

PPB

Capsule Batch

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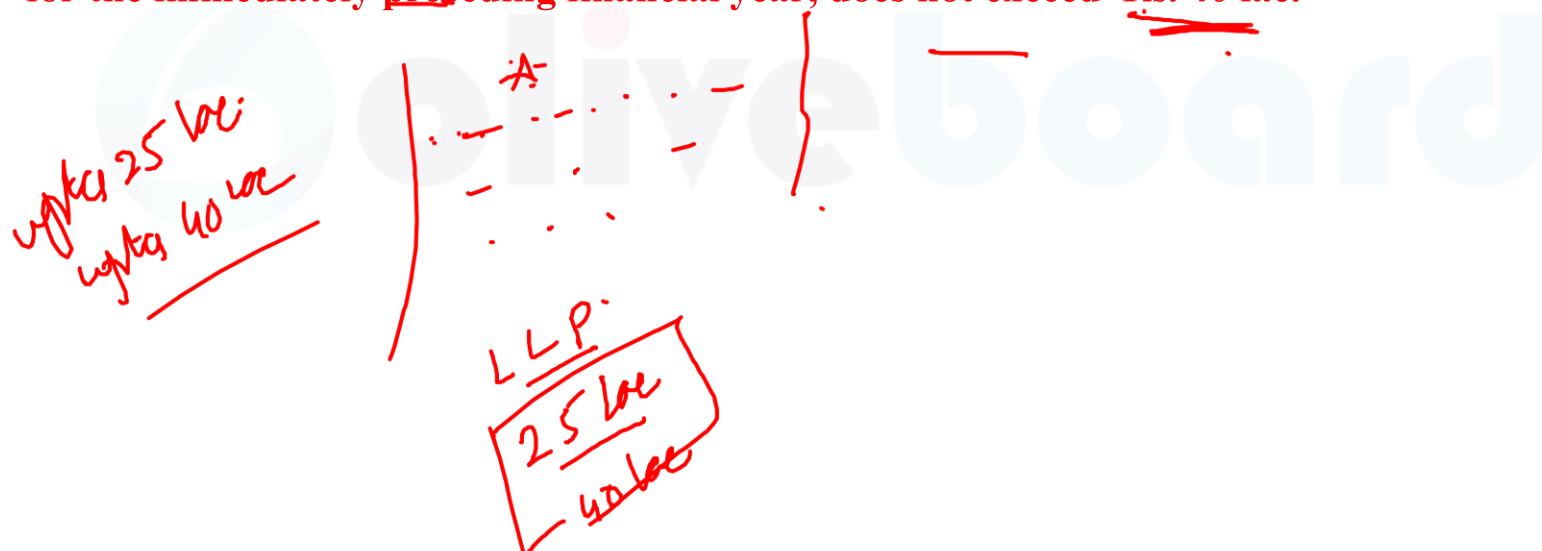
Limited Liability Partnership

Limited Liability Partnership (LLP) is formed under the Limited Liability Partnership Act, 2008; LLPs have Designated Partners specified in the LLP Agreement. A "limited liability partnership" agreement means any written agreement between the partners of the limited liability partnership or between the limited liability partnership and its partners which determines the mutual rights and duties of the partners and their rights and duties in relation to that limited liability partnership.



- A LLP has at least two Designated Partners, appointed as per LLP agreement, Designated Partners have to obtain a Designated Partner Identification Number (DPIN). .
- Any partner may become a designated partner by and in accordance with the LLP agreement, and a partner may cease to be a designated partner in accordance with it.
- A designated partner is responsible for the doing of all acts, matters and things as are required to be done by the LLP and as may be specified in it.

- Every partner of a **LLP** is, for the purpose of its business an agent of the LLP, but not other partners. A "small limited liability partnership" means a LLP - the contribution of which, does not exceed **Rs. 25 lac** and the turnover of which, as per the Statement of Accounts and Solvency for the immediately preceding financial year, does not exceed **Rs. 40 lac**.



LIMITED COMPANIES

Company is a legal entity and can open accounts in the same way as any other person. There are three types of Limited Companies:

- ✓ (i) Public Ltd. (ii) Private Ltd. (iii) One Person Company.

(a) Public Ltd.-It is not a private company. This requires a minimum of seven members for incorporation and there is no upper limit. A subsidiary company of another company that is not a private company is deemed to be public company, even if registered as a private company. - Section 2 (71) of the Companies Act, 2013.

- Section 2 (68) of the Companies Act, 2013, A company in which fifty one per cent or more of the shares are held by any one or more of the Central/ State Governments, including a subsidiary of such a company is called a Government Company. The word "limited" is not required to follow the company's name in such companies. - Section 2 (45) of the Companies Act, 2013,

(b) Private Ltd.-It has to have a minimum of 2 members and maximum of 200 members, with a minimum paid-up share capital as may be prescribed.

