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NEGOTIABLE INSTRUMENTS ACT, 1881 &

✓ **BANKING TRANSACTIONS**

⊘ Chapter 12 Module A PPB By Ashish Sir

■ **Banker's Duty in Payment of Cheques**

A banker **must** pay a cheque drawn by its customer if:

- #1
- #2
- #3

The cheque is properly drawn and follows legal requirements.

Sufficient funds are available in the account.

There is no legal restraint on payment.

Intermediary
Lending
Times

Example:

Mr. Rajesh issues a cheque for ₹50,000 to XYZ Traders. His account has ₹60,000, and there is **no legal restriction**. The bank must honor the cheque.

Negotiable Instruments Act, 1881 (NIA)

PN, B/E / cheques

The **Negotiable Instruments Act (NIA), 1881** governs instruments used in commercial transactions:

- 1 Promissory Notes

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2 Bills of Exchange

3 Cheques

(i) Cheque (Sec. 6)

Definition: "A cheque is a bill of exchange drawn on a specified banker, payable on demand."

Types of Cheques

Type	Explanation
#1 Paper Cheque	Traditional cheque issued physically.
#2 Electronic Cheque	Created & signed digitally via a secure system.
#3 Truncated Cheque	A cheque converted into an electronic image during clearing, eliminating physical movement.

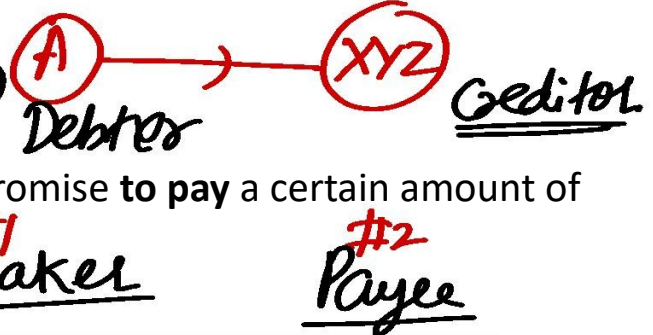
Example:

Rahul writes a cheque to Amit, and the cheque is cleared digitally through CTS (Cheque Truncation System) instead of physical processing.

Unconditional promise

(ii) Promissory Note (Sec. 4)

Definition: A written, unconditional promise to pay a certain amount of money to a specific person.



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Example of a Valid Promissory Note:

Unconditional promise / defined Amt

Invalid Promissory Notes:

1. "I promise to pay ₹5,000 if I win the lottery." (Conditional)
2. "I promise to pay ₹8,000 and also give you my car." (Not a fixed sum of money)

(iii) Bill of Exchange (Sec. 5)

3 parties → drawer, drawee, payee

Definition: A written instrument ordering a third party to pay a specific sum to a person or bearer.

USance B/E → Credit period

Example:

demand B/E → No credit period

Exporter (X Ltd.) sells goods worth ₹5,00,000 to Importer (Y Ltd.)

and issues a **Bill of Exchange** instructing Y Ltd. to pay the amount in 90 days.

(iv) Drawee & Drawer

Term	Meaning
Drawer	The person who writes (issues) the cheque or bill.
Drawee	The bank or party instructed to pay.

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Example:

Neha issues a cheque to Priya. Here,

- Neha = Drawer



- Priya = Payee

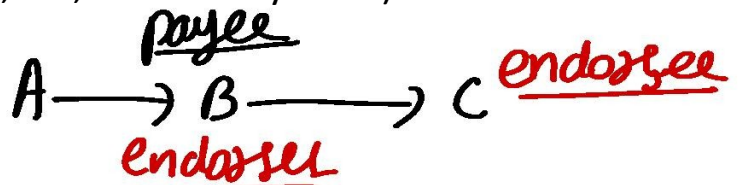
(v) Holder vs. Holder in Due Course

Term	Meaning
Holder	Person legally entitled to the cheque/note.
Holder in Due Course (HDC)	Holder who receives the instrument in good faith & for value.

