Act 2012 was a major step in strengthening India's banking sector.

Key Outcomes of Amendment Act 2012



Corporate governance, and & depositors protection

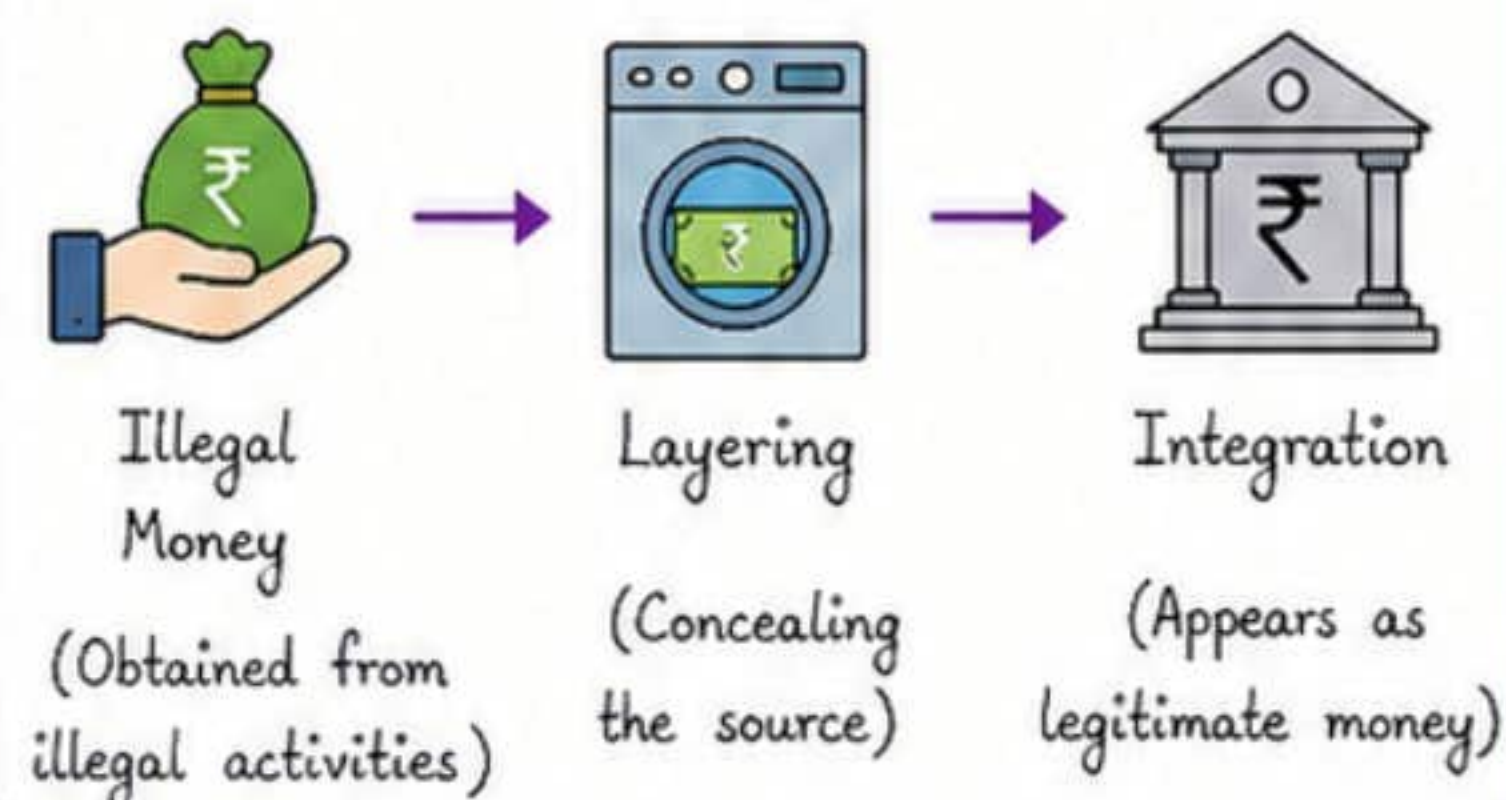
1 Avoidance of money laundering :

→ Money laundering means converting money earned from illegal activities (such as corruption, drug trafficking, fraud, tax evasion) into legitimate looking money by hiding its illegal sources.

→ Avoidance of money laundering refers to the measure and action taken to prevent, detect, and control such illegal conversion of "dirty" money into clean money.

→ It includes steps like – verifying customer identity (KYC), monitoring suspicious transaction, reporting doubtful activities to authorities.

Money Laundering Process



Measures to Avoid Money Laundering



2 Credit Control :

→ Credit control refers to the method and measures used by the RBI to regulate the availability, cost and volume of credit in the economy. Its main purpose is to maintain price stability, control inflation and ensure smooth economic growth.

How Credit Control Works ?



Key Points at a Glance

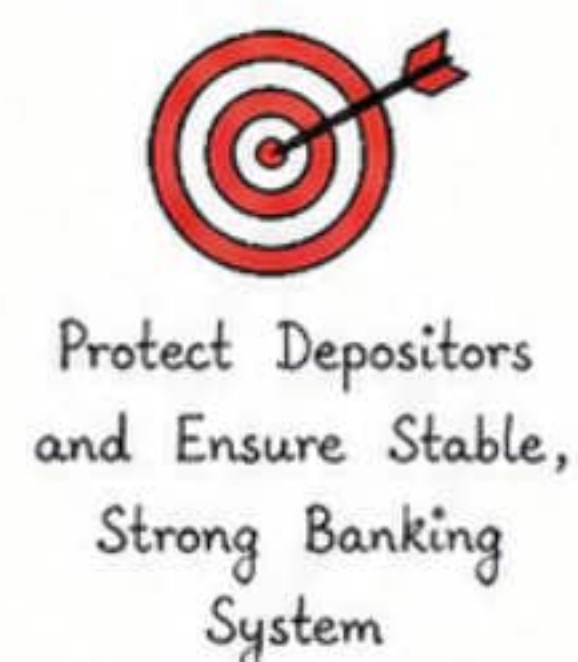
1. Avoiding Money Laundering



2. Credit Control



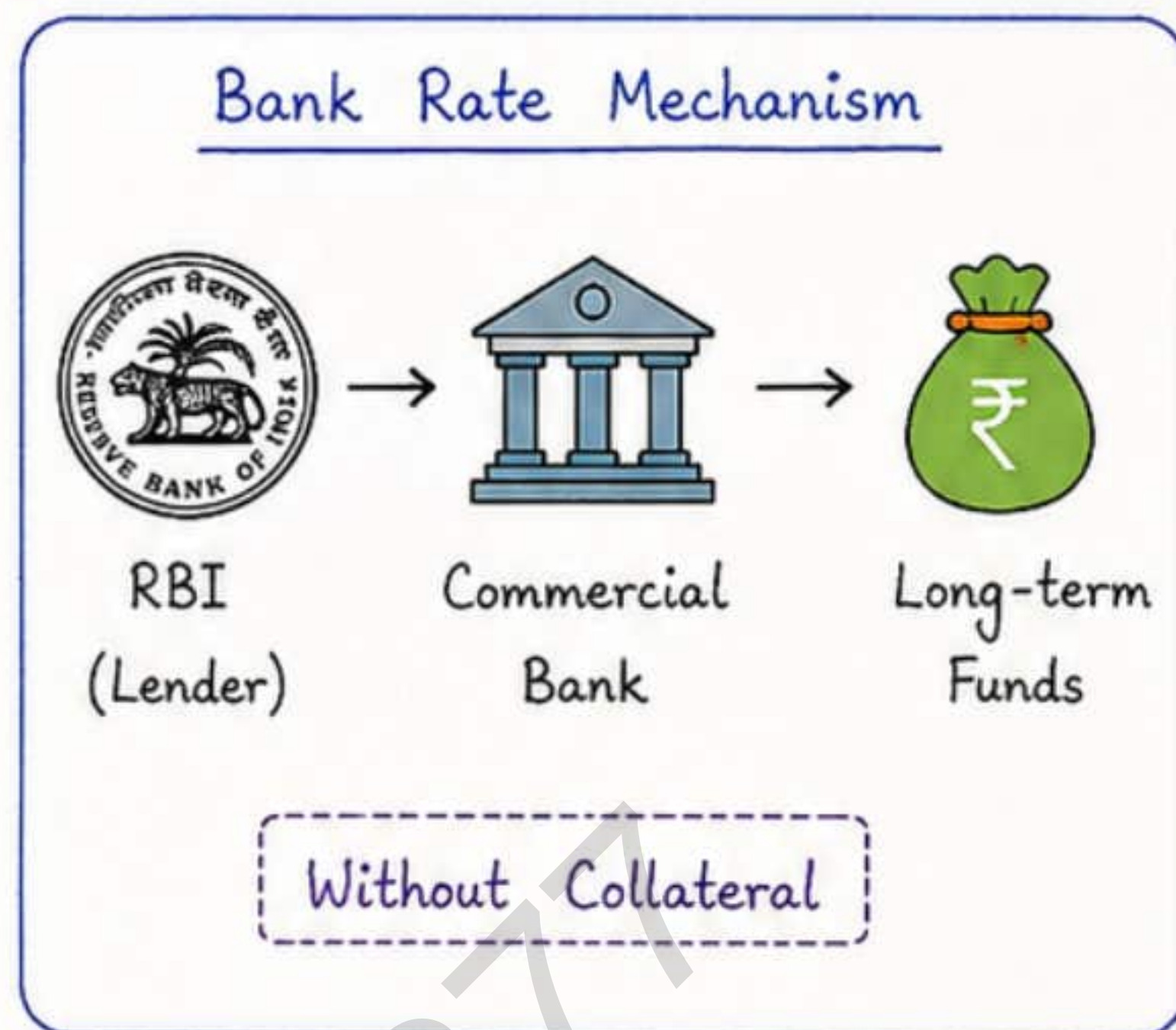
3. Objective



→ RBI uses quantitative tools like Bank Rate, Repo rate, CRR, SLR.

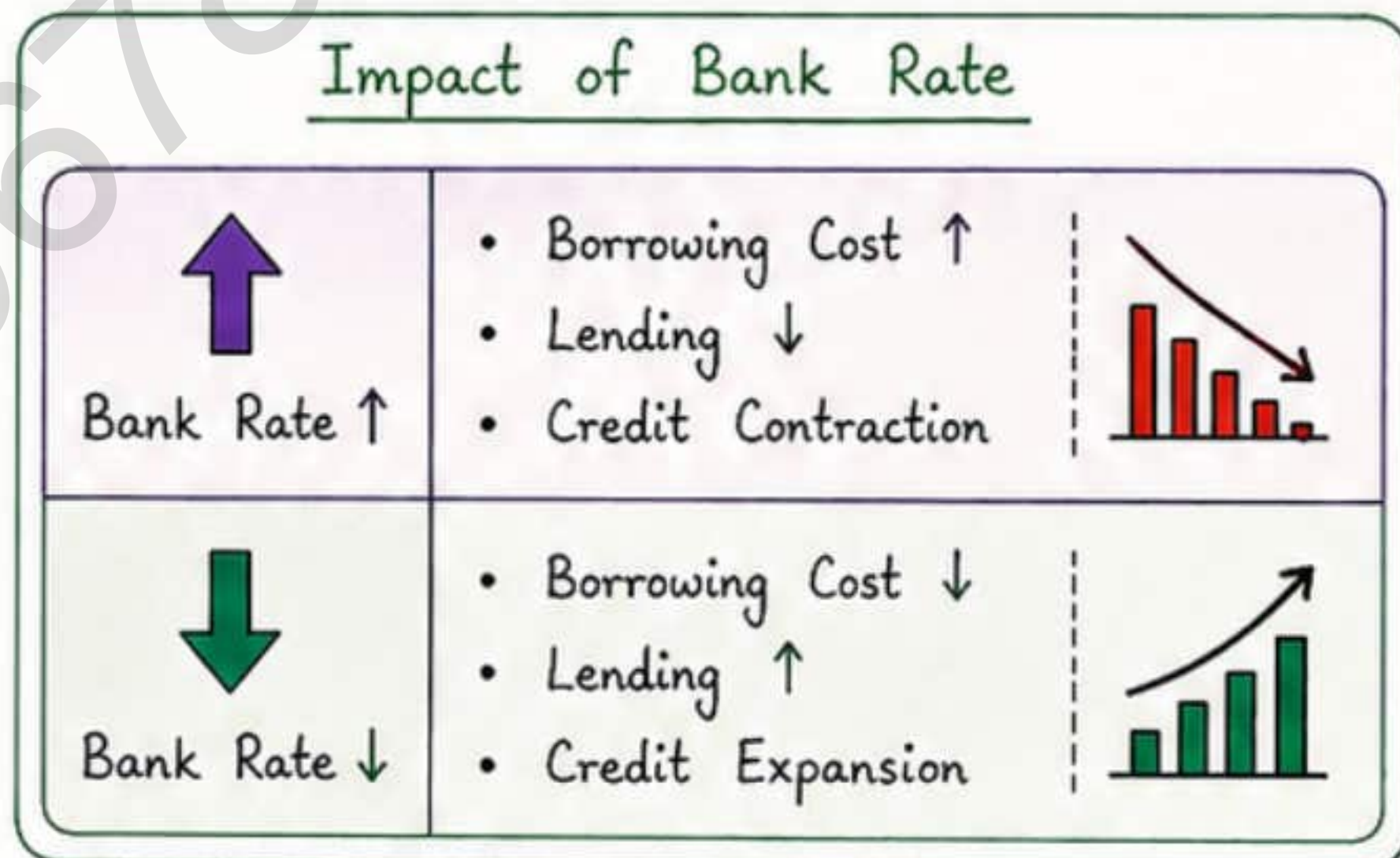
Bank Rate Policy

- Bank Rate policy is a monetary policy tool used by the RBI to control credit in the economy.
- The Bank rate is the rate at which RBI lends long-term funds to commercial banks without any collateral.
- When RBI ↑ the Bank rate, borrowing costlier for banks, leading to reduced lending and credit contraction.
- When RBI reduces (↓) Bank rate, loan becomes cheaper, ↑ credit in the economy.



→ Bank rate affects lending and credit in the following way :

- Bank Rate ↑ → Borrowing Cost ↑ → Lending ↓ → Credit Contraction
- Bank Rate ↓ → Borrowing Cost ↓ → Lending ↑ → Credit Expansion



Bank Rate Vs Other Policy Tools

Policy Tool	Nature	Purpose	Effect When Increased
Bank Rate	Monetary (Quantitative)	Controls credit in economy	Credit contraction, less lending
Repo Rate	Monetary (Short-term)	Controls short-term liquidity	Liquidity ↓, credit ↓
CRR	Monetary (Reserve)	Controls money supply	Money supply ↓, credit ↓
SLR	Monetary (Reserve)	Ensure liquidity & safety	Less funds for lending

Banking Ombudsman Scheme is a grievance-Redressal mechanism introduced by the RBI to resolve customer complaint against banks in a quick, fair and inexpensive manner.