- Maximum number does not include members who are in employment of the company.

 It restricts the right to transfer its shares and does not permit invitation to public to subscribe for any of its securities.] — — —

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S.Y.I.

(c) **One Person Company** - is a company which has only one person as a member, and another person named as a Nominee. It is on the footing of a private limited company. - Section 2 (62) of the Companies Act, 2013.

A company is incorporated under the provisions of the Companies Act and functions as per it's Memorandum of Association and Articles of Association. On being registered, it is issued with a Certificate of Incorporation.

Rules for Opening and Operations - Company's Account

- (a) Cash withdrawals from the company's account should be permitted only against specific authorization by the company.
- (b) In order to avoid frauds, usually operations on a company's account are permitted under instructions of two or more authorised signatories jointly.
- To avoid operational difficulties, more number of persons are designated as authorised signatories. For instance, a company may specify that its account may be operated jointly by any two out of the five persons authorized to do so.

10 - Signat
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It may also be noted that

- (a) Death of an authorised signatory does not require stopping of the payment of cheques signed by such signatory, since the company is in existence.
- (b) A limited company in trading activity has implied powers to borrow, while a non-trading company is required to specify it in its Memorandum and Articles of Association.
- (c) A cheque payable to the company should never be deposited in the personal account of any director or any employee, as it would amount to negligence under Sec. 131 of N.L. Act 1881.



Documents for Opening of Company's Account

- Certified copy of Memorandum and Articles of Association
- Certified copy of Certificate of incorporation.
- Names of directors of the company as stated in the Articles/ Forms filed with the Registrar of Companies.
- List of beneficial owners (If applicable)
- Copy of resolution appointing the bank as company's bank and names of the persons authorised to operate the account with the mode of operation.

- Specimen signatures of all authorised officials who would operate the account.
- PAN of the company

Besides above, the documents required from KYC perspective as detailed in Unit 3 need to be obtained.



Documents for Opening of an Account of a Club/Association/ Unregistered Body

- Current account opening form signed by all the Managing Committee members.
- Specimen signature cards signed by authorised signatories.
- Copy of Bye Laws/Rules.

- Resolution of the Managing Committee, authenticated as per the Rules/ Bye-laws, or by all the members of Managing Committee regarding opening the account and authorised signatories.
- List of beneficial owners (If any).
- Memorandum of Understanding or similar documents,



LEGAL ENTITY IDENTIFIER

- The Legal Entity Identifier (LEI) is a 20-digit alpha-numeric code used to uniquely identify parties to financial transactions worldwide. Post the Global Financial Crisis, for improving the financial data accuracy and quality, and helping in better risk management, the concept of uniform global Legal Entity Identifier (LEI) code was mooted.

- Entities can obtain LEI from any of the Local Operating Units (LOUs) accredited by the Global Legal Entity Identifier Foundation (GLEIF)- the global entity tasked to support the implementation and use of the LEI. In India, LEI code may be obtained from Legal Entity Identifier India Ltd.
- (LEIL) (a subsidiary of the Clearing Corporation of India Limited (CCIL)), accredited by GLEIF as LOU.



- LEI system has been implemented for all participants in Over the Counter (OTC) markets for Rupee Interest Rate derivatives, foreign currency derivatives and credit derivatives in India.

PPB

Module-A

Operational Aspects of Deposit Accounts

Unit- 5

SALIENT FEATURES OF DEPOSIT ACCOUNTS

Current Account

Current account is a transactional account, primarily designed to facilitate frequent/regular financial transactions by traders, business people, and entrepreneurs.

(i) It is meant for individuals/institutions having large number/ volume of transactions, mainly for day-to-day business and operational needs, and parking operational surplus funds. No interest is payable by the bank on the deposits held.

(ii) These can be opened by all types of customers, viz. Individuals, Sole Proprietary Concerns, Partnership Firms, Limited Liability Partnerships, Private/Public Sector Companies, Clubs, Associations, Trusts/ Executors/Administrators, Govt./Local Bodies, Cooperative Societies, Religious/Educational/ Charitable Institutions, Registered/Unregistered Societies, or any other Juridical Persons (like Special Purpose Vehicles), etc.

(iv) A current account cannot be opened by:

- ~~(a) Minors. However, accounts of minors can be opened and operated by the natural guardian.~~
- ~~(b) Pardanashin women.~~
- ~~(c) Illiterate persons.~~
- ~~(d) Blind persons.~~

(v) There is no restriction on the amount to be withdrawn by the account holder at any time.

(vi) There is no restriction on the amount to be deposited in the account.

Temporary Overdraft (TOD)

- (i) Wherever there are specific provisions in the Current account rules/permission in writing through policy/circular, temporary overdrafts (TOD) can be given to good and trustworthy customers against their written request.
- (ii) A written request for TOD and Demand Promissory Note should be furnished by the account holder.





