

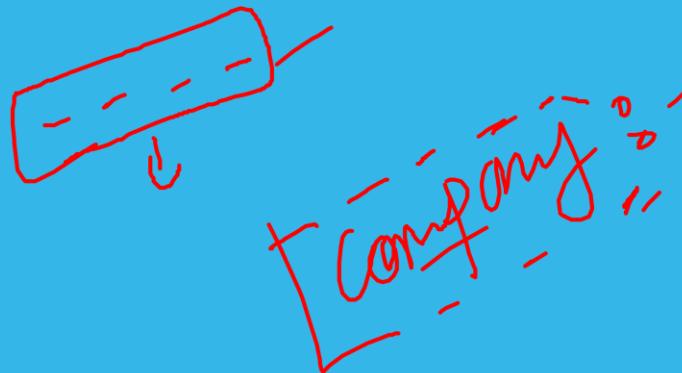
PPB

Crash course

Module- A

Lec-6

Cash Management Services and Its Importance



The Evolution and Impact of Cash Management



Rising Opportunity Costs

Upward trend in interest rates has increased the opportunity cost of holding cash, driving businesses to seek more efficient management solutions.



Technological Transformation

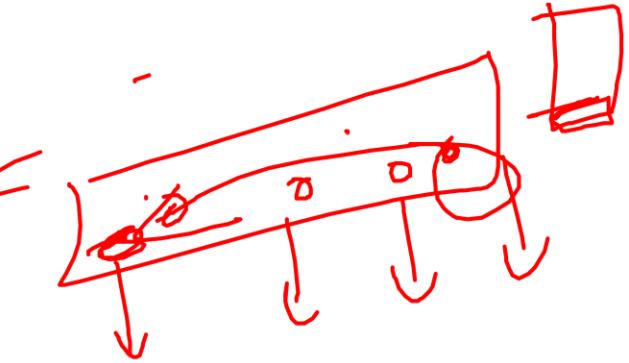
Computerized electronic funds transfer mechanisms have revolutionized how corporations manage global cash positions across multiple locations.

These developments have transformed treasury functions from cost centers into profit centers by optimizing cash and putting it to strategic use.