→ Under this scheme, customer can file complaints related to issues like wrong charges, delay in payment,



ATM problems



Cheque clearance delay



Internet Banking issues

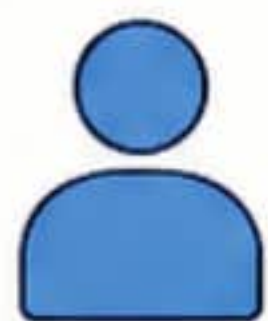


Banking service deficiency

→ The ombudsman act as an independent authority who investigates complaints and gives decision (awards) binding on banks.

→ Ensuring protection of customer and promoting fair banking practices.

How Ombudsman Scheme Works ?



1. Customer files complaint



2. Ombudsman investigates the complaint



3. Gives decision (award)



4. Decision is binding on Banks



5. Ensures protection & fair practices

Benefits of the Scheme



Quick Redressal



Fair & Impartial



Inexpensive for Customers



Improves Transparency



Builds Trust in Banking System

UNIT - 4

PARTIES OF NEGOTIABLE INSTRUMENTS

Page 1

[Under the Negotiable Instruments Act, 1881]

1. INTRODUCTION :

- ★ A negotiable instrument is an instrument transferable from one person to another by **endorsement** and **delivery**.
- ★ Several **parties** are concerned in making, negotiating and enforcing a negotiable instrument.



2. MEANING OF NEGOTIABLE INSTRUMENT :

As per **Section 13** of the Negotiable Instruments Act, 1881, a negotiable instrument is a promissory note, bill of exchange or cheque payable either **to order** or **to bearer**.

NOTE

- Different parties play different **roles** in the life of a negotiable instrument.
- Their **rights** and **liabilities** are governed by the Negotiable Instruments Act, 1881.



3. PARTIES TO A NEGOTIABLE INSTRUMENT :

The following are the important parties to a negotiable instrument.

① DRAWER

- ★ The person who makes or draws the instrument.
- ★ He directs the drawee to pay a certain sum to the payee.

Example :

A draws a cheque on Bank X in favour of B.

② DRAWEE

- ★ The person or formal party on whom the instrument is drawn.
- ★ He is directed to make the payment.

Example :

Bank X is the drawee.

③ PAYEE

- ★ The person to whom the payment is to be made.
- ★ He is the named person in whose favour the instrument is drawn.

Example :

B is the payee in the cheque drawn by A.

④ ENDORSER

- ★ The holder who signs on the instrument for the purpose of negotiation.
- ★ He transfers his rights to another person by endorsement.

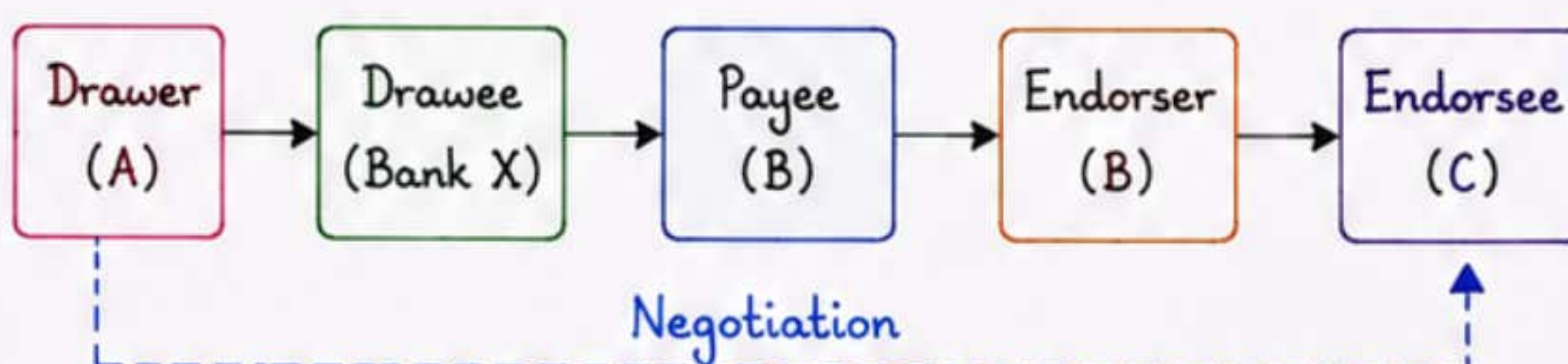
Example :

B endorses the cheque in favour of C.

Note :

All these parties together make the negotiable instrument effective and enforceable.

Simple Flow of Parties



⑤ ENDORSEE

- ★ The person to whom the instrument is endorsed.
- ★ He becomes entitled to receive payment.

Example :

C is the endorsee of the cheque endorsed by B.

⑥ HOLDER

- ★ The person who is in possession of the negotiable instrument.
- ★ He may or may not be the payee or the endorsee.

Example :

C, who holds the cheque, is the holder.

⑦ HOLDER IN DUE COURSE

- ★ A holder who takes the instrument for value, in good faith and without notice of any defect.
- ★ He gets a better title to the instrument.

Example :

C takes the cheque from B for value, in good faith and without knowing any defect. He is a holder in due course.

⑧ ACCEPTER

- ★ The drawee who signifies his assent to the order of the drawer.
- ★ He agrees to pay the instrument.

Example :

Bank X accepts the cheque by signing on it.

⑨ ACCEPTER FOR HONOUR

- ★ A person who agrees to pay the instrument when the drawee refuses to accept it.
- ★ He is secondarily liable.

Example :

Bank Y accepts the bill for honour when Drawee refused.

NOTE



- All these parties may or may not be different persons.
- One person can act in more than one capacity.



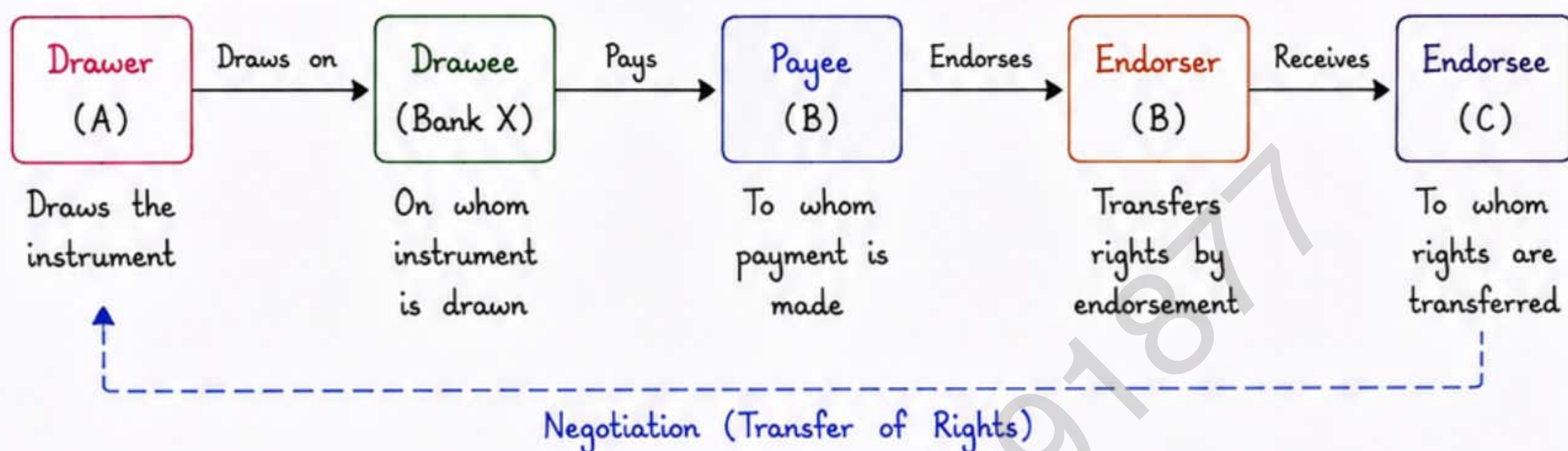
4. OTHER IMPORTANT POINTS :

- ★ All parties must be **certain** and **identified**.
- ★ Rights and liabilities of each party are governed by **law**.
- ★ Each party should act in **good faith**.

NOTE

- Drawer creates the instrument.
- Drawee makes payment.
- Payee receives payment.
- Endorser transfers rights.
- Holder enforces the rights.

5. SIMPLE DIAGRAM :



6. SUMMARY TABLE :

Party	Meaning	Main Function / Role
Drawer	Person who makes or draws the instrument.	Creates the instrument and directs payment.
Drawee	Person on whom the instrument is drawn.	Makes the payment to the payee or holder.
Payee	Person to whom the payment is to be made.	Receives the payment.
Endorser	Person who signs for the purpose of negotiation.	Transfers his rights to another person.
Endorsee	Person to whom the instrument is endorsed.	Becomes entitled to receive payment.
Holder	Person in possession of the instrument.	Entitled to sue for payment.
Holder in Due Course	Holder who takes for value, in good faith and without notice.	Gets better title and free from many defects.
Acceptor	Drawee who signifies assent to the order.	Becomes bound to pay as per the instrument.
Acceptor for Honour	Person who agrees to pay when drawee refuses.	Liable to pay if drawee does not honour.

7. KEY POINTS TO REMEMBER :

- ★ One person can be both drawer and payee.
- ★ Endorser can also be endorsee.
- ★ Holder may or may not be the payee.
- ★ Holder in due course gets better protection.
- ★ Acceptor becomes primarily liable.
- ★ Acceptor for honour is secondarily liable.

Remember !

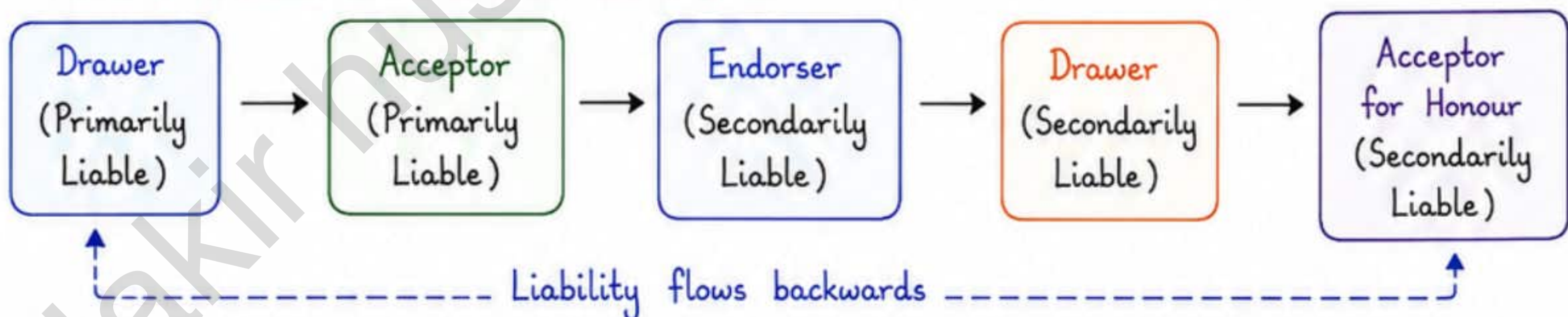


- Negotiable instrument involves transfer of rights.
- Each party plays an important role.
- Law protects bonafide holders.

8. RELATION BETWEEN PARTIES :

Between	Nature of Relationship
Drawer and Drawee	Drawer directs drawee to pay.
Drawee and Payee	Drawee makes payment to payee.
Payee and Endorser	Payee may endorse to transfer rights.
Endorser and Endorsee	Endorser transfers rights to endorsee.
Holder and Drawee	Drawee is bound to pay the holder.
Holder in Due Course and Prior Parties	HDC can claim from any prior party.
Acceptor and Drawer	Acceptor agrees to pay as per instrument.
Acceptor for Honour and Drawer	Acceptor for honour pays if drawer fails.

9. POSITION OF PARTIES (LIABILITY) :



NOTE :



- Primary liability means the party is first bound to pay.
- Secondary liability means the party is liable if primary party fails.
- Holder can proceed against any liable party.

10. SUMMARY OF PARTIES AND LIABILITIES :

Party	Role / Function	Liability
★ Drawer	Creates and issues the instrument.	Liable if instrument is dishonoured for want of acceptance/payment.
★ Drawee	Person on whom instrument is drawn.	Liable after acceptance.
★ Payee	Person to whom payment is to be made.	Can sue for payment if dishonoured.
★ Endorser	Signs for the purpose of negotiation.	Liable to endorsee if instrument is dishonoured.
★ Endorsee	Person to whom instrument is endorsed.	Can claim from prior parties on dishonour.
★ Holder	Person in possession of the instrument.	Entitled to recover the amount.
★ Holder in Due Course	Holder who takes in good faith, for value and without notice.	Better title, free from many personal defences.
★ Acceptor	Drawee who accepts the instrument.	Liable to pay as per terms.
★ Acceptor for Honour	Person who pays when drawee refuses to accept.	Liable to holder if drawee fails.

11. CONCLUSION :

- ★ The Negotiable Instruments Act, 1881 recognizes various parties, each having specific **roles** and **liabilities**. The smooth functioning of negotiable instruments depends on the rights and duties of these parties.