Savings Bank Account

- (i) Savings bank accounts are meant for individuals operating singly or jointly with other individuals.
- (ii) Sometimes such accounts are opened in the names of institutions which are specifically approved by the RBI for maintaining savings bank accounts with banks
- (iii) Savings bank accounts are opened either with cheque facility or without cheque facility.
- (iv) Cash withdrawals from savings accounts without cheque facility are allowed through withdrawal slips (provided at the bank branches) accompanied with the passbook.

- (vi) Withdrawals for transfers can be made through cheque, net banking, mobile banking, etc.
- (vii) Deposits can be in cash, by cheques, and through electronic transfers. Interest is payable by the banks on the deposits.
- (viii) Banks also accept standing instructions from the account holders for effecting periodical payments for various purposes by debit to their savings accounts.
- (ix) These accounts are not meant for transactions related to business or trading activities etc.
- (x) There is no ceiling on the balances in the account.



Eligibility to open savings accounts

(a) Banks are prohibited from opening savings account in the name of Government departments/bodies depending upon budgetary allocations for performance of their functions/ Municipal Corporations or Municipal Committees/Panchayat Samitis/State Housing Boards/Water and Sewerage/Drainage Boards/ State Text Book Publishing Corporations/Societies/Metropolitan Development Authority/State/District Level Housing Co-operative Societies, etc. or any political party or any trading/business or professional concern, whether such concern is a proprietary or a partnership firm or a company or an association and entities other than those indicated in (b) below.

(b) Following categories of persons/ institutions are eligible to open savings accounts with a bank:

- (i) Individuals either in single name or in joint names of two or more persons.
- (ii) Minors aged above 10 years can open and operate Savings bank account independently. Some banks may fix a higher age for opening savings account.
- (iii) Karta of HUF.

(iv) Entities of the categories for which RBI has given general permission. The categories currently permitted are shown in Table

Table 5.1 Organisations for which Savings Bank Account is Permitted by RBI

| | |
|------|---|
| (1) | Primary Co-operative Credit Society which is being financed by the bank. |
| (2) | Khadi and Village Industries Boards. |
| (3) | Agriculture Produce Market Committees. |
| (4) | Societies registered under the Societies Registration Act, 1860 or any other corresponding law in force in a State or a Union Territory except societies registered under the State Co-operative Societies Acts and specific state enactment creating Land Mortgage Banks. |
| (5) | Companies licensed by the Central Government under Section 8 of Companies Act, 2013 or Section 25 of Companies Act, 1956 or under the corresponding provision in the Indian Companies Act, 1913 and permitted not to add to their names the words 'Limited' or the words 'Private Limited'. |
| (6) | Institutions other than those mentioned in sub-para (a) above and whose entire income is exempt from payment of Income-tax under the Income-Tax Act, 1961. |
| (7) | Government departments / bodies / agencies in respect of grants/ subsidies released for implementation of various programmes / Schemes sponsored by Central Government / State Governments subject to production of an authorization from the respective Central / State Government departments to open savings bank account. |
| (8) | Development of Women and Children in Rural Areas (DWCRA). |
| (9) | Self-help Groups (SHGs), registered or unregistered, which are engaged in promoting savings habits among their members. |
| (10) | Farmers' Clubs – Vikas Volunteer Vahini – VVV. |

Transfer of accounts

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L → Y

- (i) At the written request of the customer, the SB account can be transferred from one branch to another branch of the bank free of any charges.
- (ii) All unused cheque leaves must be surrendered to the old branch. o. CBS
- (iii) The account opening form and specimen signature card must be transferred to the transferee branch.
- (iv) With the introduction of CBS and multi-city cheques, transfer of accounts is not essential. The base branch/parent branch is changed.

Closing of account

- (i) SB account may be closed on written request of the single/ all joint account holder(s).
- (ii) All the unused cheque leaves must be surrendered and the pass book presented.
- (iii) The pass book may be returned after updating and marking "account closed" in all pages.
- (iv) For the balance in the account a cheque/withdrawal form must be obtained for effecting the payment.



Basic Savings Bank Deposit Account (BSBDA)

Basic Savings Bank Deposit Account is made available by banks to facilitate financial inclusion, especially of persons of lower economic standing. Following basic minimum facilities should be offered free of charge, and without any minimum balance requirement:

- (i) Deposit of cash at bank branch as well as ATMs/CDMs.
- (ii) Receipt/credit of money through any electronic channel deposit/collection of cheques including cheques drawn by Central/State Government agencies and departments.
- (iii) No limit on number and value of deposits that can be made in a month.

- (iv) Minimum of four withdrawals in a month, including ATM withdrawals, at own/ other bank ATMs.
- (v) ATM Card or ATM-cum-Debit Card.