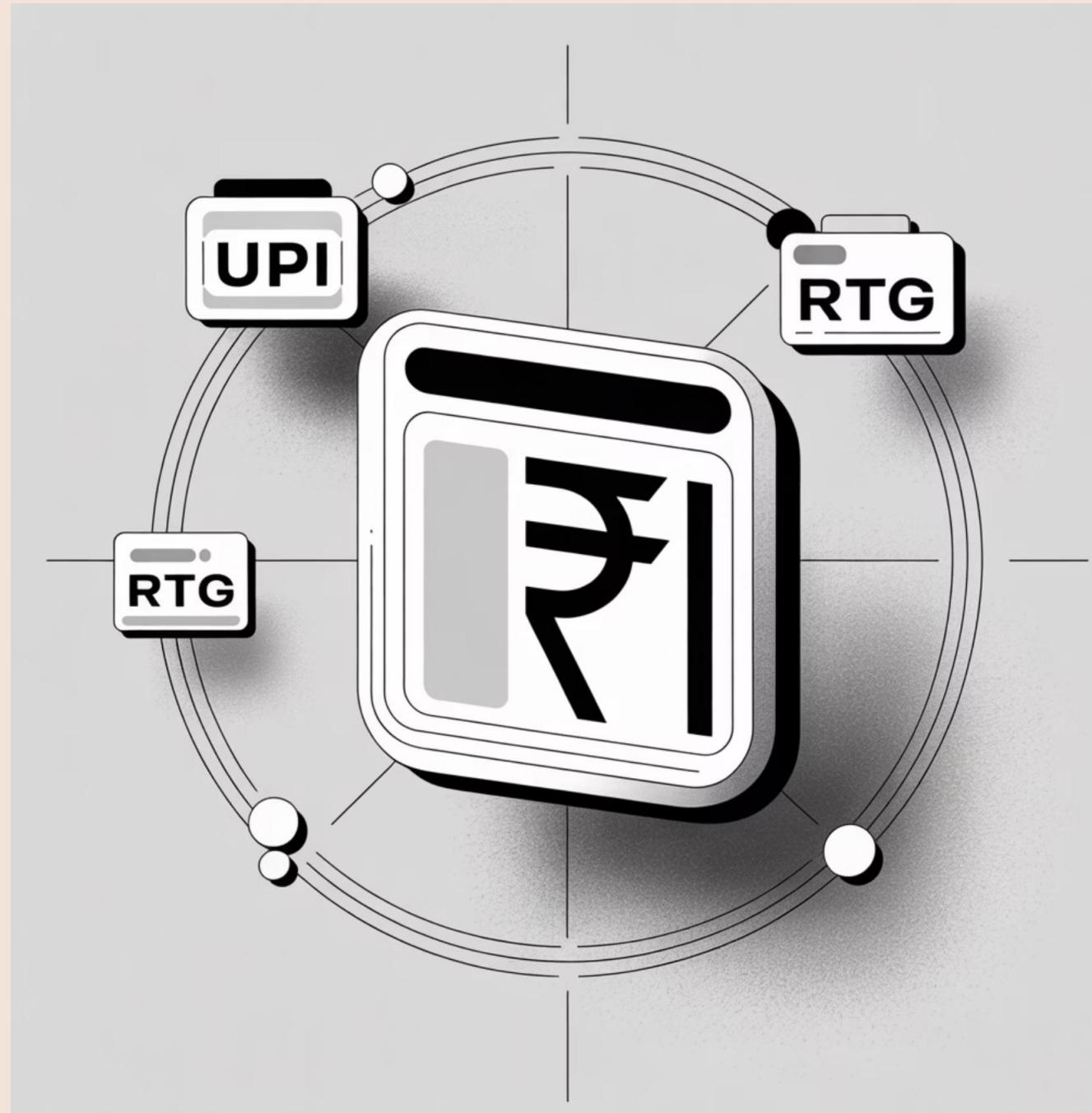
Significant Savings Potential

According to Killen and Associates, the top 400 Canadian enterprises could save \$23 billion annually by applying emerging electronic cash management strategies.



India's Payment Infrastructure Evolution

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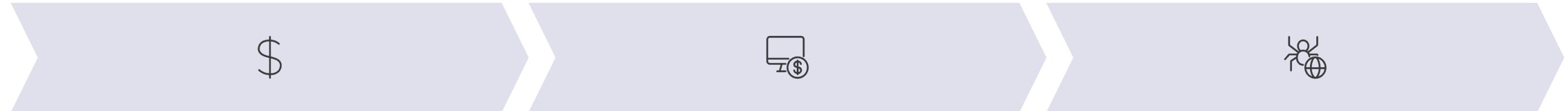


RBI's Transformative Initiatives

Since the mid-1980s, the Reserve Bank of India has implemented numerous measures to strengthen the nation's payment systems:

- MICR technology implementation
- Electronic Clearing Service Scheme (ECSS)
- National Electronic Funds Transfer (NEFT)
- Real Time Gross Settlement System (RTGS) ✓ (NACM)
- UPI-based payment systems
- Cheque Truncation System and CTS-based Grid Clearing

Strategic Benefits for Corporate Entities



Enhanced Control

Greater control over timing and movement of funds with timely access to critical information

Payment Efficiency

Support for electronic payments, easier employee-related transactions, and reduced check issuance

Global Pooling

International fund consolidation allowing companies to offset debts with surplus funds from subsidiaries

Consider Unilever: While local transactions occur through regional banks worldwide, their coordinating system ensures funds transfer from surplus areas to locations of need.

Ultimately, proper liquidity management improves overall fund productivity, transforming treasury operations into profit centers while providing competitive advantages.

