

BILLS PURCHASED-DISHONOURED

In banking practice the cheque is a standard instrument used by account holders in operating their current accounts. Cheques have been long in use as a method of payment for settling accounts and their use is well ingrained in society today. These are drawn for specific amounts, and can be transmitted by post, transferred or negotiated by the person entitled to the funds thereon. These can be drawn on the same Branch or different Branches of the same bank, or different Banks and their Branches; and can also be either domestic or foreign.

The process of crediting can be either passive: that is, await the ultimate realisation either by confirmation received or by number of scheduled days; or active in obtaining immediate credit for the customer.

Giving immediate credit on cheques drawn on other Banks or other Branches of the same Bank, both foreign and domestic, deposited by creditworthy customers is resorted to by what is referred to as Bills Purchase. When dishonoured and returned to the collecting Branch which is also the purchasing Branch such advances are now being treated in different ways by different Branches of Banks in the country.

- 1) As is expected according to instructions Suspense Account Debtors are debited and action pursued to realise the amount. Since the Branch does not have the authority to debit Suspense Account debtors permission is sought for same which lays bare the cause for the application, namely, dishonoured bills purchased and thus accountability is facilitated.
- 2) Certain Branches debit the relevant Current Account to recover them. The legal position is that since the bills are purchased and the Bank is "holder for value" it has to rely on the instrument or other securities including book debts for recovering this sum and not the customers' credit or overdraft balance. Debiting the Current Account with this extraneous item might bring into operation the adverse clause of the rule in Clayton's case. A bank loses the instrument, that is the valid security for that bill purchased when it returns it to the customer after debiting his Current Account;

and when honouring other cheques a bank creates unsecured advances or can be placed in the embarrassing situation of being accused of impairing credit if it returns other cheques when funds in the current account have been used to realise the bills purchased advance. In the approved Bills Purchased limit this is got over by stipulating that all bills purchased subsequently dishonoured will be debited to the relevant current account of the customer concerned while onus of maintaining funds or arrangement is that of the account holder.

- 3) Certain Branches may represent to the Payee Bank/Branch the dishonoured bills purchased either on request or otherwise as routine passing the contra entries or by leaving the earlier entries intact. An extended facility is thus created by resorting to this dubious practice but without any return to the Bank.
- 4) In the case of the first course Branches have to report to higher Authorities. In case of the second and third it may be conveniently forgotten. Reporting is to ensure accountability. If found by the Inspector it is a lapse.

Suggestions

One suggestion is that what is stipulated in approved limits be extended and request for purchase of bills (cheques etc.) by customers should also incorporate consent to debit the account if and when returned for reasons other than the omissions of the collecting branch, the main safeguard is regarding return for want of funds. This is a simple precaution that will help in the realisation of funds. However, the Branch should report the returns to higher authorities.

Another suggestion is if requested by the customers to represent the dishonoured bill purchased, then it should be treated as a second purchase and the branch should levy the appropriate bills purchased commission. In such a case this concession should be allowed only once, but account holders who request such a concession often should be viewed with caution when facilities are extended to them and the move is to get reimbursement without resorting to very drastic steps for the cheque purchased is not his but that of another of his debtor: and the Banks purchase is to accommodate its customer and ensure reimbursement to a customer and not to release the other party with no privity of contract. **R.S.**