↗ Cheque book is not included in minimum free services, but are permitted to be issued free of charge. Banks are also free to provide additional value-added services, subject to following conditions:

- (i) If provided on charges, the pricing should be reasonable, transparent and non-discriminatory.
- (ii) Availment of such services is at the option of the customer.
- (iii) No stipulation of maintaining minimum balance should be made.

Accounts with additional services at additional cost will not be considered as BSBD Account.

A person can have only one BSBDA in the banking system, Holders of BSBDA will not be eligible for opening any other SB account in that bank. Any other existing SB account(s) in that bank should be closed within 30 days from the date of opening a BSBDA. The customer can have any other types of deposits.

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(c) Certificate of Deposits (CDs)

The certificate of deposit are short-term negotiable money market instruments.
CDs are not in the nature of other bank deposits, but are a distinct category.

Salient aspects of CDs are enumerated below.

- (i) CDs can be issued by the SCBS, RRBs, and SFBs to all persons resident in India.
- (ii) They are issued in dematerialized form in denominations of 5 lakh, with minimum 5 lakh.
- (iii) Tenor of CDs should be minimum 7 days and maximum 1 year.
- (iv) Interest rate may be fixed or floating linked to the benchmark rate specified by Fixed Income Money Market and Derivatives Association of India (FIMMDA).
- (v) CD's may be issued at discounted value or with a coupon for interest.
- (vi) CDs are traded in the secondary market.
- (vii) Buyback of CDs can be done, if offered to all investors in the specific issue of CDs.
- (viii) Issuance of CDs attracts stamp duty.

Interest on Inoperative accounts/ Unclaimed deposits

- (i) Interest on SBs should be credited on regular basis whether the account is operative or not.
- (ii) No penal charges for shortfall in minimum balance should be levied on inoperative accounts.
- (iii) If a TD matures and proceeds are unpaid, on the unclaimed amount the SB rate or the contracted rate on the matured TD, whichever is lower.

2 years
Janauary
July
October

(ii) Where the customer's request is not received, banks may renew the deposit for a term equal to that of the original term.

(iii) The enforcement authority should be advised about the fact of renewal along with rate of interest on the renewed deposit. This communication should be copied to the depositor too. ✓

On the savings bank accounts frozen by the enforcement authorities, banks may continue to credit the interest to the account on a regular basis.

Displaying List of Inoperative Accounts/Unclaimed Deposits

- (i) As a general pro-active measure, banks are required to display on their respective websites the list of accounts which are inactive/ inoperative for ten years or more.
- (ii) It must contain only the names of the account holder(s) and her address. In case of entities, the names of individuals authorised to operate the accounts should also be indicated.
- (iii) No other details should be included in the list.
- (iv) The information on the process of claiming the unclaimed deposit /activating the inoperative account and the necessary forms and documents for claiming the same should also be given.

*✓ (K+L)
inactive & postal
→ unclaimed*

NOMINATION FACILITY

- The Banking Regulations Act, 1949 was amended by section 37 of the Banking Laws (Amendment) Act, 1983 by introducing new sections 45 ZA to ZF which provide, inter alia, for nomination facilities to Banks' customers in respect of deposit accounts, safe deposits, and safe vault lockers.
- The relevant rules framed by the central government with reference to the above sections are termed "**The Banking Companies (Nominations) Rules 1985**".
- Bank depositors, who are individuals, can make nominations for all types of deposits. They can also change the nominees, or cancel any nomination as and when they wish to do so.

Vocab

- In case of deposits in joint names the mandates should be given by all the joint holders of deposits.
- Following specific formats have been prescribed for nominations for deposits with banks:

Form DA-1 - for making nominations by the depositors. ✓

Form DA-2 - for cancellation of the said nominations to be made by the depositors. ✓

Form DA-3-for variations of the said nominations to be made by the depositors. ✓



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Module-A

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Bankers' Special relationship

Unit-7



INTRODUCTION

- ❖ Normally, the account of a customer with a banker is operated by the customer himself. There are occasions, when the account holder gives an authority to another person through some legal documents to operate the account on his behalf.
- ❖ In such a case, a special relationship is created between banker and customer.
- ❖ Further, the obligation of a banker to honour a cheque drawn on the customers' account is subject to the condition that the money lying in the account is properly applicable for making payment.
- ❖ There are cases where a banker is justified in refusing payment of a cheque.

MANDATE - DEFINITION

Definition: A person competent to enter into a contract may authorise another person to open and operate an account on his behalf. This authority can be granted by a mandate or a power of attorney.

A mandate is an authority given by the account holder in favour of a third person to do certain acts on his behalf. This is issued by an account holder with a direction to his/her bankers authorising the person to operate the account on his/her behalf.