QUICK REVISION

- | | |
|--------------------------------------|--|
| • Drawer → Creates instrument | • Holder → In possession |
| • Drawee → Makes payment | • HDC → Good faith holder |
| • Payee → Receives payment | • Acceptor → Agrees to pay |
| • Endorser → Transfers rights | • Acceptor for Honour → Pays on refusal |
| • Endorsee → Receives rights | |



Discuss the Salient Features of the Negotiable Instruments Act, 1881

Introduction :-

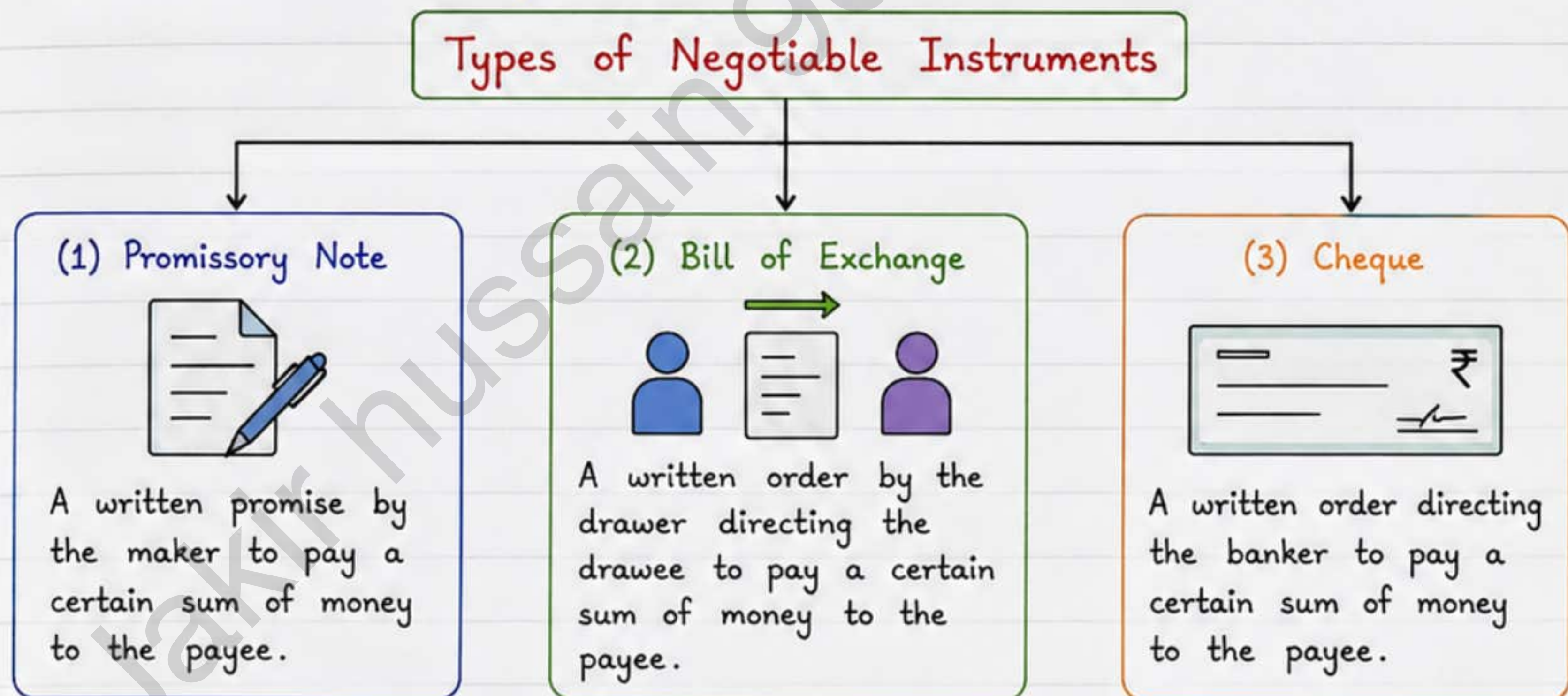
The Negotiable Instruments Act, 1881 is an important commercial law enacted to regulate negotiable instruments in India. It came into force on 1st March 1882. The Act governs promissory notes, bills of exchange, and cheques. Its main objective is to facilitate secure commercial transactions by providing legal recognition to these instruments. It lays down rules regarding their creation, transfer, endorsement, acceptance, dishonour, and discharge. The Act also protects the rights of holders and holders in due course. It strengthens banking confidence and ensures smooth circulation of credit in business activities. The salient features of this Act are discussed below in detail for better understanding of the law.

1. Codification of Law Relating to Negotiable Instruments :

The Act provides a complete legal framework governing negotiable instruments. It defines their nature, essential elements, parties, rights, liabilities, negotiation, endorsement, presentment, dishonour and discharge. It removes uncertainties in commercial dealings and lays down uniform rules applicable throughout India. By codifying the law, the Act brings clarity and consistency. It helps courts, bankers and traders in understanding their rights and obligations. Thus, it forms the foundation of modern commercial transactions.

2. Recognises Three Types of Negotiable Instruments :

The Act specifically recognises three negotiable instruments. These are promissory note, bill of exchange and cheque. Each instrument has distinct features but all are transferable and enforceable. They play a vital role in business and banking operations. These instruments are the backbone of commercial credit system in India.



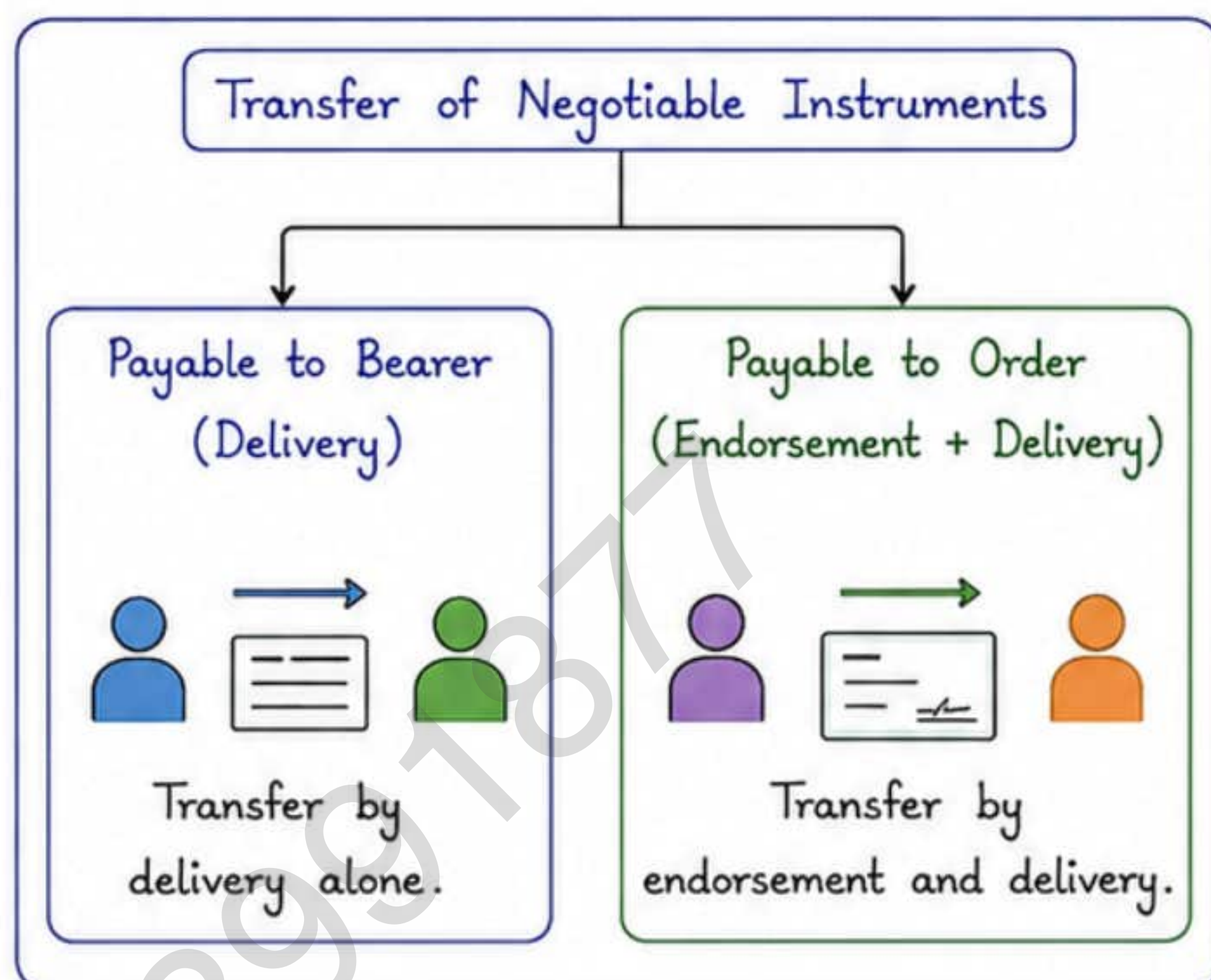
3. Free Transferability of Negotiable Instruments :

One of the most important features of the Act is that negotiable instruments are freely transferable from one person to another.

They can be transferred in the following ways -

- By **delivery alone**, if the instrument is payable to **bearer**.
- By **endorsement and delivery**, if the instrument is payable to **order**.

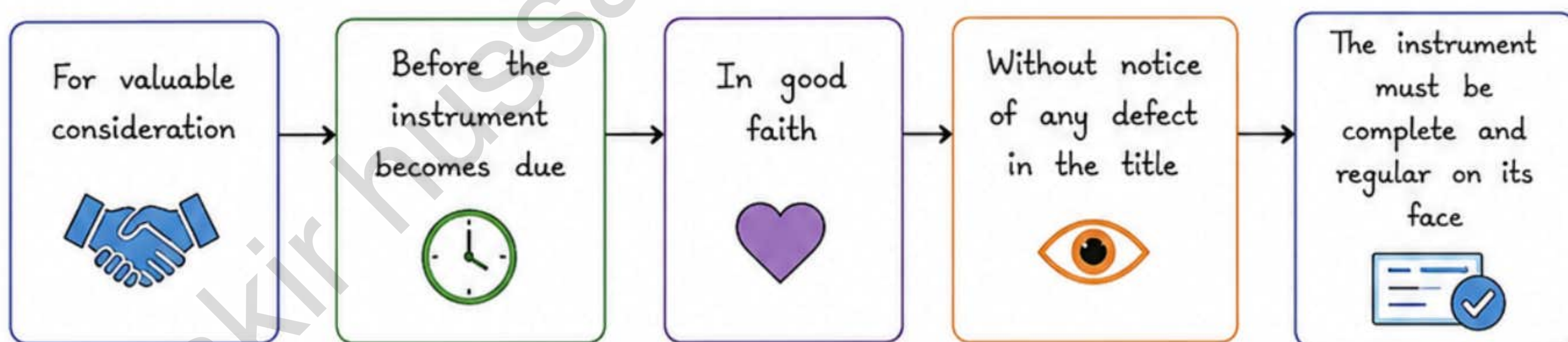
This feature gives these instruments the property of **negotiability** and makes them easy to circulate in business and commerce.



4. Holder in Due Course :

The Act gives special protection to a holder in due course. Such a holder gets a better title than the previous holder. He can enforce the instrument free from many defences available against earlier parties.

To be a holder in due course, the following conditions must be satisfied -



This feature enhances the reliability of negotiable instruments and encourages people to accept them in business dealings without fear.

5. Presumptions under the Act :

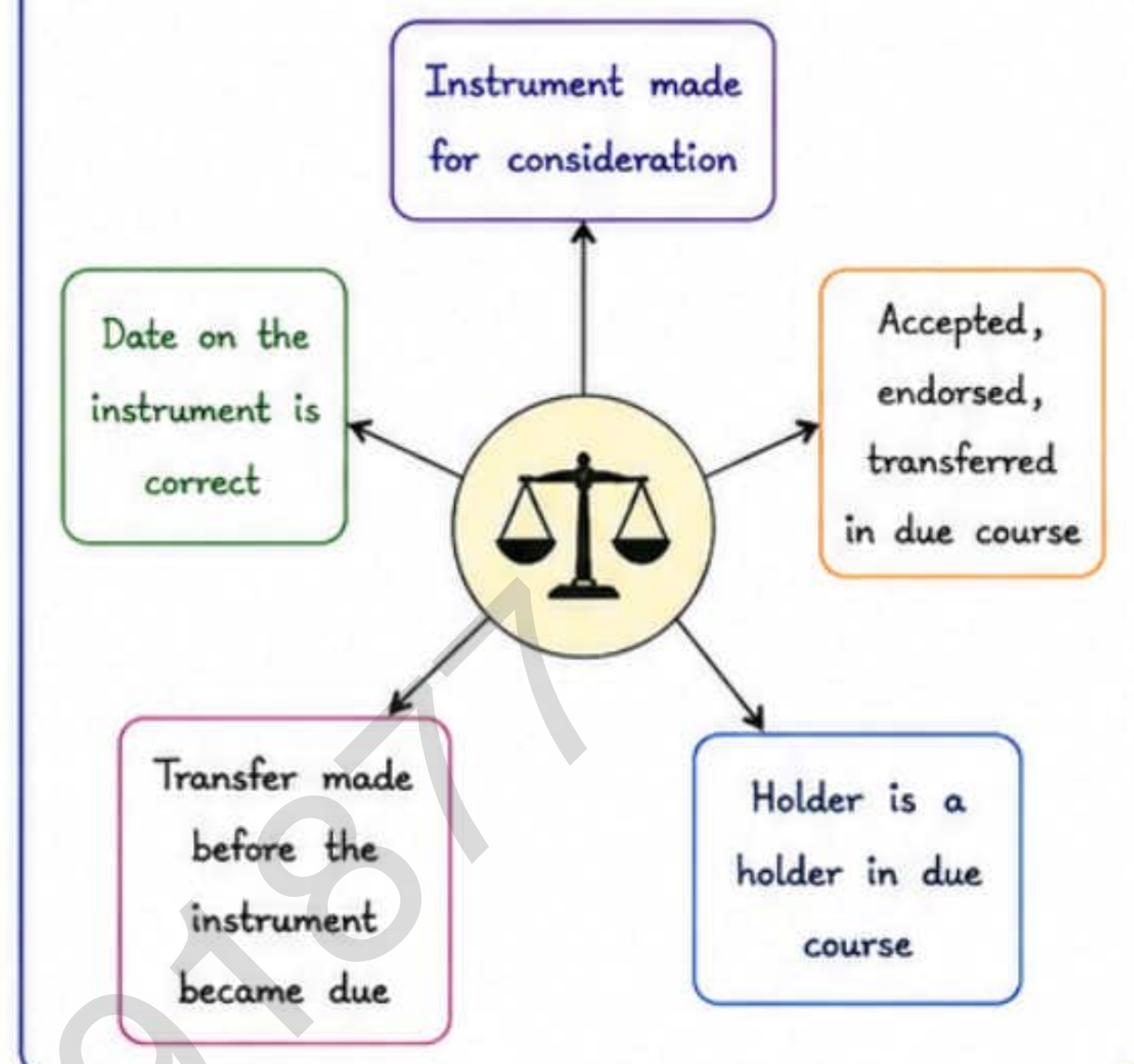
The Act raises several presumptions in favour of negotiable instruments. These presumptions are legal assumptions of fact which the court accepts unless the contrary is proved. They simplify the proof and promote the smooth functioning of business.

Important presumptions include -

- That every negotiable instrument was made for consideration.
- That the date on the instrument is correct.
- That the instrument was accepted, endorsed, transferred, delivered etc., in due course.
- That the transfer was made before the instrument became due.
- That the holder is a holder in due course.

These presumptions place the initial burden on the person who denies the validity of the instrument.