Comprehensive Cash Management Services

All categories of banks in India—public sector, private, small finance, payment banks, and foreign banks—are active in cash management, offering various services:

Collection Services

Customized cash pick-up solutions reducing operational risk and cost while enhancing security and efficiency

Payment Solutions

Direct credit transfers, NEFT/NACH payments, and cheque/DD arrangements for supply chain, salaries, and statutory payments

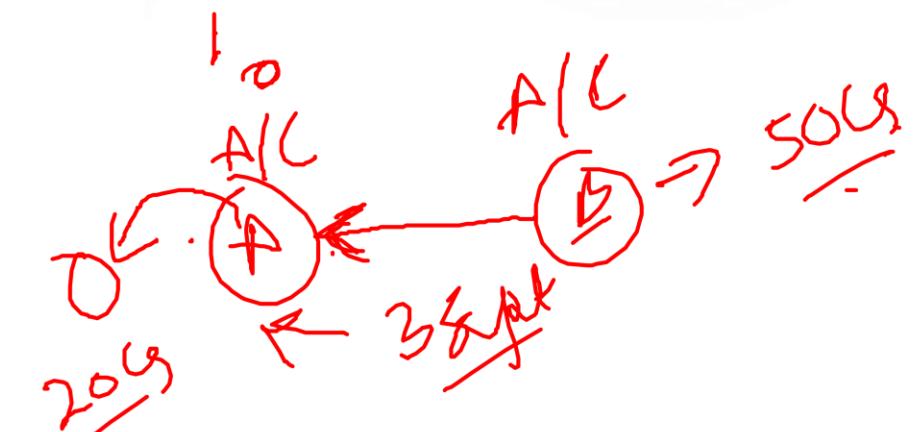
Liquidity Management

Auto-sweeping facilities, receivables management, and investment solutions for optimized cash positions

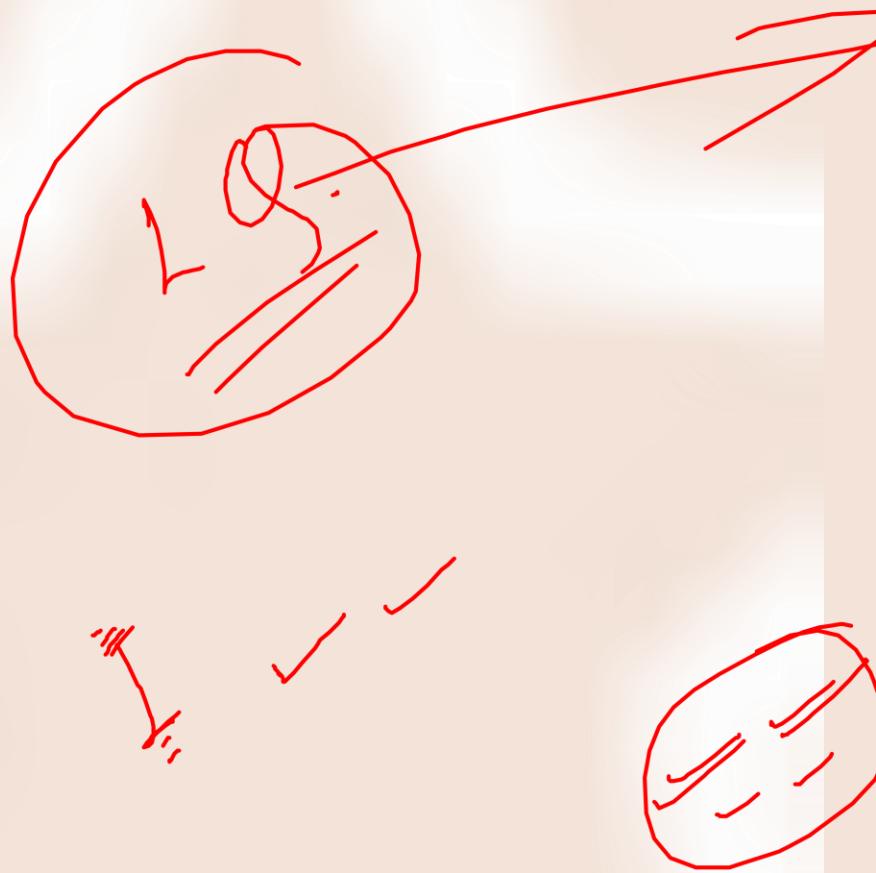
Foreign banks additionally provide regional and global treasury management services, card services, and e-commerce solutions.