~~Mandate
Power of attorney~~

The following are the salient points of a mandate:

- The customer informs the bank about the authority given to the third person (mandatee).
- The signature of the mandatee is verified by the customer in the mandate letter.
- The mandate is normally temporary for a short period.
- Institutions need to issue a power of attorney and not a mandate.
- A mandate ceases to be valid on death, insanity, and insolvency/ bankruptcy of the account holder.
- A mandate can be withdrawn anytime by the account holder/s.

POWER OF ATTORNEY (POA) - DEFINITION

It is a document executed by one person called donor or principal in favour of another person called donee or agent to act on behalf of the former, as per authority given in the POA document.

Following are the salient features of a POA:

(a) Two types of POA are generally granted:

- ✓ 1. General or universal →
- ✓ 2. Specific or limited.



General POA is issued for acting in more than one transaction and confers very extensive powers to the donee.

Specific or Limited POA is issued for a specific purpose and often it is for a single transaction.

(b) General POA gives power to sign cheques, stop payment of cheques, and to sign borrowal documents, on behalf of the principal.

(c) It is a stamped document and is executed in the presence of a Notary Public/Magistrate of a Court/ Government official authorised to do so.

- (d) POA holder must sign as Per pro _____ Sd/-
Constituted Attorney
- (e) The Principal can revoke the POA at any time for future transactions.
- (f) A power of attorney stands revoked by the death, insanity or insolvency
(winding up or liquidation in case of companies) of the principal.



Delegation of Powers - Mandate or Power of Attorney

- ❖ For a joint account, all joint account holders should sign the mandate/power of attorney empowering a third party to operate it.
- ❖ In case of a partnership firm, all the partners must sign the POA or mandate authorising a third party to operate its account.
- ❖ In the case of limited companies, delegation of authority by a person duly authorised to open and operate on the company's account is possible only if that person has the specific authority to further delegate his powers to a third person.

- ❖ Fiduciaries such as executors, administrators and legal guardians cannot appoint agents. An attorney cannot delegate his powers unless his power of attorney specifically provides for the power of substitution.
- ❖ In case more than one person has been authorised, clear instructions about the operation of the account, whether to be operated singly or jointly must be obtained.



BANKER'S LIEN

- ❖ Banker's lien is the right of the banker to retain possession of the goods and securities owned by the debtor until the debt due from the latter is paid.
- ❖ The banker's lien is an implied pledge. → ✓
- ❖ A banker's right of lien is more than a general lien, as it confers upon the banker the power to sell the goods and securities in case of default by a customer.
- ❖ Since such right of lien resembles a pledge, it is usually called an 'implied pledge'.

BANKER'S LIEN



- ❖ A banker acquires the right to sell the goods which came into his possession in the ordinary course of banking business, in case the debt is not paid.
- ❖ **Sec. 171 of the Indian Contract Act, 1872**, gives to the banker an absolute right of general lien on all goods and securities received by the banker. However, when a customer inadvertently leaves a packet containing certain share certificates, life insurance policies, fixed deposit receipts of other banks etc., while leaving the bank premises, the banker will have no right of lien over those securities because those were not given to the banker in the normal course of banking business.

- ❖ While no separate agreement or contract is necessary; to be on the safe side, the banker takes a letter of lien from the customer mentioning that the goods are entrusted to the banker as security for a loan- existing or future.
- ❖ The latter gives an authority to the banker to exercise his right of lien over them and can sell the goods in case of default on the part of the customer.

Banks can exercise both types of lien depending on the circumstances of each case.

"General lien' of bank is defined in Sec. 171 of Indian Contract Act, 1872:
“banks, may in the absence of a contract to the contrary, retain as security for general balance of account any goods bailed to them”. A 'Particular lien' gives the right to retain possession only of the goods in respect of which the charges or dues have arisen.

In order that a particular security falls under bank's lien, the following conditions should be satisfied:

- (i) The property should come in the hands of the bank in its capacity as a creditor bank.**
- (ii) There should be no entrustment for special purpose which is inconsistent with the lien.**
- (iii) There should be no contract - expressed or implied to exclude the lien.**
- (iv) The possession of the goods/ security must be in the same right as the account of the customer.**



RIGHT OF SET-OFF

- ❖ Set-off is the right of a debtor to take into account a debt owing to him by a creditor, when paying a debt due from him to the creditor.
- ❖ A bank has a right of set-off between two or more accounts maintained by a customer, i.e. by adjusting the debit balance in one account with the credit balance in the other account as the bank-customer relationship in the two accounts is that of creditor-debtor and debtor-creditor respectively.
- ❖ In other words, the banker can adjust his claim from the amount that is payable to the customer.