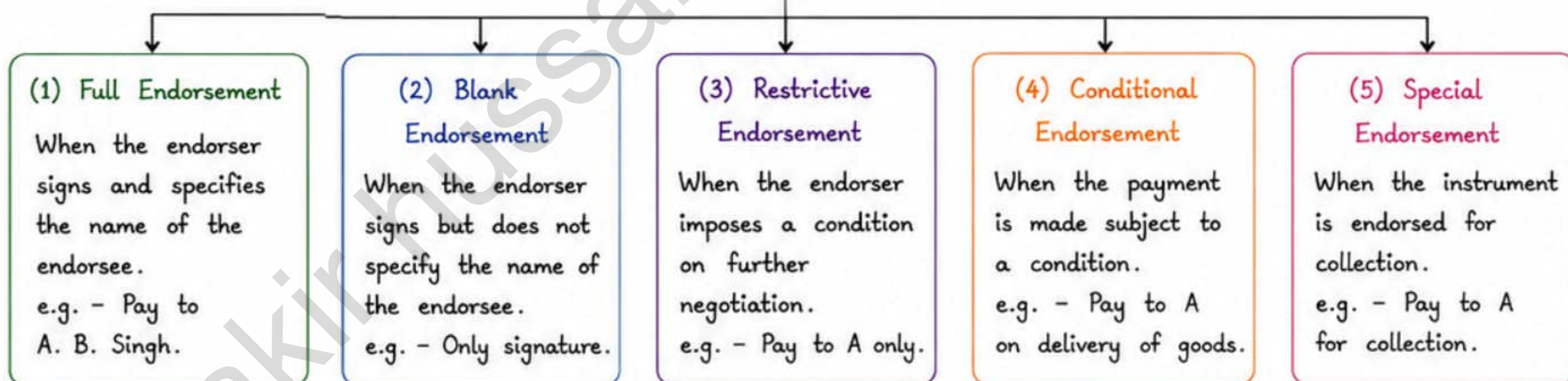
Presumptions under the NI Act, 1881



6. Endorsement and Negotiation :

The Act provides detailed rules regarding endorsement and negotiation of instruments. Endorsement is the signature made on the back of the instrument for negotiation. Negotiation means the transfer of the instrument from one person to another.

Types of Endorsement



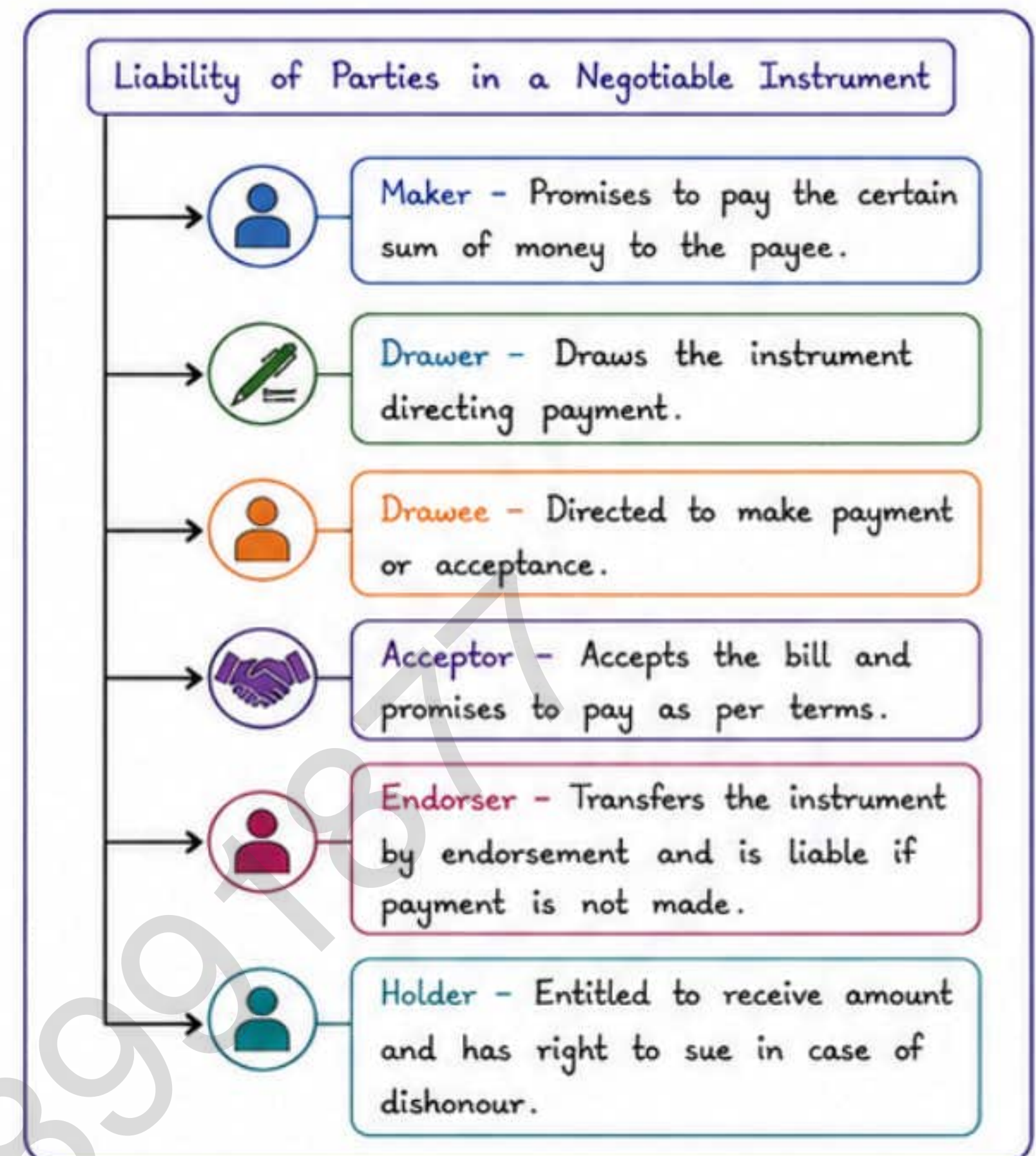
Proper endorsement and negotiation ensure legal transfer and protect the rights of the holder. They also maintain the chain of title of the instrument.

7. Liability of Parties :

The Act clearly defines the liability of all the parties concerned in a negotiable instrument. Each party is bound to fulfill his obligation according to law.

The main parties and their liabilities are -

- **Maker of Promissory Note** - He promises to pay the certain sum of money to the payee.
- **Drawer of Bill or Cheque** - He draws the instrument directing payment.
- **Drawee** - In case of bill, he is directed to make payment or acceptance.
- **Acceptor** - He accepts the bill of exchange and promises to pay according to its terms.
- **Endorser** - He transfers the instrument by endorsement and is liable if payment is not made.
- **Holder** - He is entitled to receive the amount and has the right to sue in case of dishonour.



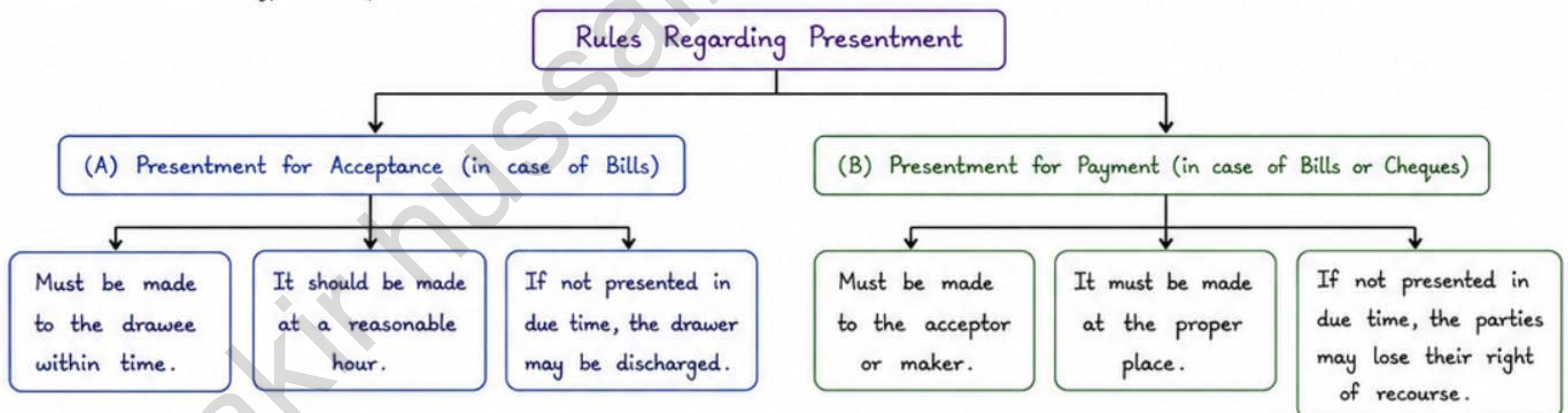
Thus, the Act ensures that every party involved is responsible for the due performance of his obligation.

8. Rules Regarding Presentment :

Presentment means the act of formally demanding acceptance or payment of the instrument.

The Act lays down specific rules as to when, where and how the instrument should be presented.

There are two types of presentment -



Proper and timely presentment is essential to fix the liability of parties and to claim legal remedies in case of dishonour.

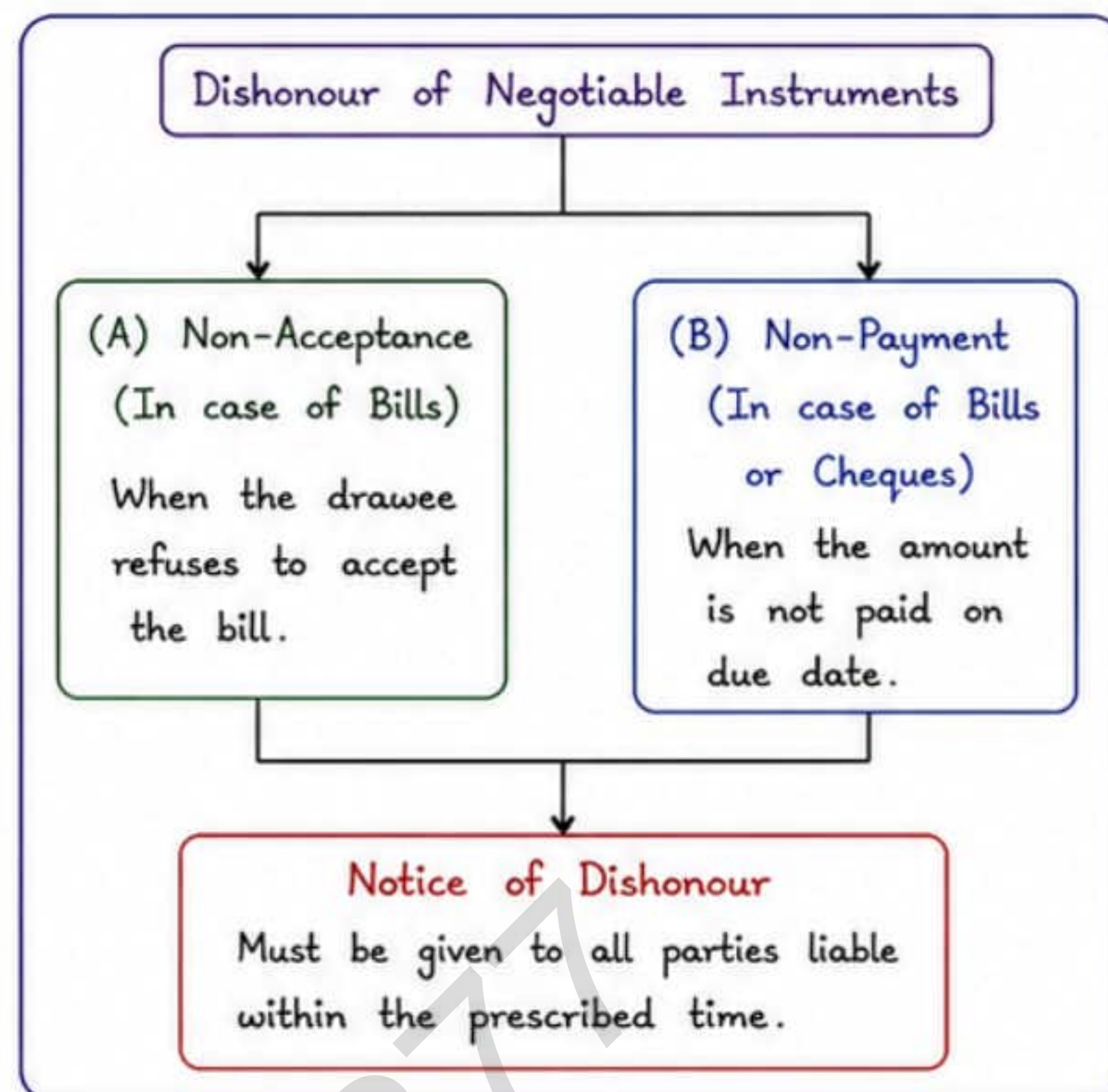
9. Dishonour and Notice of Dishonour:

An instrument may be dishonoured either by non-acceptance or by non-payment. When dishonour occurs, the holder must give notice of dishonour to the parties who were liable on the instrument.

Important points regarding notice of dishonour -

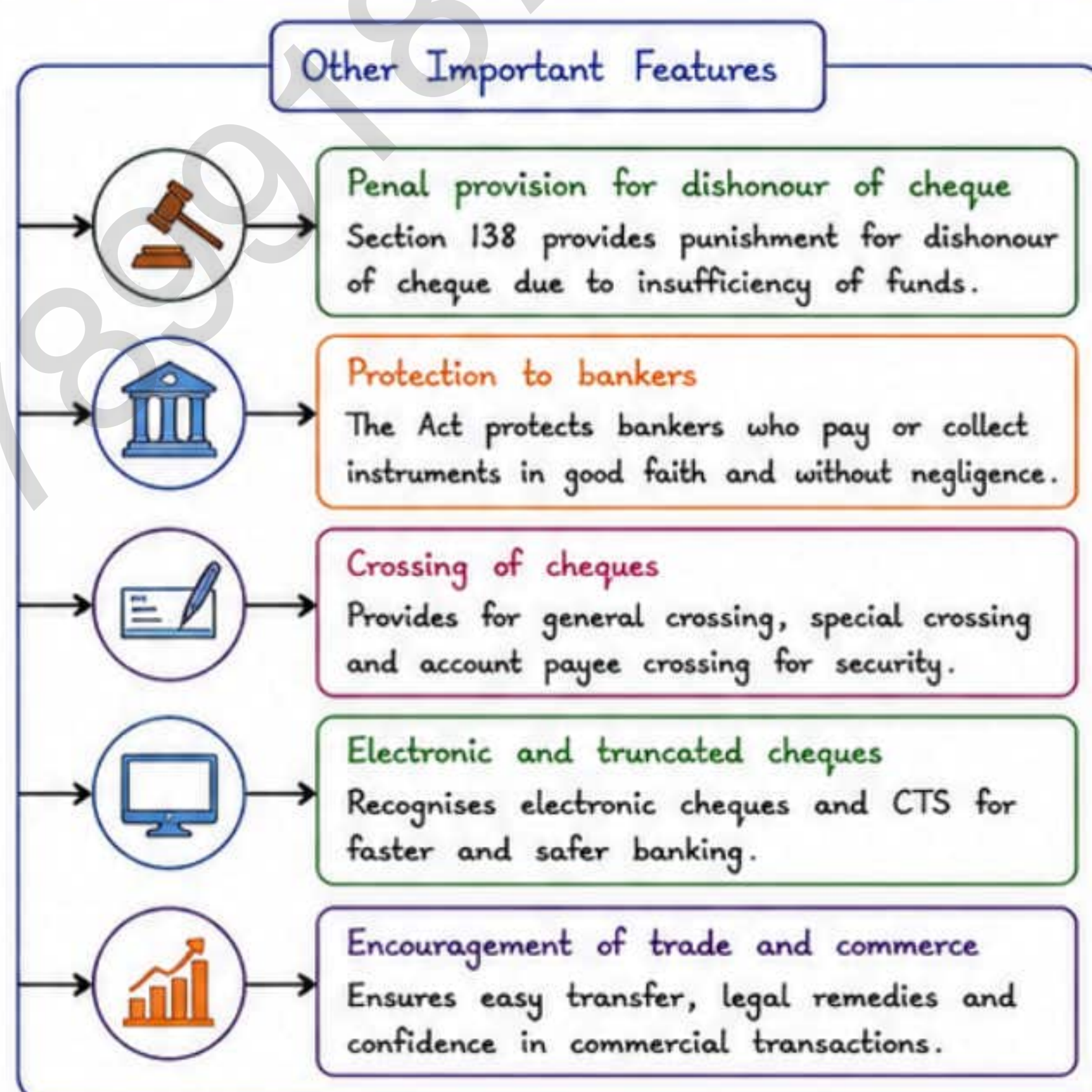
- Notice must be given within the time prescribed by the Act.
- It must be in writing.
- It should be given to all parties liable on the instrument.
- If proper notice is not given, those parties are discharged from liability.

