

## LEARNING SESSIONS ON YOUTUBE & APP AVAILABLE

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).

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Example:

Cheque reads: "₹10,000" in figures but "Ten Thousand Five Hundred" in words. ~~Bank will reject the cheque.~~

### 6 Crossed Cheques



Crossed cheques must be deposited into a bank account, not encashed directly.

A cheque **without crossing** can be encashed at the counter.

**Example:** A cheque with "A/C Payee Only" can only be deposited in the named payee's account. No cash withdrawal allowed!

### 7 Endorsements & Alterations

Endorsements (signing on the back) must be proper.

Any **material alteration** (date, amount, payee name) **must be authenticated** with the drawer's full signature.

**Example:** If Rohan alters the date on a cheque, but **does not sign** next to the change, **the cheque will be rejected.**

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### 8 Mutilation & Damage

A **torn cheque** may be accepted if the drawer confirms its validity.

If a collecting bank **accidentally tears** a cheque, it must **guarantee the mutilation** by endorsing "Mutilation Guaranteed".

**Example:** Mr. Sharma accidentally tears his cheque while taking it out of his wallet. He **confirms it to the bank**, and since all details are visible, **the cheque is processed**.

### 9 Signature of the Drawer

The **drawer's signature** must match the bank's records.

**A forged signature = No mandate to pay!**

**Example:**

**Fake signature on a cheque?** The bank **cannot** process it and must return it unpaid.

**Case Law: Canara Bank vs Canara Sales Corporation (1987)**  
Supreme Court ruling – If the **drawer's signature is forged**, the **bank has no mandate to pay**, and it **cannot debit** the customer's account.



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### Stop Payment Instructions

Countermanding

If the **drawer** gives a stop-payment instruction, the bank must not **process** the cheque.

For **joint accounts**, any one of the holders can request a stop payment.

For **partnership firms**, all partners must agree to cancel a stop payment.

**Example:** Rahul writes a cheque for ₹20,000 but later realizes he made an error. He calls the bank to stop the payment. Bank will return the cheque unpaid.

### 11 Checking for Legal Attachments

The bank must ensure:

**Sufficient balance is available.**

**No legal orders** (e.g., Garnishee Orders, Income Tax Attachment Orders) prevent payment.

**No notices of death, insolvency, or insanity of drawer** have been received.

Garnishee order

Attachment order

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**Example:** If Mr. Ramesh's account has an **Income Tax Department attachment order**, the bank **cannot** honor any cheque from that account.

### Summary Table – Cheque Payment Guidelines

Aspect to Check	Explanation
Branch of Presentation	Should match the account branch unless Core Banking System (CBS) is used.
Date	Post-dated & stale cheques cannot be paid.
Payee	Joint payees must sign together; alternative payees can encash individually.
Amount in Words & Figures	If they differ, amount in words is considered final.
Crossed Cheques	Must be deposited into an account, not withdrawn.
Endorsements	Must be proper; any alteration requires drawer's signature.
Stop Payment	If requested, the cheque must not be processed.
Legal Attachments	If any legal order is in place, cheque payment must be stopped.

Payment in Due Course (Sec. 10) & Liability of Paying

Bank (Sec. 31)

What is Payment in Due Course? (Sec. 10)

A banker gets **legal protection** if the cheque payment is made "in due course", as per **Sec. 10 of the Negotiable Instruments Act (NIA), 1881.**

**Definition:**

"Payment in due course" means payment **as per the apparent tenor** of the instrument, in **good faith** and **without negligence**, to a person **entitled** to receive the payment.

**Key Elements of Payment in Due Course:**

Element	Sec 10 PDC	Meaning
#1 Apparent Tenor		Payment must follow the cheque details (date, payee name, amount in words & figures, crossings, etc.).
#2 Good Faith & No Negligence		The banker must act honestly & carefully. Any negligence (e.g., crediting an account without verifying details) removes protection.
#3 Payment to Holder in Due Course		Payment must be made to the rightful holder of the cheque.
#4 Entitled to Receive Payment		No reason should exist to doubt the payee's legal right to receive payment.



### Example of Good Faith in Payment :

If a customer deposits ₹50,000 but mistakenly writes the wrong A/C number, the banker must verify details before crediting the wrong account. Failing to do so = Negligence, no protection .

**Case Law Example:** *Pranendu Mohan Das vs. Central Bank of India* (1978)

A customer accused a bank of paying a forged cheque despite his stop payment request. The court ruled in favor of the bank as it had acted diligently, ensuring due verification before payment.

*payment in due course*

### Liability of Paying Banker (Sec. 31)

The drawee bank (the bank where the cheque is presented) must honor a cheque if:

- Sufficient funds are available.
- No legal restrictions exist (e.g., stop payment, garnishee orders).

If a bank wrongly dishonors a cheque, it must compensate the customer for any financial loss or damage.