Q Mr. Sharma has the following accounts with "SecureBank Ltd.":

1. **Savings Account:** ₹75,000 (Credit Balance) - Here, Mr. Sharma is the creditor, and SecureBank Ltd. is the debtor.
2. **Current Account:** ₹20,000 (Overdrawn Balance / Debit Balance) - Here, Mr. Sharma is the debtor, and SecureBank Ltd. is the creditor.
3. **Personal Loan Account:** An Equated Monthly Instalment (EMI) of ₹15,000 was due on the 5th of the month, which Mr. Sharma has failed to pay. The loan agreement has a clause allowing the bank to exercise the right of set-off.

Applying the Right of Set-off:

SecureBank Ltd. has sent reminders to Mr. Sharma regarding his overdue personal loan EMI and the overdrawn current account, but he has not regularized these accounts.

The bank can now decide to exercise its Right of Set-off.

1. Combining Debts:

1. Mr. Sharma owes the bank ₹20,000 for the overdrawn current account.
2. Mr. Sharma owes the bank ₹15,000 for the overdue loan EMI.
3. Total amount Mr. Sharma owes the bank (his debit position): ₹20,000 + ₹15,000 = ₹35,000.

2. Using Available Credit Balance:

1. Mr. Sharma has ₹75,000 in his Savings Account (his credit position with the bank).

3. The Set-off Action: SecureBank Ltd. can legally appropriate ₹35,000 from Mr. Sharma's Savings Account to clear:

1. The ₹20,000 overdrawn balance in his Current Account.
2. The ₹15,000 overdue EMI on his Personal Loan.

Result after Set-off:

- **Savings Account:** ₹75,000 - ₹35,000 = ₹40,000 (New Credit Balance)
- ✓ **Current Account:** ₹0 (The overdraft is cleared)
- **Personal Loan Account:** The specific EMI of ₹15,000 is paid.

75000 - 35000
40000

Key Considerations Automatic Right vs. Agreement: While the right of set-off can be an implied right, it's often explicitly mentioned in loan agreements or account opening forms.

• **Notice to Customer:** Generally, a bank should provide reasonable notice to the customer before exercising the right of set-off, unless circumstances warrant immediate action (e.g., insolvency, garnishee order).

• **Accounts must be in the same name and same right:** The funds being combined must belong to the customer in the same capacity. For example, a bank cannot set off a debit balance in Mr. Sharma's personal account against a credit balance in an account he holds as a trustee for someone else.

• **Debts must be due:** The debts must be current and legally recoverable. A bank cannot set off a future debt.

• **No Set-off for:**

- Funds held in trust (e.g., if the bank is aware the funds are for a specific purpose like a client's account).
- Security deposits.
- Accounts with a garnishee order attached.

• **Lien vs. Set-off:** Understand the difference. Lien is the right to retain assets until a debt is paid, while set-off is the right to combine accounts.

Essential Features of Set-off

The right of set-off can be exercised by a bank if the following conditions are satisfied:

- (a) It is a statutory right and can also arise out of an agreement between the parties concerned.**
- (b) In an ongoing situation, the right of set-off can be exercised by a banker by serving a reasonable notice on the customer.**
- (c) There should be no agreement between the bank and customer to exclude the right of set-off.**

- (d) There should be mutual debts and the debts should be for certain sums, while the claim and the cross claim should be for certain sums.**
- (e) The claims and cross claims should be both for determined amounts. Where the customer has stood as a guarantor to another party, his credit balance cannot be set-off against the borrowers' dues, till the guarantee amount is determined.**
- (f) For the purpose of set-off, all the branches of a bank are considered as a single entity.**

- (g) The set-off can be applied only to those debts, which are due and recoverable on the date of exercising the set-off.
- (h) The set-off can not be applied in respect of debts that are contingent and not yet due.
- (i) Indebtedness should arise in the same rights. Where the bank has noticed that the amount in the customer account is held under trust, the bank cannot exercise the right over this amount against a debit balance on another account of the customer.

- (j) A deceased's credit account and a customer's debit account cannot be combined.
- (k) **Automatic right of set-off (ie, set-off without notice) arises in the following cases:**
- (i) Death or insanity/insolvency of the customer
 - (ii) Insolvency of a partner or on the winding up of a company
 - (iii) Receipt of garnishee order
 - (iv) Receipt of notice of assignment of customer's credit balances
 - (v) Receipt of a notice of secured mortgage over the security charged to the bank.

RIGHT OF APPROPRIATION

- ❖ In case of his usual business, a banker receives payments from his customer. If the latter has more than one account or has taken more than one loan from the banker, the question of the appropriation of the money subsequently deposited by him arises. **Sec. 59 to 61 of the Indian Contract Act, 1872** contain provisions regarding the right of appropriation of payments in such cases.

Scenario:

Mr. Arjun and his wife, Mrs. Priya, have a joint savings account with "FutureSecure Bank Ltd."