This provision ensures fairness and gives an opportunity to the parties to make payment and avoid legal consequences.



10. Other Important Features:

- **Penal provision for dishonour of cheque** - Section 138 makes dishonour of cheque for insufficiency of funds a criminal offence, subject to certain conditions.
- **Protection to bankers** - The Act protects paying banker and collecting banker who act in good faith and without negligence.
- **Crossing of cheques** - The Act recognises crossing of cheques (general, special and account payee) for safe payment.
- **Electronic and truncated cheques** - The Act recognises electronic cheques and cheque truncation system to promote modern banking.
- **Encouragement of trade and commerce** - By ensuring easy transfer, legal protection and quick remedies, the Act promotes confidence and smooth circulation of credit in the country.



Conclusion:

The Negotiable Instruments Act, 1881 is one of the pillars of commercial law in India. It provides a complete legal framework relating to promissory notes, bills of exchange and cheques. Its provisions regarding transferability, holder in due course, presumptions, liabilities, presentment, dishonour and remedies ensure certainty, security and confidence in business transactions. With the inclusion of penal provisions for cheque dishonour and recognition of electronic instruments, the Act remains relevant even in modern times and continues to support the growth of trade, commerce and banking in the country.

DISHONOUR OF CHEQUE AND ITS REASONS UNDER THE NEGOTIABLE INSTRUMENTS ACT, 1881

1. INTRODUCTION



A cheque is a written order by the drawer to the bank to pay a certain sum of money to the payee or his order. If the bank refuses to pay the amount written on the cheque, it is said to be **dishonoured**.

The Act provides remedies to the payee, including penal liability under **Section 138**.

2. MEANING OF DISHONOUR OF CHEQUE

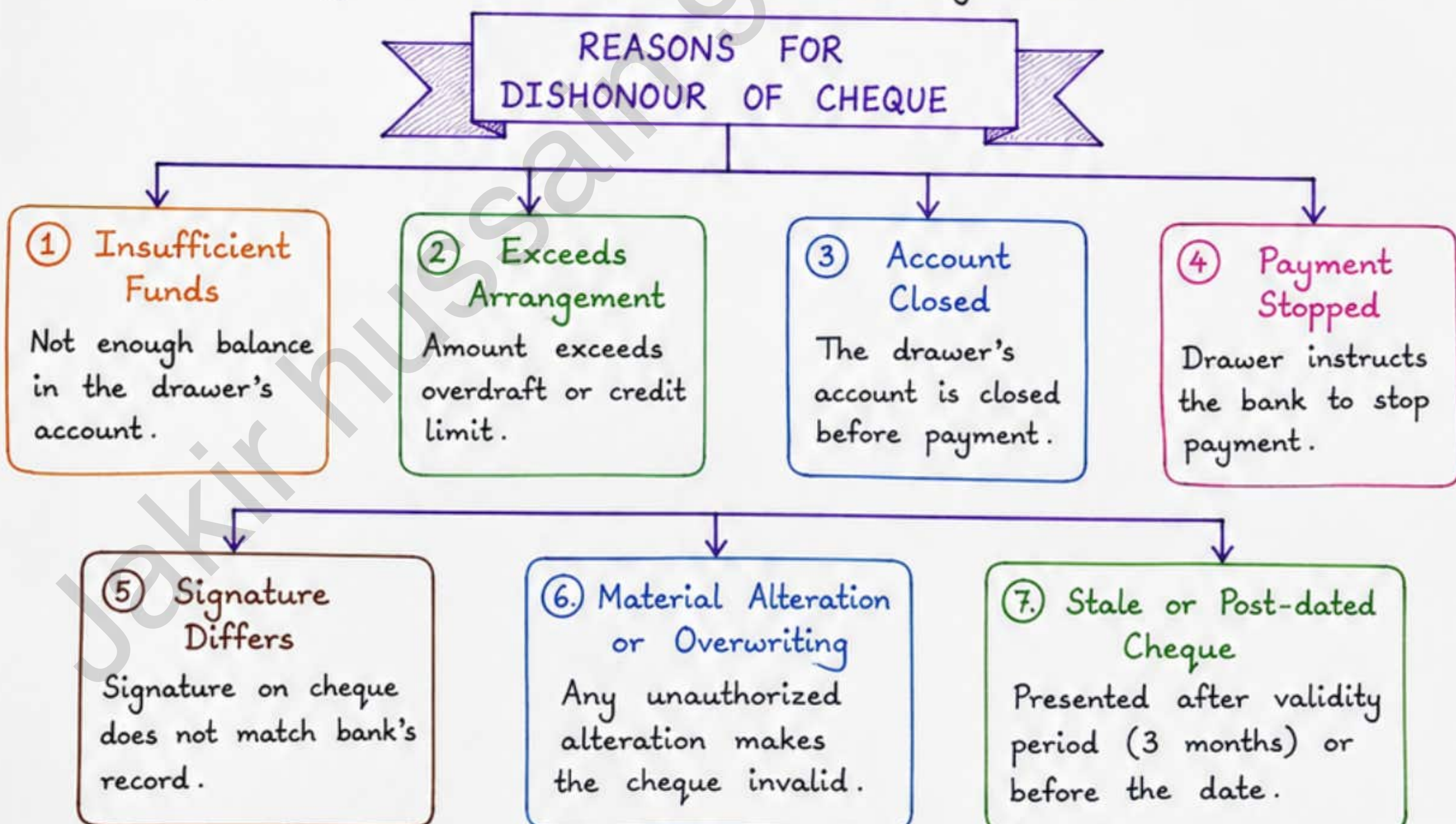


Dishonour of cheque occurs when the bank returns the cheque unpaid due to any reason permitted under law or banking practice.

The bank gives a memo or slip stating the reason for non-payment, called "**return memo**" or "**banker's memo**".

3. REASONS FOR DISHONOUR OF CHEQUE

A cheque may be dishonoured for the following reasons:

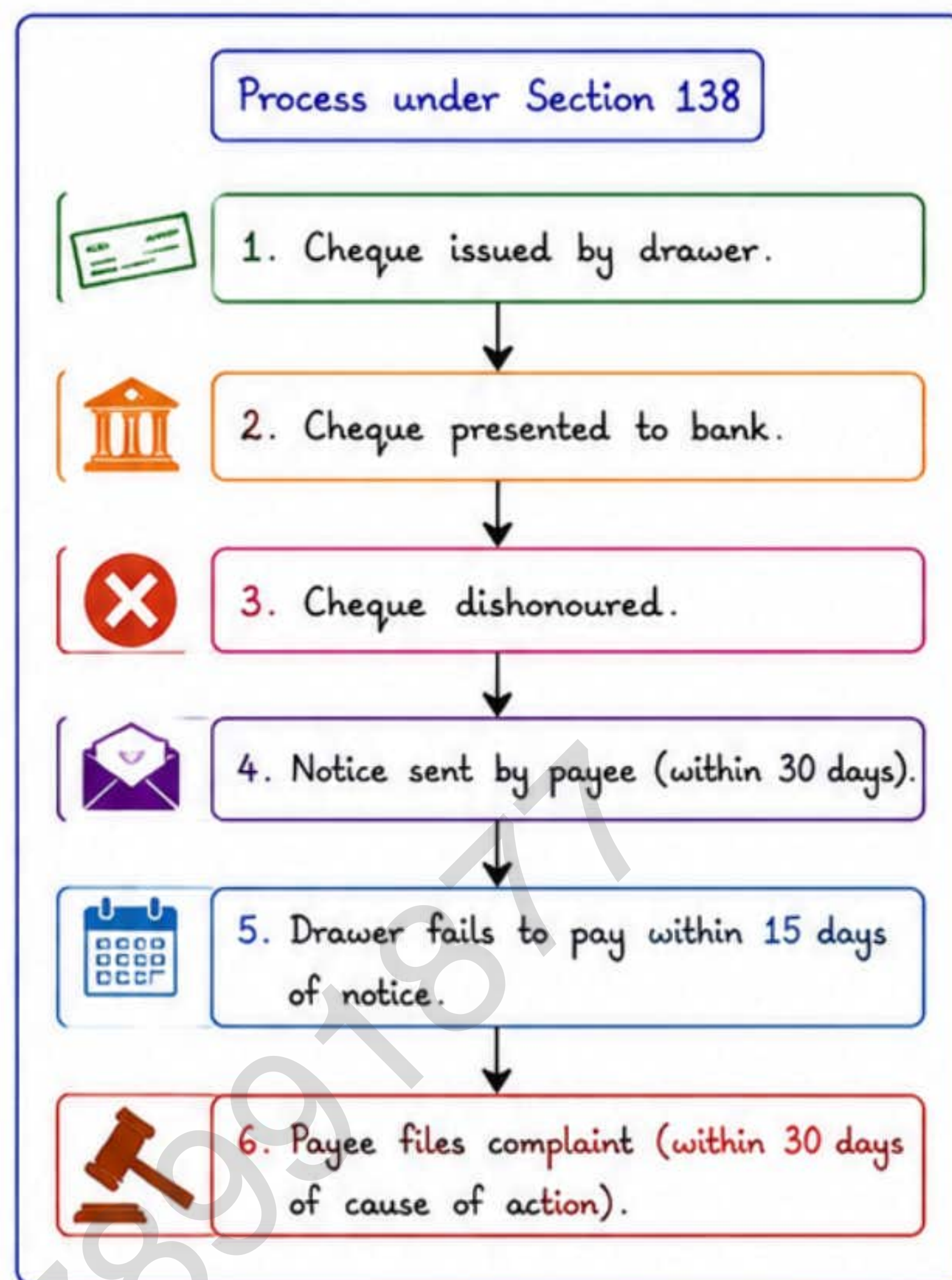


DISHONOUR OF CHEQUE AND ITS REASONS

UNDER THE NEGOTIABLE INSTRUMENTS ACT, 1881

4. LEGAL PROVISION (Section 138)

- ▶ If a cheque is dishonoured for any reason due to insufficiency of funds or other reasons, the payee can make a demand for payment.
- ▶ If the drawer fails to pay within **15 days** of receiving notice, he is liable for penalty.
- ▶ This is a **criminal offence** and is punishable with imprisonment or fine or both.
- ▶ This provision ensures the creditworthiness of cheques in commercial transactions.



5. EFFECTS OF DISHONOUR OF CHEQUE

- ★ Loss of reputation and credibility of the drawer.
- ★ Legal action may be initiated by the payee.
- ★ Criminal liability under Section 138.
- ★ It affects business relationships and trust.

IMPORTANT POINTS TO REMEMBER

- ① Cheque is a negotiable instrument.
- ② Bank dishonours the cheque for valid reasons.
- ③ Payee must give notice of dishonour within 30 days.
- ④ Drawer must pay within 15 days of notice.
- ⑤ Failure to pay leads to complaint under Section 138.

★ Key Point

Dishonour of cheque is not only a civil wrong but also a criminal offence under the Act.

“ ————— A cheque is a promise to pay,
Dishonour breaks trust and invites penalty. ————— ”