Treasury
Bank

Lower
tier



Key Challenges in Modern Cash Management



• Understanding Client Businesses

Banks must comprehend clients' industries and accounting systems to become strategic growth partners

• Customization vs. Standardization

Customers don't present standard problems, requiring tailored rather than one-size-fits-all solutions

• Technology Implementation

Critical decisions about building in-house, buying from vendors, or outsourcing software applications

• SME Accessibility

Developing strategies to make high-tech services accessible to small and medium enterprises

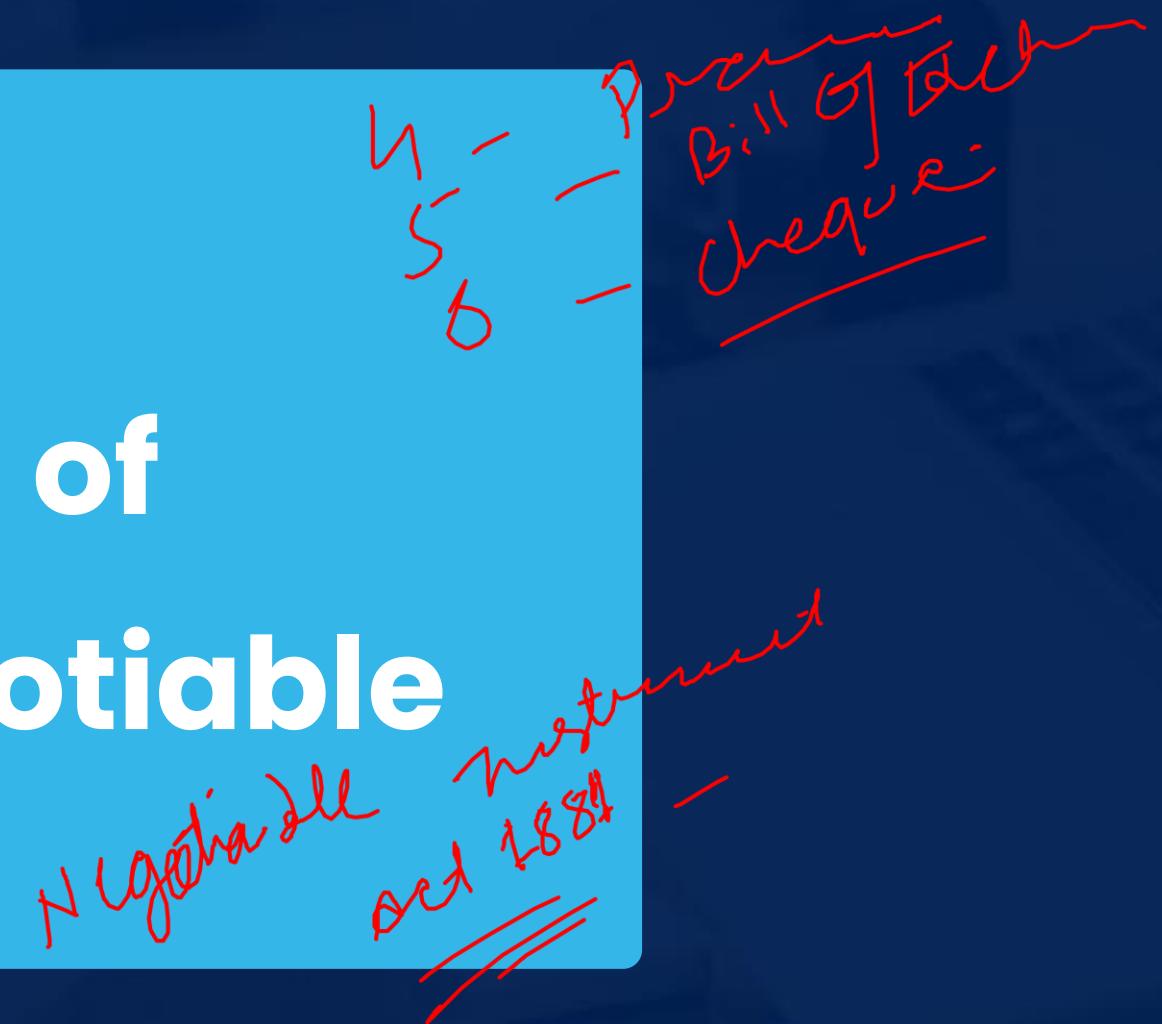
• Security & Risk Management

Protecting against internal/external fraud while ensuring secure transmission of sensitive treasury data