• **Account Balance:** ₹3,00,000

• **Operating Mandate:** "Either or Survivor"

Separately, Mr. Arjun had taken a **personal loan** of ₹75,000 from FutureSecure Bank Ltd. for which ₹40,000 is still outstanding. Unfortunately, Mr. Arjun passes away.

Applying the Principle:

Upon receiving the intimation of Mr. Arjun's demise, FutureSecure Bank Ltd. will undertake the following:

1. **Verification of Liabilities:** The bank will check its records for any outstanding loans, overdrafts, or other liabilities in Mr. Arjun's individual name. In this case, they find the outstanding personal **loan** of ₹40,000.

2. **"Question of Appropriation Arises":** As per the principle provided in your data, because Mr. Arjun (the deceased joint account holder) has an "indebtedness" (the ₹40,000 **personal loan**) to FutureSecure Bank Ltd., the "question of **appropriation** of the **credit balance**" in the joint account arises. The bank will now evaluate if it can use the funds in the joint account to settle this personal debt of Mr. Arjun.

1. Bank's Action (Illustrative):

1. FutureSecure Bank Ltd. would typically review the terms and conditions of both the joint account and Mr. Arjun's personal loan agreement. Many loan agreements contain clauses allowing the bank to set off dues from any account held by the borrower.
2. The bank may notify Mrs. Priya (the surviving joint account holder) of Mr. Arjun's outstanding liability and its intention to appropriate funds from the joint account to settle this specific debt of Mr. Arjun to the bank.
3. If legally permissible under the account and loan terms, FutureSecure Bank Ltd. could appropriate ₹40,000 from the joint account to clear Mr. Arjun's outstanding personal loan.

Outcome:

- Mr. Arjun's personal loan of ₹40,000 with FutureSecure Bank Ltd. is settled.
- The remaining balance in the joint savings account, ₹3,00,000 - ₹40,000 = ₹2,60,000, would then be payable to Mrs. Priya as the surviving account holder, subject to completion of other necessary formalities (like submission of death certificate, KYC, etc.).



PPB

Module-A

**Module A – Cash Management Services and Its
Importance**

Unit-11

- ❑ Cash management refers to the collection, concentration, and disbursement of cash. It encompasses level of liquidity, management of cash balance, and short-term investment strategies. Managing cash flow is a crucial job of business managers. Fundamental objective of cash management is "**optimisation of liquidity through improved flow of funds**".
- ❑ The cash management activity engaged great attention of bankers and the banks were trying to offer a variety of services to the corporate clients.

- According to the findings of a study conducted by Killen and Associates, the top 400 Canadian enterprises could save \$23 billion annually by applying emerging electronic cash management strategies. Commercial banks in the Western countries realised the tremendous potential in providing cash management services to vastly improve their profitability.
- The objective of a cash management system is to improve revenue, maximize profits, minimize costs and establish efficient management systems to assist and accelerate growth.

- Cash management has changed significantly over past few decades for two reasons. First, there had been an upward trend in interest rates that increased the opportunity cost of holding cash.
- Second, technological developments, particularly computerized electronic funds transfer mechanism.
- Most businesses are conducted by large firms, that receive funds from many sources and make payments from a number of different cities or even countries.
- For example, companies such as IBM, General Motors, and Hewlett-Packard have manufacturing plants all around the world, even more sales offices, but most of the payments are made from the cities where manufacturing occurs, or else from the head office.

- Thus a major corporation would have numerous bank accounts, and since the inflows and outflows would not usually balance in each account, a system was needed to transfer funds from where they were surplus to where there was deficit.
- Considering the importance of a robust payment system to economy, RBI has taken numerous measures since mid eighties to strengthen the payments mechanism in the country.

- Introduction of computerized settlement of clearing transactions, use of Magnetic Ink Character Recognition (MICR) technology, provision of inter-city clearing facilities and high value clearing facilities, Electronic Clearing Service Scheme (ECSS), National Electronic Funds Transfer (NEFT) scheme, Real Time Gross Settlement System (RTGS), Delivery v/s. Payment (DvP) for Government Securities transactions, setting up of Indian Financial Network (INFINET), Cheque Truncation System and CTS-based nationwide Grid Clearing, National Automated Clearing House (NACH) system, UPI based payment systems are significant initiatives.
- These initiatives alongwith introduction of a Centralized Funds Management System (CFMS), Securities Services System (SSS), and Structured Financial Messaging System (SFMS) have transformed the earlier systems into a state-of-the-art payment infrastructure in India.

For a Corporate Entity

- ❑ Good cash management is a conscious process of knowing when, where, and how a company's cash needs will occur, knowing which are the best sources for meeting additional cash needs; and being prepared to meet these needs when they occur by keeping good relationships with bankers and other creditors. Scientific cash management results in: significant savings in time; decrease in interest costs; less paper work; and greater accounting accuracy.