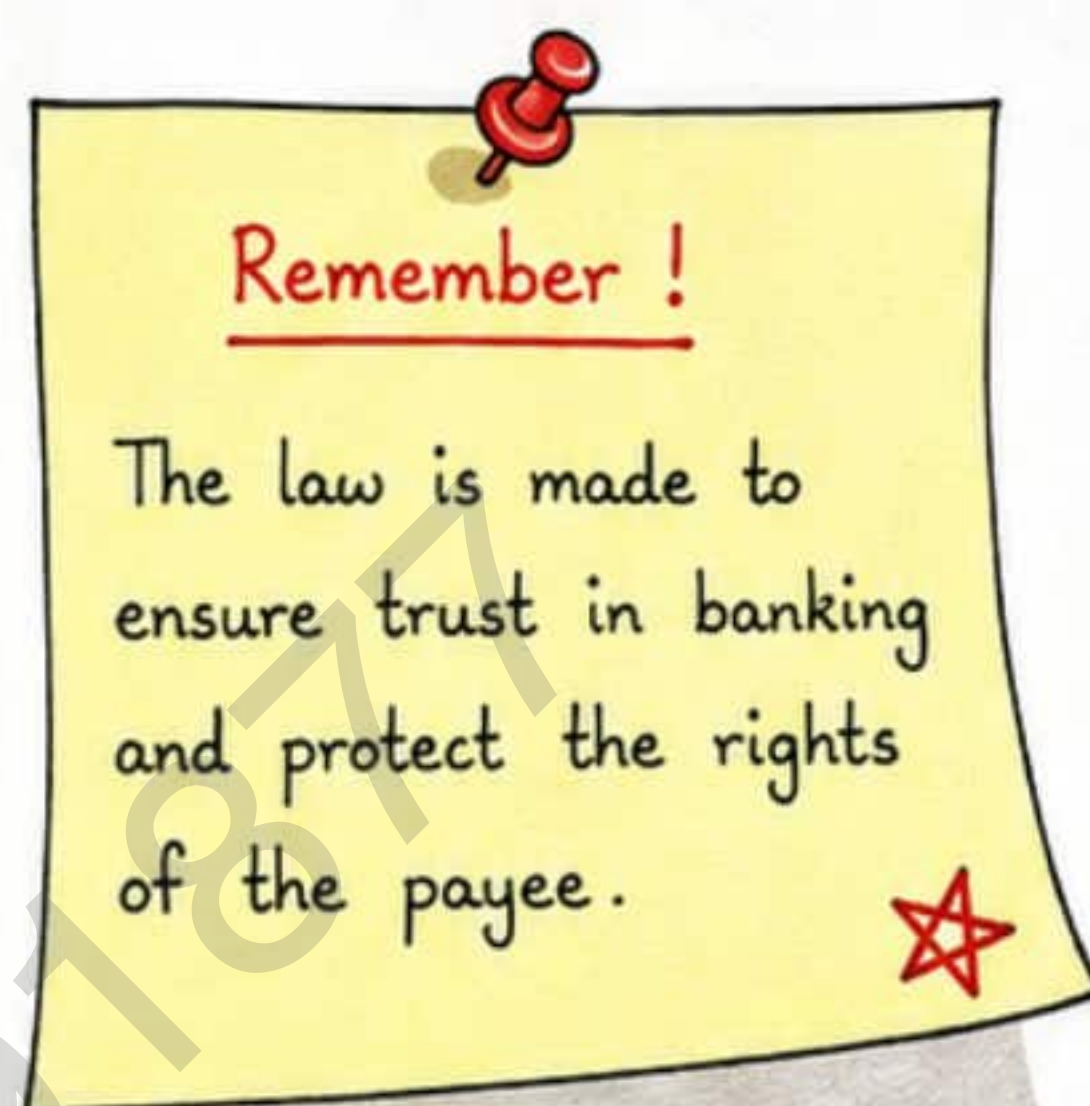
DISHONOUR OF CHEQUE AND ITS REASONS

UNDER THE NEGOTIABLE INSTRUMENTS ACT, 1881

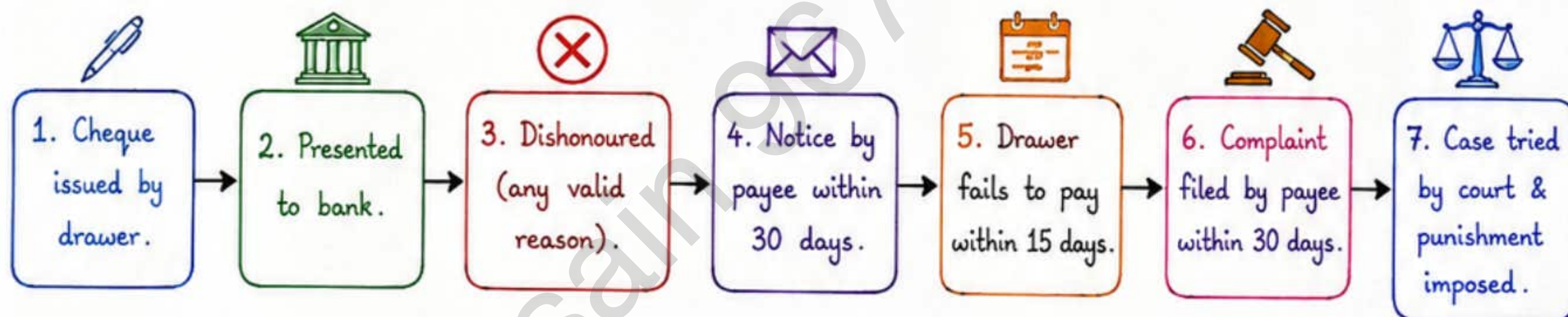
Page 3

6. REMEDIES AVAILABLE TO PAYEE :

Remedy	Details
① Legal Notice	Payee sends written notice within 30 days of dishonour.
② Complaint Filing	Payee files complaint within 30 days of drawer's failure to pay.
③ Trial by Court	Court tries the case and may impose punishment.
④ Punishment	Imprisonment up to 2 years or fine up to twice the cheque amount or both.
⑤ Compensation	Court may award compensation to the payee.



7. SUMMARY FLOWCHART :



8. IMPORTANT CASE LAW :

- ★ **Rangappa v. Sri Mohan (2010) 11 SCC 441** – The Supreme Court held that existence of legally enforceable debt is a presumption under Section 139 of the Act.
- ★ **Hiten P. Dalal v. Bratindranath Banerjee (2001) 6 SCC 16** – Issuance of cheque supports the presumption that it was issued for consideration.

9. CONCLUSION :

Dishonour of cheque is a serious matter under the Negotiable Instruments Act, 1881. It affects the trust in financial transactions. The law provides a balanced remedy to protect the rights of the payee and ensure accountability of the drawer. Therefore, one must issue cheques responsibly and maintain sufficient funds.

LEGAL IMPLICATIONS AND REMEDIES FOR DISHONOUR OF CHEQUE

[Under the Negotiable Instruments Act, 1881]

* 1. INTRODUCTION :

A cheque is dishonoured when the bank refuses to honour or pay the cheque on presentation. If the dishonour is due to insufficient funds or other reasons covered under **Section 138** of the Negotiable Instruments Act, 1881, the drawer may face civil as well as criminal liability.



* 2. LEGAL IMPLICATIONS :

- ① **Criminal Liability (Section 138)** :- The drawer may be prosecuted if the cheque is dishonoured for insufficiency of funds or if it exceeds the arrangement with the bank.
- ② **Statutory Notice** :- The payee must issue a legal notice to the drawer within **30 days** from receiving the cheque return memo.
- ③ **Failure to Pay** :- If the drawer does not make payment within **15 days** of receiving the notice, a criminal complaint can be filed.
- ④ **Punishment** :- The court may impose imprisonment up to **2 years**, or fine up to **twice** the cheque amount, or both.
- ⑤ **Civil Liability** :- The payee may also file a civil suit to recover the cheque amount along with interest and costs.

* 3. REMEDIES FOR DISHONOUR OF CHEQUE :



- ① Present the cheque again within its validity period, if appropriate.
- ② Send a legal demand notice within **30 days** of dishonour.
- ③ Wait **15 days** for payment by the drawer.
- ④ File a complaint before the competent Magistrate within **30 days** after the expiry of the **15-day** notice period.
- ⑤ Claim compensation and recovery of the cheque amount through civil proceedings, where applicable.

LEGAL IMPLICATIONS AND REMEDIES

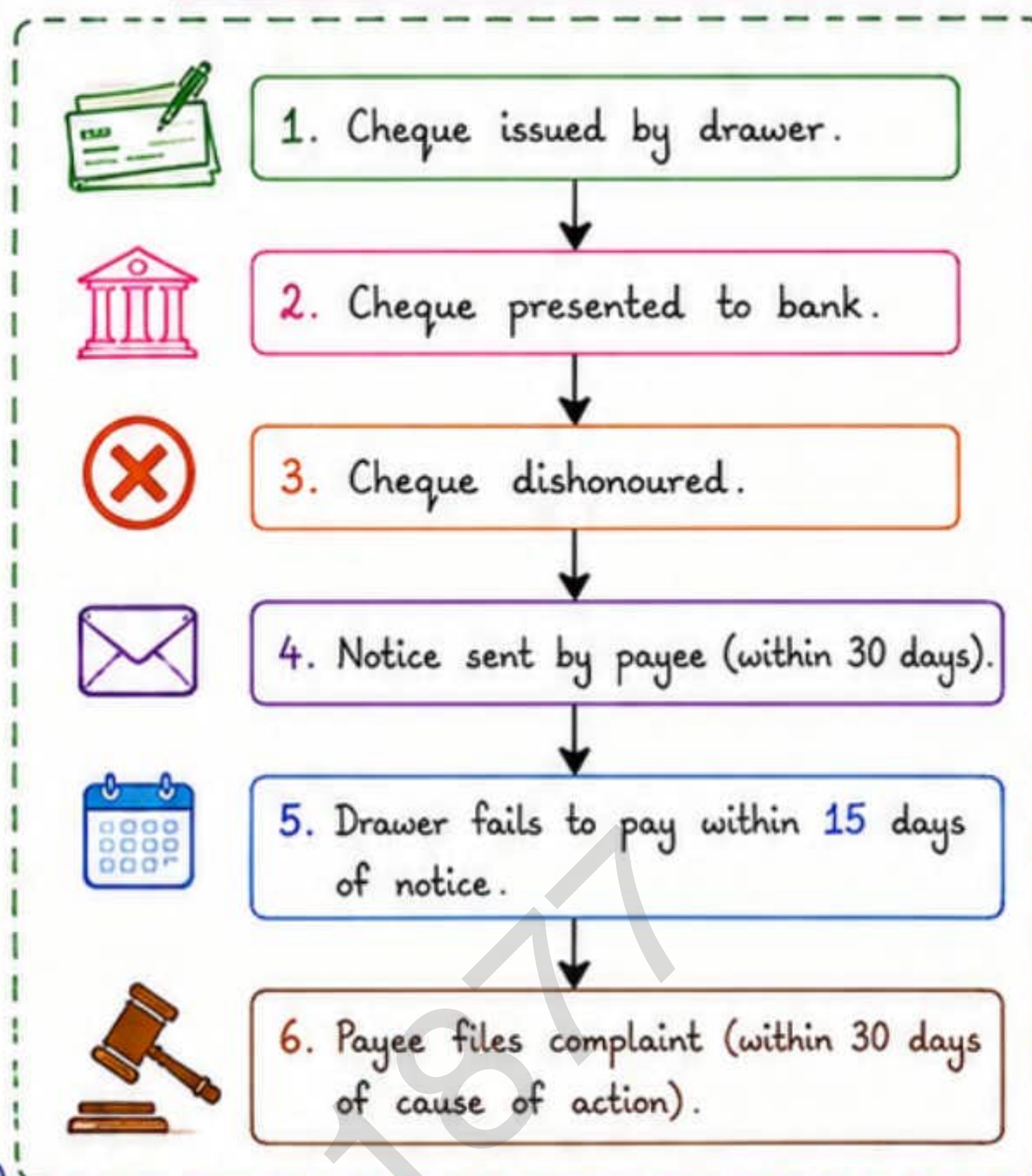
FOR DISHONOUR OF CHEQUE

Page 2

4. PROCESS UNDER SECTION 138 (N.I. ACT)

- Section 138 provides a **summary criminal** remedy.
- It is a **time-bound** process and all steps must be followed strictly.
- The cause of action arises only after expiry of **15 days** from the receipt of notice by the drawer.
- The complaint must be filed within **30 days** from the date on which the cause of action arises.

FLOW CHART OF SECTION 138



5. REMEDIES AVAILABLE TO PAYEE

Remedy	Details
1. Legal Notice	Payee sends written notice within 30 days of dishonour.
2. Complaint Filing	Payee files complaint within 30 days of drawer's failure to pay.
3. Trial by Court	Magistrate conducts trial in a summary manner as per law.
4. Punishment	Imprisonment up to 2 years or fine up to twice the cheque amount or both.
5. Compensation	Court may award compensation to the payee under Section 357 Cr.P.C.

NOTE

- ★ Dishonour of cheque is a serious offence and affects the trust in commercial transactions.
- ★ The Act balances the rights of the payee with a fair opportunity to the drawer to make payment.
- ★ Compounding of offence is permitted under Section 147 of the Act.

6. IMPORTANT CASE LAW



- ◆ **Rangappa v. Sri Mohan (2010) 11 SCC 441** – The Supreme Court held that existence of legally enforceable debt is a presumption under Section 139 of the Act.
- ◆ **Hiten P. Dalal v. Bratindranath Banerjee (2001) 6 SCC 16** – Issuance of cheque supports the presumption that it was issued for consideration.
- ◆ **M.S. Narayana Menon v. State of Kerala (2006) 6 SCC 39** – The complainant must prove that the cheque was issued for a legally enforceable debt or liability.



Remember!

A dishonest cheque can lead to prosecution, punishment and loss of reputation. Always issue cheques responsibly and maintain sufficient funds.

LEGAL IMPLICATIONS AND REMEDIES FOR DISHONOUR OF CHEQUE

Page 3

[Under the Negotiable Instruments Act, 1881]

7. KEY POINTS

- ★ Dishonour of cheque is an offence under Section 138.
- ★ Payee must follow the procedure strictly.
- ★ It ensures faith in banking & commercial transactions.
- ★ Court may award compensation to the payee.

REMEMBER !

- ★ Notice → 30 days
- ★ Payment time → 15 days
- ★ File complaint → 30 days

8. SUMMARY FLOWCHART



9. CONCLUSION

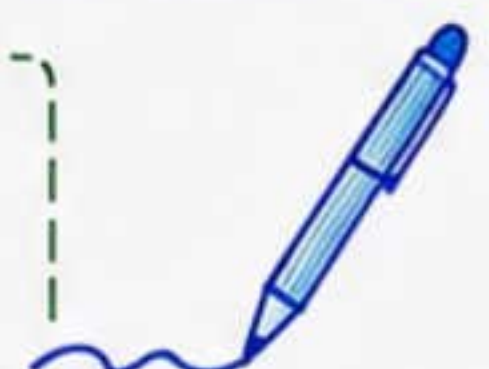
- ◆ Section 138 of the N.I. Act protects the rights of the payee.
- ◆ It provides quick and effective remedy for dishonour of cheque.
- ◆ It promotes honesty, responsibility and trust in financial dealings.



“

A dishonoured cheque shakes trust,
A timely remedy restores it.

”



Definition :

According to Section 13 of the Negotiable Instruments Act, 1881, "A negotiable instrument is a promissory note, bill of exchange or cheque payable either to order or to bearer."

Essential Points :

- ★ It must be in writing.
- ★ It must be signed by the maker or drawer.
- ★ It must contain an unconditional promise or order.
- ★ It must be payable to order or to bearer.
- ★ It must be a sum certain of money.
- ★ It must be payable on demand or at a certain time.

★ 2. PROMISSORY NOTE

A promissory note is a written and signed document containing an unconditional promise by the maker to pay a certain sum of money to the payee or his order.

According to Section 4 :

"A promissory note is an instrument in writing (not being a bank note or currency note) containing an unconditional undertaking, signed by the maker, to pay a certain sum of money only to, or to the order of, a certain person, or to bearer."

Essential Elements (S.4)

①	It must be in writing.
②	It must contain an unconditional undertaking to pay.
③	It must be signed by the maker.
④	It must promise to pay a certain sum of money only.
⑤	Payment must be made to, or to the order of, a certain person, or to bearer.
⑥	It must be payable on demand or at a certain time.

Example Flow :



Law Governing :

Promissory notes are governed by the Negotiable Instruments Act, 1881.

NOTE :

A promissory note does not involve any third party. It is a direct promise by the maker to the payee.

According to Section 4 :

A promissory note is an instrument in writing (not being a bank note or currency note) containing an **unconditional undertaking**, signed by the **maker**, to pay a **certain sum of money** only to, or to the order of, a certain person, or to bearer.

Essential Requirements of Promissory Note :

- ★ It must be in **writing**.
- ★ It must contain an **unconditional promise** to pay.
- ★ It must be **signed** by the maker.
- ★ It must promise to pay a **certain sum of money** only.
- ★ Payment must be made to, or to the **order** of, a certain person, or to **bearer**.
- ★ It must be payable on **demand** or at a **certain time**.

Example of Promissory Note :

Rs. 50,000/-

PROMISSORY NOTE

Guwahati
15 May 2025

I, **Rajat Sharma**, of Guwahati, promise to pay Rs. 50,000/- (Rupees Fifty Thousand only) to **Mohit Verma**, or his order, on 15 July 2025, at Guwahati.

For value received.