• Operational Reliability

Ensuring communications are secured and delivered on time through reliable business systems

Payment and Collection of Cheques and Other Negotiable Instruments



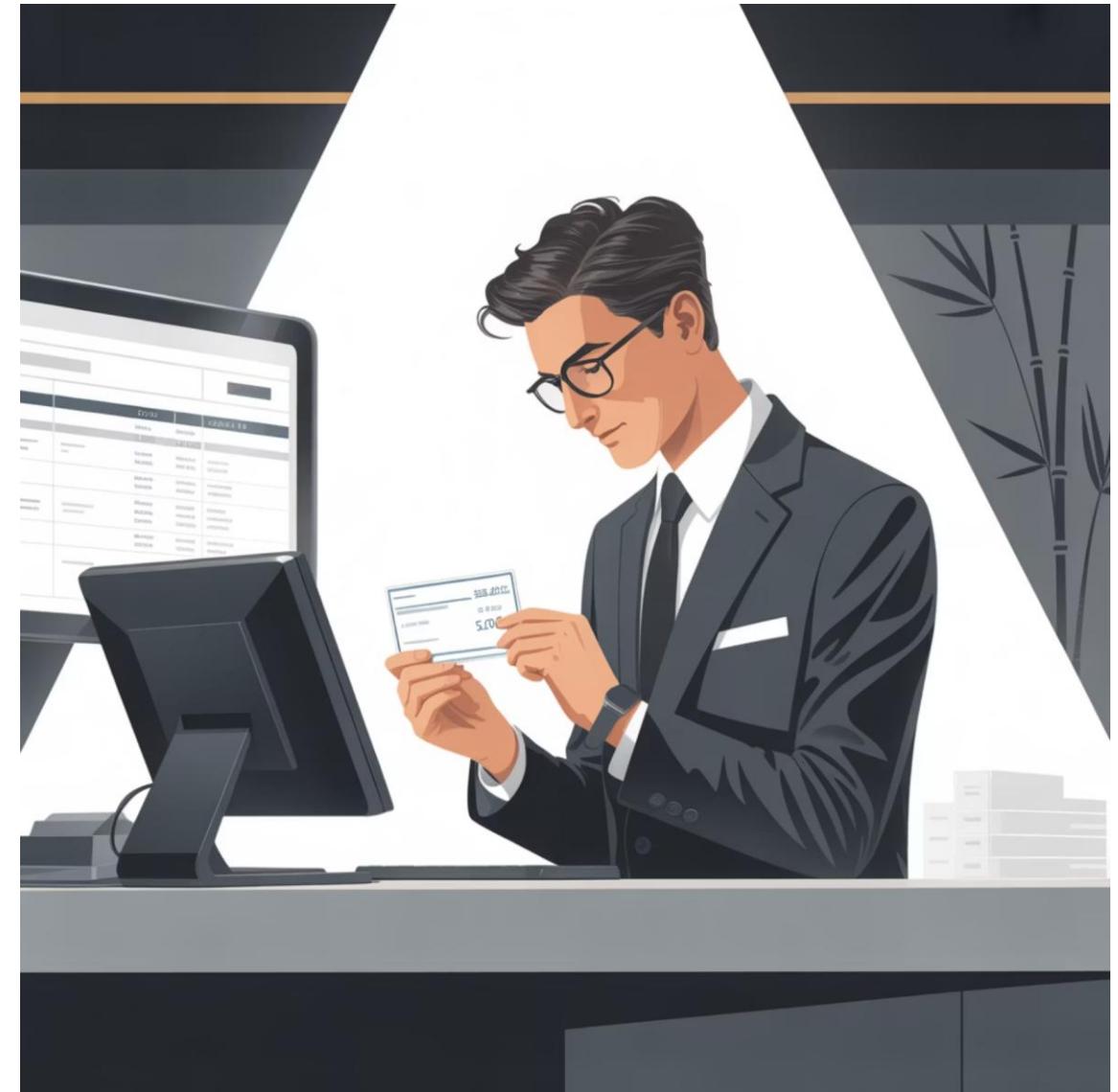
Introduction to Banker's Statutory Obligations

A banker is under a **statutory obligation** to make payment of a cheque drawn by its customer when:

- Sufficient funds are available in the account
- The funds are properly applicable for making the payment
- The cheque is properly drawn fulfilling legal requirements

The Negotiable Instruments Act of 1881 provides the legal framework that governs these obligations and protects all parties involved in the transaction.