- Proper cash management system gives several benefits to a corporate, namely: creates more control over time and funds, provides timely access to information, enables easy employee related payments, supports electronic payments, produces faster electronic reconciliation, allows for detection of book keeping errors, reduces the number of cheques issued, and earns interest income or reduces interest expense.
- Corporations with subsidiaries worldwide, can pool everything internationally so that the company can offset the debts with the surplus monies from various subsidiaries.

- The end result will transform treasury function as a profit-centre by optimising cash and putting it to good use. Creative and pro-active cash management solutions can contribute dramatically to a company's profitability and to its competitive edge.
- The ultimate purpose of proper management of liquidity, needless to emphasise, is to improve the overall productivity of funds.
- Unilever, for example, manufactures and sells its products all over the world.

- To operate effectively, Unilever has numerous bank accounts so that some banking transactions take place near the point of business. Sales receipts from America are paid into local banks there.
- Therefore, while having local banks carry out local transactions, large firms need to have a co-coordinating system to ensure that funds are transferred from where there is surplus to where they are needed.

- Deregulation and new technology have eroded banks comparative advantages and made it easier for non- bank competitors to enter into hitherto exclusive banks' domains.
- In response, banks have shifted their sales mix toward products that generate non-interest income by selling "non-bank" fee-based financial services, and by charging explicit fees for services that were earlier bundled with the main banking product.



- According to a study titled '**Fee-Based Financial Services Markets: New Opportunities and Threats in the Internet Age**' by Killen Associates again, the market for retail and commercial fee-based financial services will exceed that for interest-based services globally.
- Banks have aimed for such services to be their primary profit source for certain reasons. This revenue is more stable over time, assures a steady income and more importantly, leads to a strong relationship with the corporate client.

A number of banks in India are offering wide-ranging cash management services.

All categories of banks viz., public sector banks, old private banks, new generation private sector banks, small finance banks, payment banks and foreign banks operating in India are active in the cash management segment.

1. Cash Collection Service: Banks have implemented various customised cash pick-up solutions to meet specific requirements of their customers. These solutions provide benefits to customers such as:

Minimisation of operational risk; Reduction in cost; Security; Increased efficiency.

2. Direct Credit by Funds Transfer: This offers management of payables in respect of: Supply chain payments, Overseas remittances, Salary payments, Statutory payments.

3. Cheque/DD Drawing Arrangement: These are offered on pre-funding or post-funding basis to corporates and banks/their clients. Demand drafts/Payable at par cheques issued by the CMS clients are by branches across the country, on presentation for payment.

4. **NEFT Payment Electronic Channels:** To facilitate bulk disbursements for credit to various beneficiaries having accounts in various bank branches across the country.
5. **Receivables Management/Cheque Collections:** Local and upcountry clearing solutions.
6. **NACH payment facility:** For periodical disbursements or receipts.
7. **Auto-Sweeping Facility:** Pooling of funds at desired locations

Foreign Banks operating in India offer Regional and Global Treasury Management Services, Liquidity Management Services, Card Services, Electronic Banking Services, e-Commerce Solutions, Account Management Services, Collection Management Services, Cash Delivery Management Services and Investment Solutions.

Conventional formal line between treasury and control, and between cash and accounting strategies is fading. Now, bankers and controllers are working together seeking solutions for the complex cash management function. The key differentiator between a successful bank and another bank is the stress it lays on technology. Certain challenges bankers need to address in cash management services are:

1. Need to comprehend the client's line of activity: Bankers need to understand the accounting and control side of its client's business. The bankers should be strategic partners in company's growth and need to learn about the concerned industry too, and use the knowledge to propose solutions.

2. Provision of other advisory services to clients: Companies would also like that banks will solve certain other but related problems. Changing systems is a major initiative with far-reaching implications to the companies. Bankers cannot work with a standard solution always because the customers do not pose standard problems.

3. Decisions regarding sourcing of software: Software applications for on-line banking and on-line cash management can be: i) built in-house ii) bought from independent software vendors and iii) outsourced to a trusted third party.

- 4. Special consideration to small and medium companies:** The corporate sector in India is dominated by a multitude of small and medium companies. Banks may work out strategies to make high-tech cash management services accessible to small and medium companies.
- 5. A coordinating activity:** In developing cash management solutions, banks need to work with corporate financial controllers and their staff. As this activity involves managing payables or receivables, banks also have to work with systems people and sometimes marketing people.

6. Security and risk management: Corporations lose large amounts due to internal and external frauds. Security and trust are critical issues in electronic transmission and retrieval of important and sensitive information such as corporate treasury data.

7. Operational reliability: Besides security, operational reliability is also important. One of the biggest challenges is making Internet as a reliable business system. So, that communications sent secured and on time.

Thank You



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