Sd/-
(Rajat Sharma)

Parties to a Promissory Note :

- ① **Maker (Drawer)** – The person who makes the promise.
- ② **Payee** – The person to whom the payment is promised.
- ③ **Holder** – The person in possession of the note.
- ④ **Endorser** – The person who transfers the note by endorsement.
- ⑤ **Endorsee** – The person to whom the note is endorsed.

💡 Remember !

- It is a promise in writing to pay money.
- It creates a debt.
- It is negotiable.
- It differs from cheque in the sense that cheque is an order, promissory note is a promise.

Difference between Promissory Note and Cheque :

Basis	Promissory Note	Cheque
Nature	It is a promise to pay.	It is an order to pay.
Drawer	Drawer is the maker.	Drawer gives an order to the bank.
Acceptance	No acceptance required.	Acceptance not required.
Dishonour	Liability is of maker.	Liability is of drawer.
Example	I promise to pay.	Pay this amount.

Important Sections :

- **Sec. 4** – Definition of Promissory Note.
- **Sec. 5** – Promissory note to be in writing.
- **Sec. 6** – Signature.
- **Sec. 7** – Words of unconditional undertaking.
- **Sec. 9** – Certain sum of money.
- **Sec. 10** – Payment.
- **Sec. 11** – When payable.



NOTE : A promissory note is the foundation of **credit**. It shows the maker's promise and creates trust in business and trade.



1. MEANING / DEFINITION :

According to Section 5 of the Negotiable Instruments Act, 1881, "A bill of exchange is an instrument in writing containing an **unconditional order**, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of, a certain person or to bearer."

2. ESSENTIAL FEATURES :

- ★ It must be in writing.
- ★ It must contain an **unconditional order**.
- ★ It must be signed by the maker (drawer).
- ★ It must direct a **certain person** to pay a **certain sum of money**.
- ★ Payment must be to, or to the order of, a **certain person** or to bearer.
- ★ It must be payable **on demand** or at a **certain future time**.

3. PARTIES TO A BILL OF EXCHANGE :

- ① **Drawer (Maker)** — The person who makes and draws the bill.
- ② **Drawee** — The person to whom the bill is addressed.
- ③ **Payee** — The person to whom payment is to be made.
- ④ **Endorser** — The person who transfers the bill by endorsement.
- ⑤ **Endorsee** — The person to whom the bill is endorsed.
- ⑥ **Holder** — The person in whose possession the bill is.

Remember !

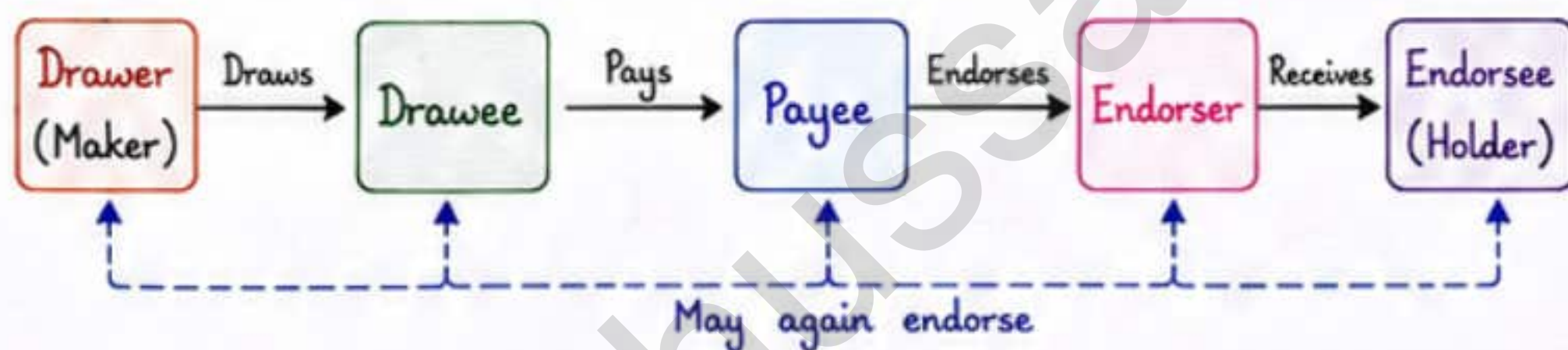


- Bill contains an order.
- Cheque is a bill of exchange drawn on a specified banker and payable on demand.
- All cheques are bills, but all bills are not cheques.

4. TYPES OF BILLS OF EXCHANGE :

- ➔ **Trade Bill** : Drawn in the course of business for the purpose of trade.
- ➔ **Accommodation Bill** : Drawn for the purpose of accommodating some person without any consideration.

5. FLOW OF A BILL OF EXCHANGE :



7. EXAMPLE OF A BILL OF EXCHANGE :

No. 23
15 May 2025

BILL OF EXCHANGE

Rs. 20,000/-

Three months after date, pay to **Riya Sharma** or her order the sum of Rupees Twenty Thousand only for value received.

To,

Amit Das,
Guwahati.

Sd/-
(Arun Verma)
Drawer

6. ESSENTIALS IN A BILL :

1. **Heading** — "Bill of Exchange".
2. **Date** — Date of the bill.
3. **Amount** — Sum certain of money.
4. **Order** — Unconditional order to pay.
5. **Drawer's Signature**.
6. **Name of Drawee**.
7. **Name of Payee**.
8. **Time of Payment**.

8. IMPORTANCE :

- It is widely used in business and trade.
- It facilitates credit transactions.
- It increases the liquidity of money.
- It is negotiable and easily transferable.



"A bill of exchange is the lifeblood of modern commerce."



Jakir hus

UNIT - 5

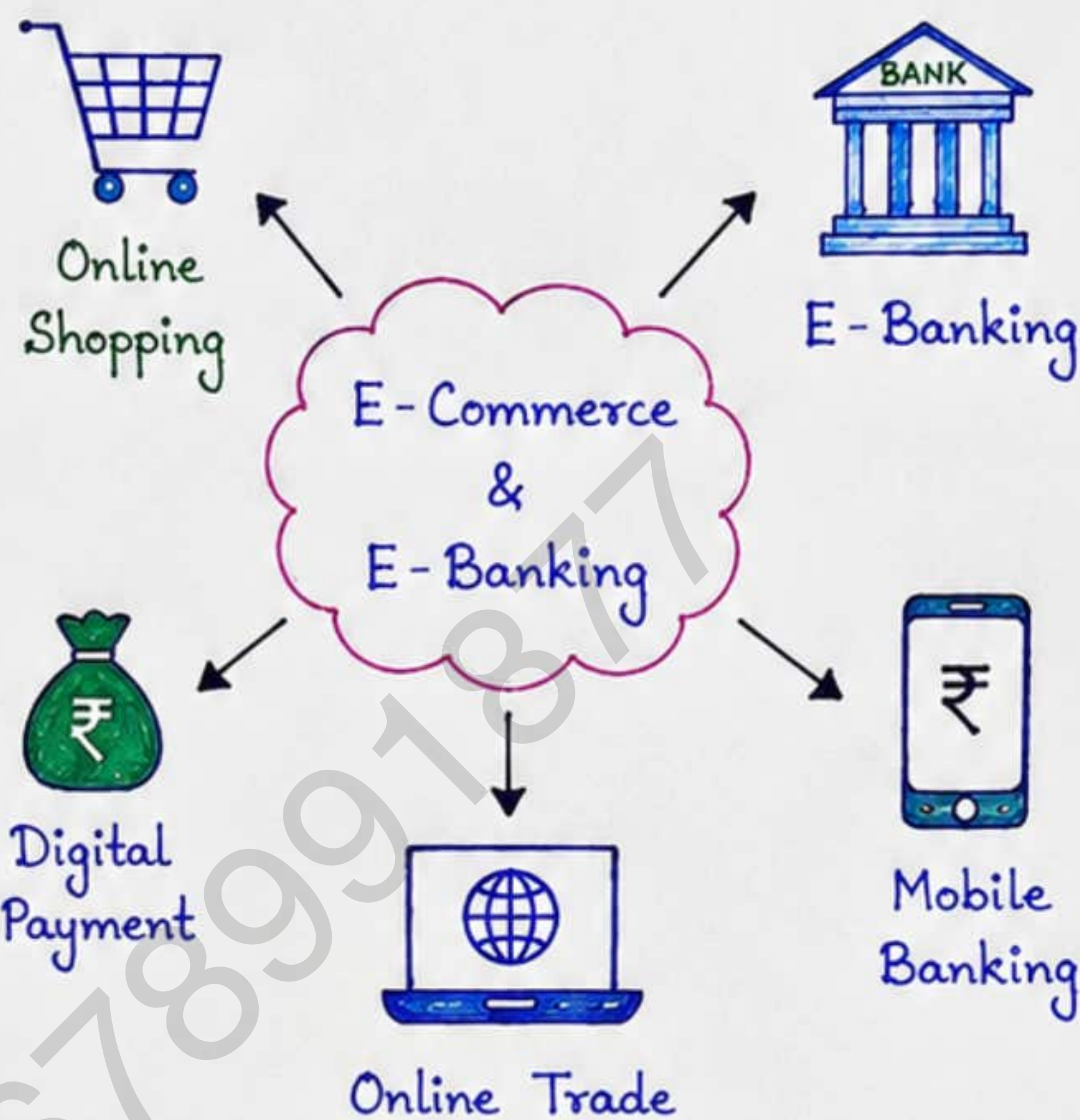
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Unit-5

Q: 1. What do you understand by E-Commerce, and E-Banking? Discuss the provision of IT Laws Governing E-Commerce, and E-Banking in our country?

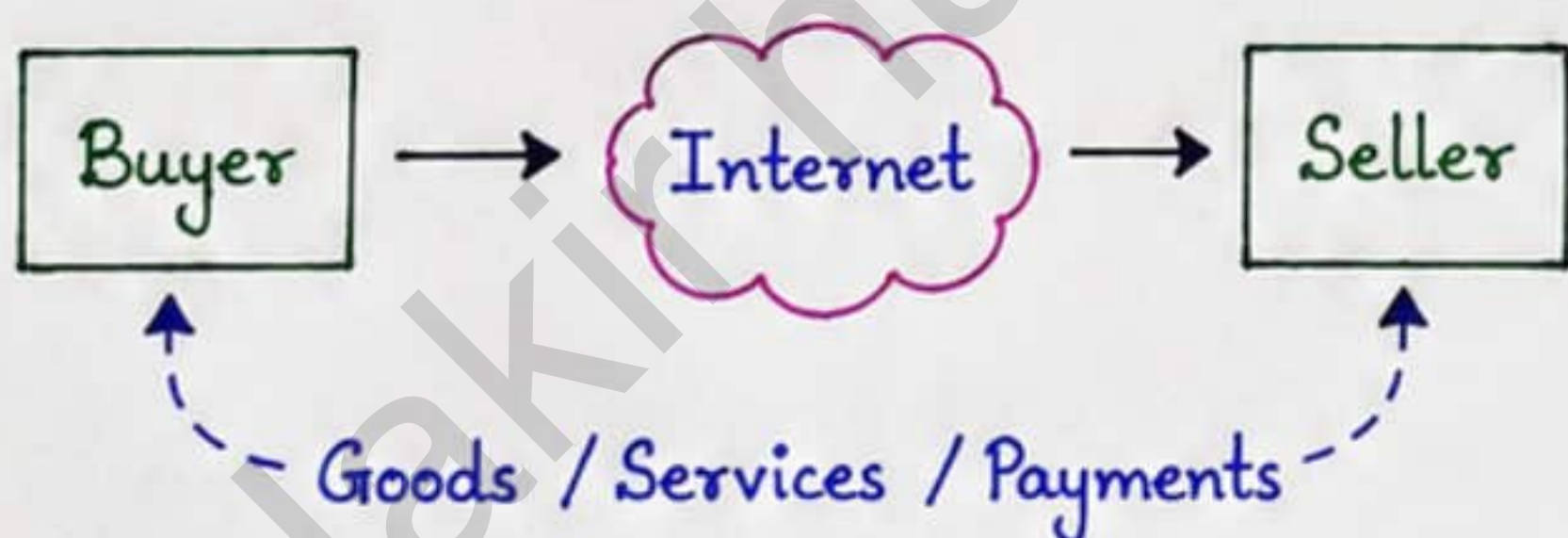
Introduction:-

E-Commerce and E-Banking have transformed business and banking through internet. In India, these are governed by the **Information Technology Act, 2000**.



E-Commerce

Buying and selling of goods and services through Internet.



E-Banking

Banking services and facilities provided through electronic means.



In Short:-

- ★ E-Commerce → Online buying, selling & trading.
- ★ E-Banking → Banking services through electronic means.

to buying and selling of goods and services through electronic means, mainly the Internet it includes —

- ▶ online shopping (eg- Amazon, Flipkart)
- ▶ online Ticket booking
- ▶ Digital marketing and business to business transaction.

Types of E-commerce

- ① B2B (Business to Business) :- transaction b/w companies.
- ② B2C (Business to customers/consumers) :- Retail trade through online platform.
- ③ C2C (consumers to consumers) :- Transaction between individual, eg- OLX.
- ④ C2B (consumers to Business) :- Freelancers offering services to companies.



Unit - 5

Meaning of E-Banking

E-Banking (Electronic Banking)

Refers to the use of **electronic means** and **internet technology** to provide banking services to customers.

It includes —

➤ online Banking (fund transfers, **account viewing**)

➤ mobile services

➤ ATM services

➤ RTGS, NEFT, IMPS, and UPI transaction



Objectives of E-Banking

- ① To ensure faster, efficient, and paperless Banking.
- ② To provide **24x7** customer service.
- ③ To Reduce manual errors and fraud through secure Technology.

Provision of IT Laws governing E-Commerce and E-Banking —

PLASRER

The Information Technology Act, 2000 and its Amendments in 2008 play a crucial role in regulating online transaction and protecting users.

- ① Legal Recognition of electronic records and signatures (Sec-4 and 5) :- Gives legal validity to electronic records and recognizes digital signature as valid authentication methods.



- ② Attribution and acknowledgement of electronic records (Sec-11-12) :- Deals with the origin, receipt, and acknowledgement of electronic message.



- ③ Secure Electronic transaction (Sec-14-16) :- Ensures secure electronic records and digital signatures.



Signatures, especially used in e-Banking for authentication.

- ④ Regulation of certifying Authorities :- According to Sec-17-34, provides for licensing and control of Authorities issuing digital Signatures.
- ⑤ Cyber Crimes and offences :- according to Section-43, of the act, penalty for unauthorised access to computer system (hacking). and Section 66, punishment for identity theft and cheating by improper Soration through computers.
- ⑥ Role of RBI Guidelines :- RBI issues periodic guidelines to ensure the security of e-Banking transaction, customer data protection.

tion, and digital payment (eg → two-factor authentication, OTP, and encryption).

Case law

Jayantilal N. Mistry

v.

RBI 2016

In this case question was raised about RBI could deny information under the right to information act. The SC held that RBI is accountable to the public and must disclose information regarding Banks, and ensure transparency.

