DegreeLive

B.Com Honours | Semester V | Calicut University

FUNDAMENTALS OF BANKING AND INSURANCE

Course Code: COM5EJ303 • Module 1 Notes

Module I: Introduction to Banking & Negotiable Instruments

Covers origin and growth of commercial banking, RBI central banking monetary functions, Negotiable Instruments Act 1881, cheque crossing types, and demand draft mechanics.

Unit 1: Meaning & Origin of Banking

Banking Regulation Act, 1949 (Sec 5(b)): Accepting for purpose of lending or investment, deposits of money from public, repayable on demand or otherwise.

Unit 2: Structure & Functions of Commercial Banks

1. Commercial Banking Structure: Public Sector Banks, Private Sector Banks, Foreign Banks, Regional Rural Banks (RRBs), Cooperative Banks.
2. Primary Functions: Deposit Mobilization (Savings, Current, Fixed, Recurring) & Credit Creation / Lending (Loans, Overdraft, Cash Credit, Bill Discounting).
3. Secondary Functions: Agency Services (Bill collection, tax payments) & General Utility Services (Locker facility, Forex exchange, Letter of Credit).

Unit 3: Central Banking – Reserve Bank of India (RBI)

Established 1935 under RBI Act, 1934. Functions: Currency Issuer, Banker to Government, Banker to Banks, Lender of Last Resort, Monetary Policy Regulator (Repo Rate, Reverse Repo, CRR, SLR, OMO).

Unit 4: Role of Banks in Economic Development & Emerging Trends

Capital formation, credit expansion, trade facilitation, regional development, and digital transformation.

Unit 5: Negotiable Instruments Act, 1881 (Cheques & Drafts)

1. Negotiable Instruments: Promissory Notes (Sec 4), Bills of Exchange (Sec 5), Cheques (Sec 6).
2. Crossing of Cheques: General Crossing (parallel transverse lines), Special Crossing (name of specific bank added), Not Negotiable Crossing, Account Payee Crossing (restricts transferability).
3. Demand Draft (DD): Order by one bank branch to another to pay specified sum (cannot be dishonored for insufficient funds).

Practical Case Framework (Cheque vs Demand Draft vs Bill of Exchange Comparison): Compare core negotiable instruments on drawer status, acceptance requirement, and dishonor rules.

Comparative Analysis of Negotiable Banking Instruments:

Instrument Attribute	Commercial Cheque	Bank Demand Draft (DD)	Bill of Exchange (BOE)
Primary Drawer Status	Drawn by Account Holder on a Bank	Drawn by One Bank Branch on Another	Drawn by Creditor on Debtor
Requirement of Acceptance	Does not require prior acceptance	Does not require acceptance	Requires Drawee's formal acceptance
Payable on Demand	Always payable on demand	Always payable on demand	Payable on demand or after sight/time
Risk of Dishonor	Can be bounced for Insufficient Funds	Cannot be bounced (Pre-funded)	Can be dishonored for non-payment
Statutory Governing Act	Sec 6 Negotiable Instruments Act 1881	Sec 85A Negotiable Instruments Act	Sec 5 Negotiable Instruments Act 1881