Draws - West JAK
Drawee → Bank
Payee → Beneficiary



The Negotiable Instruments Act 1881: Key Definitions

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Cheque

"A cheque is a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand and it includes the electronic image of a truncated cheque and a cheque in the electronic form." (Sec. 6)

Contains written instructions from the account holder to the bank for making payment from their account.

2

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Promissory Note

"An instrument in writing (not being a bank-note or a 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 the bearer of the instrument." (Sec. 4)

3

⑪

Bill of Exchange

"An instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay certain sum of money only to or to the order of a certain person or to the bearer of the instrument." (Sec. 5)

Types of Cheques and Key Parties

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Physical vs. Electronic Cheques

Regular Cheque: Traditional paper instrument with written instructions

Truncated Cheque: Converted to electronic image during clearing cycle

Electronic Cheque: Drawn in electronic form using computer resources with digital/electronic signature

Key Parties in Cheque Transactions

Drawer: The person who writes the cheque (account holder)

Drawee: The bank directed to pay the amount

Holder: Person entitled to possession and to receive payment

Holder in Due Course: Person who obtained the instrument for consideration in good faith

Bank's Duty: Pre-Payment Verification



Branch Verification

Confirm the cheque is presented at the correct branch or within the bank's anywhere banking network



Payee Verification

Confirm payment instructions for single/joint/alternative payees or "cash" instructions

A| A~~B~~(A~~B~~ B

Banks must verify each aspect diligently as these checks form the foundation of the bank's legal protection when making payments.



Drawer's Signature

Verify against specimen signature on record





Critical Verification Points for Cheque Payment



Order vs. Bearer Cheque

For order cheques, verify the identity of the presenter and all endorsements.

For bearer cheques, payment can be made to anyone who presents it without verifying endorsements.



Amount Verification

Ensure amounts in words and figures match. If they differ, Sec. 18 says the amount in words prevails, but in practice, such cheques are returned unpaid.



Alterations & Mutilations

Any material alteration must be authenticated with the drawer's full signature.

Accidental tears/mutilations must be confirmed by the drawer or guaranteed by the collecting banker.



Other Critical Checks

Verify sufficient account balance, absence of stop-payment instructions, and no legal restraints (garnishee orders, attachment orders, etc.).

Check for notices of drawer's death, insolvency, or insanity.



Payment in Due Course - Section

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"Payment in due course means payment in accordance with the apparent tenor of the instrument in good faith and without negligence to any person in possession thereof under circumstances which do not afford a reasonable ground for believing that he is not entitled to receive payment of the amount there in mentioned."

This concept is crucial as the paying banker receives protection under various sections of the Act only if the payment is made "in due course." This requires:

Apparent Tenor

Following the instructions apparent on the face of the cheque

Good Faith

Acting honestly and without negligence

Proper Possession

Paying to a person who appears to be the legitimate holder

Liability of the Paying Bank - Section 31 ✓

The drawee bank is under a statutory liability to honor a cheque when sufficient balance is available. Failure to do so can result in liability for any loss or damage caused to the drawer.

When Funds Are Not "Properly Applicable"

Even with sufficient funds, payment may be refused when:

- ✓ Payment has been stopped by the drawer
- Drawer is deceased and bank has been notified
- Funds are subject to garnishee/attachment orders
- Funds are earmarked for specific purposes
- Bank has exercised right of set-off
- Balance is not a clear balance (uncleared funds)



Protection Available to Paying Bankers

Protection for Forged Endorsements - Order Cheques (Sec. 85)

Bank is discharged by payment to the endorsee if endorsement appears regular, even if the endorsement was forged.

Protection for Bearer Cheques (Sec. 85)

Bank is discharged by payment to the bearer in due course, regardless of any endorsements on the instrument.

Protection for Bank Drafts (Sec. 85A)

Bank is discharged if draft appears properly endorsed and payment is made in due course.