Example: Ajay receives a signed cheque from Vikas, but later finds out it was forged. Since Ajay had knowledge of the forgery, he is not a Holder in Due Course.

(vi) Negotiation of a Negotiable Instrument

A negotiable instrument (Cheque, Bill, Promissory Note) is transferred to another party.



Methods of Negotiation:

- Endorsement & Delivery – A payee signs & delivers the cheque.
- Delivery Only – For a bearer cheque, simple handover is enough.

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Example:

Mr. Sharma receives a cheque payable to bearer and gives it to his son. His son can encash it directly without endorsement.

Summary – Negotiable Instruments & Banking Responsibilities

Concept	Explanation
Banker's Obligation	Must honor a valid cheque if funds exist & no legal restrictions apply.
Negotiable Instruments	Includes Promissory Notes, Bills of Exchange, & Cheques.
Cheque (Sec. 6) 3	Payable on demand; can be electronic or truncated. <i>drawee, drawee, payee</i>
Promissory Note (Sec. 4) 2 <i>maker-payee</i>	Unconditional promise to pay a fixed amount.
Bill of Exchange (Sec. 5) 3	Order for a third party to pay a specific sum.
Drawer & Drawee	Drawer writes the cheque, Drawee (Bank) pays. <i>→ possession must</i>
Holder & HDC	Holder in Due Course enjoys strong legal protection.
Negotiation	Transfer of instruments via endorsement/delivery.

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Payment of a Cheque – A Banker’s Responsibility

When a banker pays a cheque, they must **carefully verify** several key aspects to ensure **safe and legal** transactions. Let’s go through the essential checks!

1 Verifying the Branch

Normally, a cheque is presented at the **branch where the account is maintained**.

With **Core Banking Systems (CBS)**, banks now allow **anywhere banking**, meaning a cheque can be presented at **any branch** of the same bank.

Example:

Amit has an account at SBI - Mumbai branch, but presents a cheque for withdrawal at SBI - Delhi branch. CBS allows payment!

2 Checking the Date

A cheque can be:

Undated → α [inchoate]
Post-dated →
Ante date →

PDC

Type	Meaning	Payable?
Current Dated	Today’s date	Yes
Post-Dated	Future date	No

Example:



Ravi issues a cheque dated 10 April 2024. If presented on **15 July 2024**, it becomes stale and is not payable.

If a **post-dated cheque** is presented before the date, the bank cannot process it due to risks like stop payment instructions or death of the drawer.

3 Payee Verification

A cheque can be issued to:

- 1 **Single Payee** – Paid only to the person named.
- 2 **Joint Payees** (X and Y) – Paid to **both jointly**.
- 3 **Alternative Payees** (X or Y) – Paid to **either person**.
- 4 **Bearer Cheque** – Can be encashed by **anyone** who presents it.
- 5 **"X only" Cheque** – Can be encashed **only by X**.
- 6 **Company Cheque** – Must be credited to the company's account, **not to an individual**.

Example:

If a cheque is written as "**Pay to Rahul and Anjali**", it **must** be paid **only if both** are present.

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If written as "Pay to Rahul or Anjali", either one can withdraw the amount.

~~NIA Chapter 12 PPB Part-II~~

4 Order Cheque vs. Bearer Cheque

(ID) mandatory

Cheque Type	Payment Conditions
Order Cheque	Requires endorsement from payee; identity verification needed.
Bearer Cheque	No endorsement needed; anyone can encash it.

Example:

Mr. Gupta presents a bearer cheque at the bank. Since it's a bearer cheque, he does not need any ID.

Ms. Pooja presents an order cheque. The bank asks for ID proof before making the payment.

5 Amount in Words & Figures

The amount must match in words and figures.

If there's a mismatch, the amount in words is final (as per Sec. 18, NIA).