Conclusion : E-commerce and E-Banking have revolutionized India's economic and financial landscape by ensuring speed, convenience, and efficiency. However, with increased digitalization comes the challenge of maintaining data security and privacy. The IT Act 2000 serves as a vital legal framework to promote trust & protect customers.

Q2. What do you understand, by AI and its important and fraud detection ?

Introduction:-

Artificial intelligence means using computers and machines to think and work like human. In today's Banking System AI is used to make banking faster, safer and more accurate. As banking has become digital, the chances of fraud and online risk have ↑. AI helps banks handle these problems by analysing data and detecting unusual activities.



Therefore :-

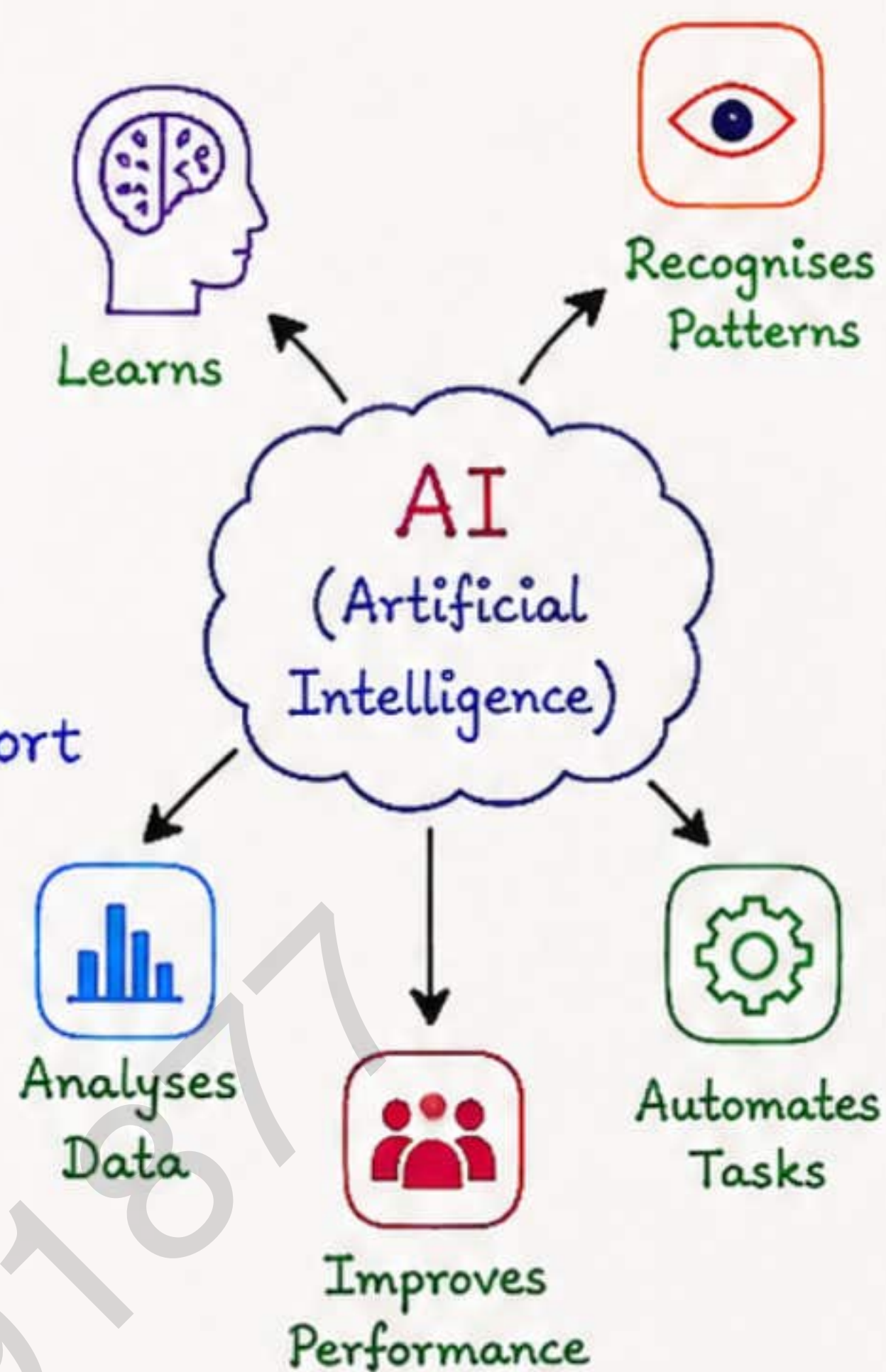
AI has become an important tool for improving security and customer service in banks.

Meaning of AI :-

Artificial Intelligence (AI) is a technology that allows computers and machines to think, learn and make decisions like human.

to think, learn and make decision like human.

AI can understand information, recognise pattern, solve problem and improve itself through experience. It helps in performing tasks such as speech recognition, image detection, data analysis and automation. In short AI means giving machines the ability to act intelligently.



AI in Banking Sector:-

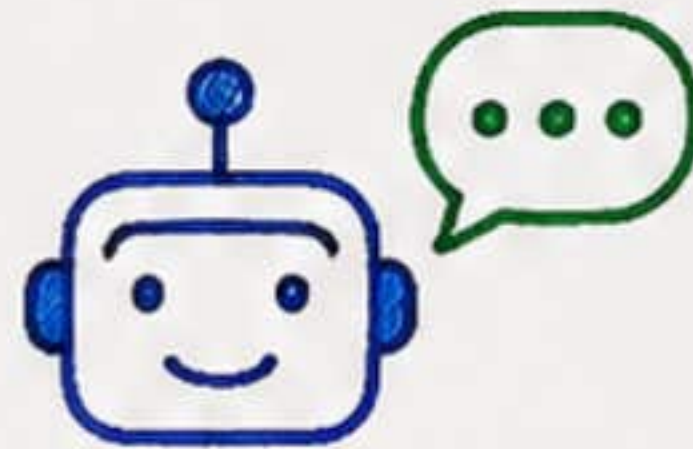
AI in Banking means using smart technologies like machine learning, chatbots and data analysis to help bank work faster and more accurately. It helps Bank check transaction, identify fraud, verify customer and provide quick customer service. AI reduce human error and improve security in online Banking.



Importance of AI in Banking

① Improved customers service :-

AI powered chatbots and virtual assistants provide instant responses to customer queries like account balance, transaction history, and loan information. This reduces pressure on Bank staff.



② Enhanced operational efficiency :-

AI automates routine tasks such as KYC verification, documents processing, and account opening. This reduces paperwork, saves time and minimises human error.



③ Better risk management :-

AI analyses customer data and identifies risky pattern in loan.



application, credit score and repayment behaviours. This helps Banks take safer lending decision and avoid non-performing assets.

④ Cost Reduction :-

AI reduces the need for manual labour in repetitive tasks. Automation lowers operational expenses such as administrative costs and processing fees.

⑤ Personalised Banking Service :-

AI studies customer spending habits and offers customised recommendation like suitable loan, saving plans or investment opportunities. This ↑ customer satisfaction.

AI in Fraud Detection

① Real time monitoring of transaction :-

AI monitors million of applications, credit score and repayment behaviours. This helps Banks take safer lending decision and avoid non-performing assets.

transaction in real time and detect suspicious activities such as unusual withdrawals or foreign transfers.

② Pattern recognition :-

AI uses machine learning to identify unusual patterns, such as sudden multiple transactions or login attempt from unknown devices, when the system notice such behaviours it alert the Bank instantly.

③ Detecting Identity theft :-

AI verifies customer identity through biometric tools like facial recognition, fingerprint scanning and voice recognition.

④ Preventing cyber fraud :-

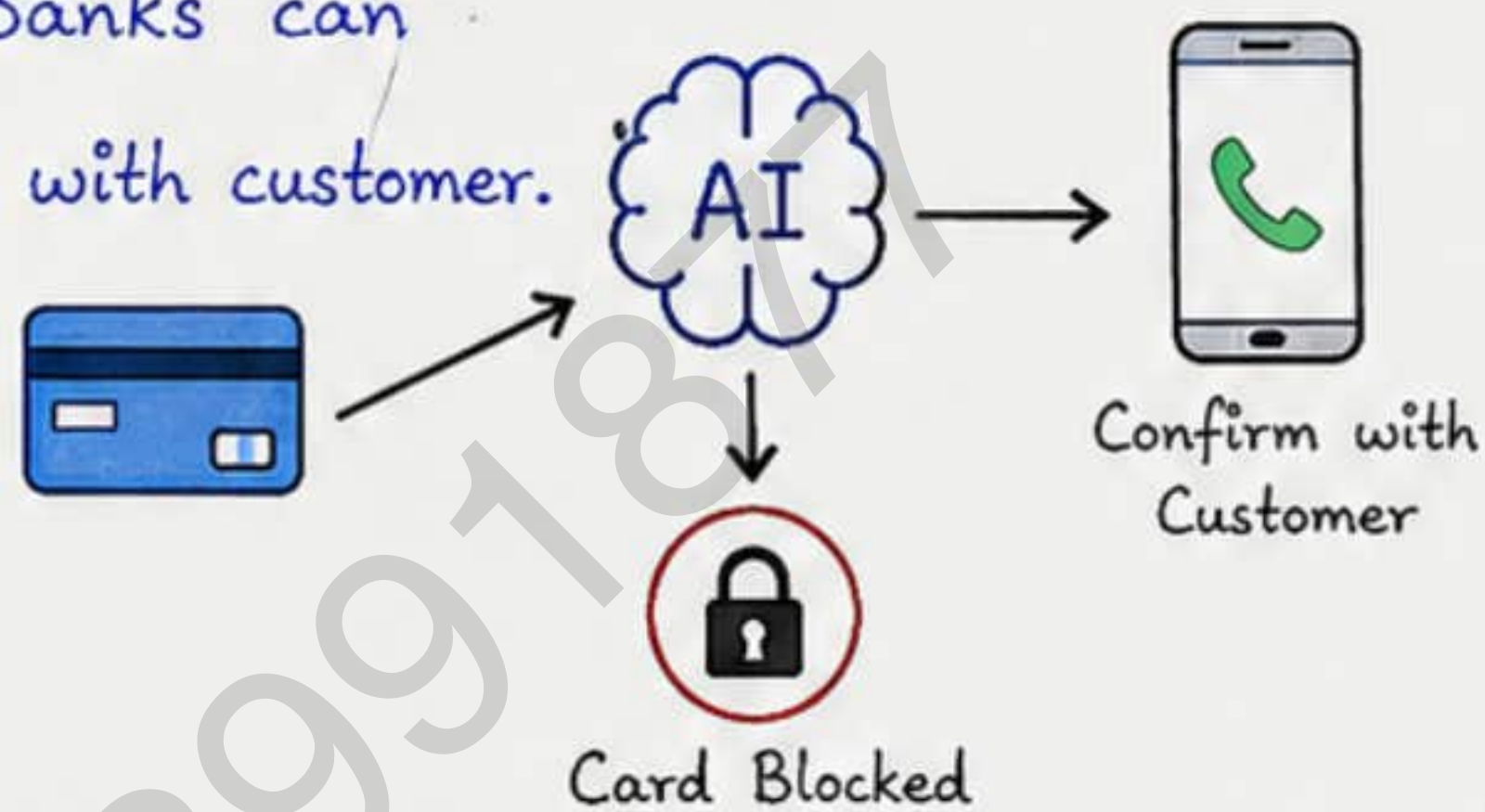
AI system identify malware

phishing attacks and hacking attempt before they can cause damage. They analyse network behaviours and block risky activities.



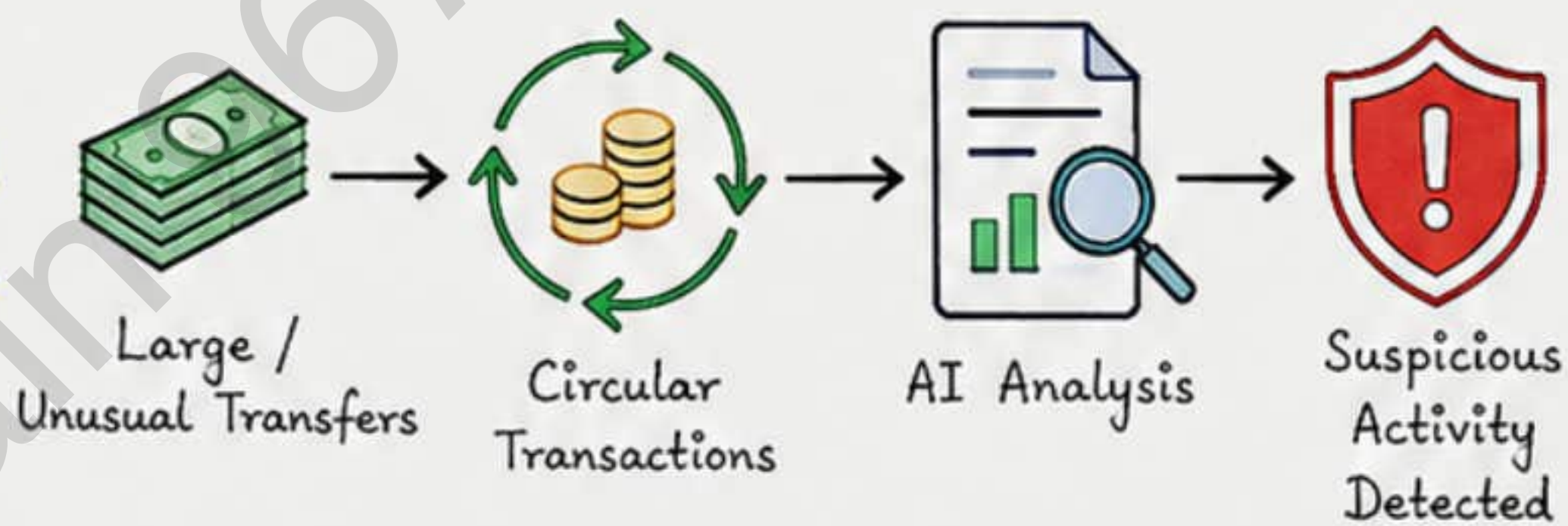
⑤ Credit Card Fraud Prevention :-

AI tracks card usage pattern and immediately flags abnormal transactions, such as high-value purchase or transaction from distant location. Banks can instantly block the card & confirm with customer.



⑥ Money Laundering Detection :-

AI analyses transactions to detect suspicious patterns such as unusual large transfers, circular transactions or layering techniques used to hide illicit funds.



Case law

ICICI Bank
v.
Shanti Devi 2016

In this case, the court held that Banks have a duty to adopt advanced technologies safeguard to protect customers from fraudulent transaction.



State Bank of India
v.
Rajesh Agrawal 2021

In this case the Supreme court observed that financial institution must adopt technology-driven mechanism to detect fraud at the earliest stage.

Conclusion :-

AI has become an indispensable component of the modern Banking system. It enhances efficiency, customer service, reduces risk and play a vital role in detecting and preventing fraud. AI based system ensure safety, speed and accuracy in financial operation.

Diagram :-