Protection for Material Alterations (Sec. 89)

Payment according to apparent tenor discharges the bank if alterations are not apparent at time of payment.

Protection for Crossed Cheques (Sec. 128)

Bank is protected when paying crossed cheques in due course to the appropriate banker.

Note: No protection is available if the drawer's signature is forged, as such an instrument does not qualify as a cheque.

Duties of a Collecting Bank

A collecting bank handles the collection of payment for negotiable instruments on behalf of customers. Without proper diligence, it may be liable to the true owner for wrongful conversion.

Protection Under Section 131

The collecting banker is protected if:

- ✓ The cheque is collected for a customer (with proper KYC verification)
- The cheque was crossed before it was received by the banker
- ✓ The banker acted in good faith and without negligence

✖ Key Case Law

In *Syndicate Bank vs Jaishree Industries* (AIR 1994 Karnataka 315), the court established that collecting banks must exercise reasonable care and verify the identity of customers presenting cheques for collection.



Endorsement of Cheques

Endorsement occurs when the maker or holder signs a negotiable instrument for the purpose of negotiation, typically on the back or on an attached slip of paper (allonge).



Blank Endorsement

Mere signature without naming any specific person, effectively making the cheque payable to bearer



Full Endorsement

Directs payment to a specific person or to their order, confirming transfer of rights



Conditional Endorsement

Excludes endorser's liability ("sans recourse") or makes payment dependent on a specified event



Restrictive Endorsement

Limits negotiability or specifies use of proceeds (e.g., "Pay to X only")



Facultative Endorsement

Waives the endorser's right to notice of dishonor while remaining liable for non-payment

Crossing of Cheques



Crossing enhances the security of a cheque by directing the paying banker to pay only through a bank account, creating an audit trail of payment.

General Crossing (Sec. 123)

Two parallel transverse lines across the face of the cheque, sometimes with words like "& company" or "not negotiable" between the lines

Payable only through a bank account

Special Crossing (Sec. 124)

Name of a specific banker added to the crossing

Payable only to the specified banker or their agent

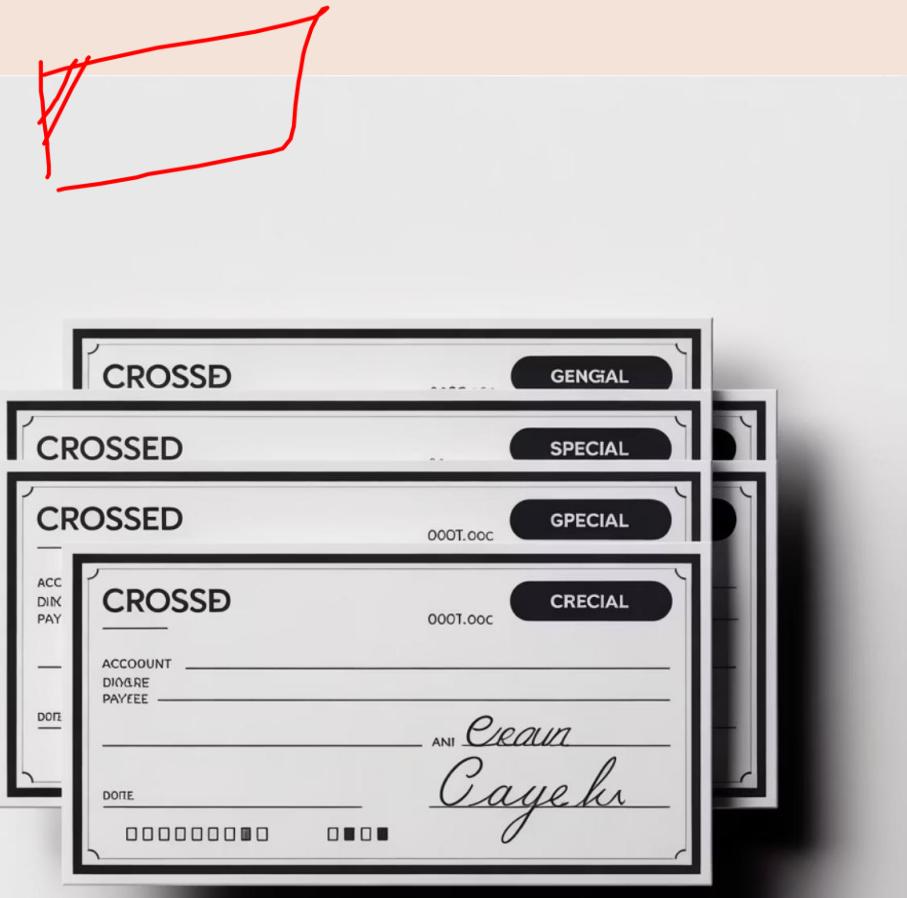
"Not Negotiable" Crossing (Sec. 130)