A cheque cannot be honored in the following cases:

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Reason	Description
Stop Payment	Customer instructs the bank not to pay a specific cheque.
Order	Customer instructs the bank not to pay a specific cheque.
Death of Drawer	If a bank receives official notification of the account holder's death, payments must be stopped.
Garnishee Order	If a court freezes the account, no cheque payments can be made.
Earmarked Funds	Funds kept aside for specific purposes cannot be used for cheque payment.
Bank's Set-Off Rights	If the account holder owes money to the bank, the bank can use funds to settle dues instead of honoring cheques.

#1  
#2  
#3  
#4  
#5

→ end of Banker - Customer relationship

imp

Debtor - creditor | Creditor - debtor

**Example:** Mr. Sharma issues a cheque for ₹10,000, but the Income Tax Department attaches his account for ₹50,000 dues. The bank cannot clear the cheque as funds are legally blocked.

**1 Protection in Case of Forged Endorsements in Order Cheques (Sec. 85(1))**

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Paying bank → Regularity

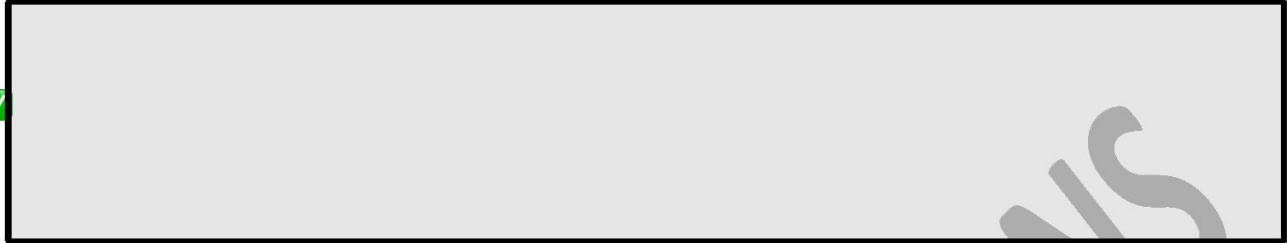
If a cheque is payable to order, the bank is protected if it verifies that:

To check genuineness of endorsement [Collecting Bank]



#1 The cheque is endorsed correctly. [Regular]

#2 Payment is made in due course (Sec. 10).



# 2 Protection in Case of Forged Endorsements in Bearer Cheques (Sec. 85(2))

A **bearer cheque** can be cashed by **anyone who presents it**, no endorsement is required.

The bank is **not liable** for any **forged endorsements** on a **bearer cheque**.

Example:

Suresh finds a lost bearer cheque & cashes it. Even if the cheque was originally issued to Ramesh, the bank is not liable since it was a bearer cheque.

#imp 3 Protection for Forged Endorsements in Bank Drafts (Sec. 85A)

A bank issuing a **demand draft** is **protected** if the draft seems **regularly endorsed** and paid in **due course**.

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Example:

Bank issues a draft payable to "XYZ Ltd." If fraudsters forge XYZ

Ltd.'s signature, but the bank paid as per usual process, it is not liable.



### 4 Protection Against Material Alteration (Sec. 89)

If a cheque appears regular but contains a hidden alteration, the bank is protected if it pays as per original instructions.

Cheque alterations NOT allowed under CTS (Cheque Truncation System):

Changing the payee name. #1

Modifying the amount. #2

Altering the cheque date. #3

Example: Cheque for ₹10,000 is altered to ₹90,000, but the alteration is not visible. Bank pays ₹90,000. The bank is not liable if it acted in due course.

### 5 Protection for Crossed Cheques (Sec. 128 & 129)

If a cheque is crossed, the bank must pay only to another bank, not to an individual.

→ No OTC payments

If the bank mistakenly pays a crossed cheque to an individual, it loses protection.

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**Example** ✓ Mr. X issues a cheque crossed "A/C Payee Only" to Mr.

Y. If the bank mistakenly allows cash withdrawal, it is liable for the loss.

Bank pays a crossed cheque to ABC Bank for collection – Payment is valid.

### Summary Table – Paying Banker's Liability & Protection

Protection	When It Applies?	Example
Forgery in Order Cheques (Sec. 85(1))	If payment is made to an apparent endorsee in due course.	Rohan endorses Ajay's cheque to Deepak (but forgery). Bank is protected if process followed.
Forgery in Bearer Cheques (Sec. 85(2))	If cheque is payable to bearer, no endorsement check needed.	"Pay ₹5,000 to bearer" cheque is lost & encashed. Bank is not liable.
Forgery in Drafts (Sec. 85A)	If the draft appears to be correctly endorsed & paid in due course.	Demand draft forged but bank followed process – No liability.
Material Alteration (Sec. 89)	If the cheque appears normal but was altered later.	₹1,000 cheque altered to ₹10,000. Bank not liable if unaware.

Endorsements Regularity

#1

## **LEARNING SESSIONS ON YOUTUBE & APP AVAILABLE**

Payment of  
Crossed Cheque  
(Sec. 128)

Must be paid only to a  
bank.

Crossed cheque cashed by an  
individual = Bank is liable.