Removes negotiable character - transferee cannot have better title than transferor

"Account Payee" Crossing

Direction to collect proceeds only for the named payee's account

Not specified in NI Act but widely adopted practice



Forged Instruments and Dishonor of Cheques

Forged Instruments

Forgery can involve the drawer's signature, endorser's signature, payee's name, or amount. No legal protection exists for such forgeries.

- A forged instrument gives **no title** to the holder
- The true owner can sue for recovery
- Payment made inadvertently can be reclaimed from the drawee

Dishonor of Cheques

Common reasons for dishonor include:

- Insufficient funds or exceeded arrangement
- Payment stopped by drawer
- Account closure
- Technical issues (CTS-related)
- Alterations in instrument

Section 138: Dishonor due to insufficient funds is punishable with imprisonment up to two years or fine up to twice the cheque amount.



Legal Consequences of Cheque Dishonor



Responsibility of Paying Bank

Banker's Duty to Honor Customer's Mandate

This presentation explores the legal framework governing a banker's obligation to honor customer payment instructions, with specific focus on the protections provided to paying banks under the Negotiable Instruments Act. We'll examine key provisions, landmark court cases, and practical implications for banking operations.



Section 31: The Foundation of Banker's Duty

Legal Obligation

"The drawee of a cheque having sufficient funds of the drawer in his hands properly applicable to the payment of such cheque must pay the cheque when duly required to do so..."

Compensation Requirement

"...and, in default of such payment, must compensate the drawer for any loss or damage caused by such default."

Section 31 establishes the fundamental duty of a banker to honor properly drawn cheques when sufficient funds are available, creating liability for wrongful dishonor.

Key Elements of Section 31

1 Applies Only to Bankers

As per Section 6, a "cheque" is a bill of exchange drawn specifically on a banker.

2 Sufficient Funds Requirement

The banker must have sufficient funds of the drawer available in the account.

3 Properly Available Funds

The funds must be properly available for payment of the cheque.

4 Properly Drawn Cheque

The cheque must be properly drawn and signed by the drawer when presented.

Liability for Wrongful Dishonor

Compensation to Drawer

If a banker refuses payment wrongfully, they are liable only to the drawer of the cheque, not to any endorsee or holder.

Exceptions exist when:

- The bank is wound up (holder becomes a creditor)
- Cheque is paid disregarding crossing (true owner can hold banker liable)



Forged Signatures: No Mandate to Pay

Canara Bank vs. Canara Sales Corporation (1987)

When a customer's signature on a cheque is forged, there is no mandate to the bank to pay. The bank cannot debit the customer's account for such forged cheques.

Company's accountant forged Managing Director's signature on 42 cheques totaling ₹3,26,047.92. Supreme Court ruled against the bank.

Bihta Co-operative vs Bank of Bihar (1967)

In a joint account, if one of the signatures is forged, there is no mandate and the banker cannot make payment.

Supreme Court: "There never was any mandate by the customer at all to the banker."





Payment Must Be "In Due Course"

Section 10 Definition

Payment in due course means payment:

- In accordance with the apparent tenor of the instrument
- In good faith and without negligence
- To any person in possession under circumstances which do not afford reasonable ground for believing they are not entitled to receive payment

Bank of Bihar vs Mahabir Lal (1964)

Supreme Court: A banker can seek protection under Sec. 85 only where payment has been made to the holder, his servant or agent.

Payment to a bank employee who absconded with funds was not payment to the firm, so bank could not claim protection.

Thank You



Comment Your Feedback

