

## **Notes on Collecting Banker - meaning, Duties and Responsibilities**

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**Module Name: Banking Operations: Collecting Banker- meaning, Duties and Responsibilities of a Collecting Banker**

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“Collecting Banker” refers to the function of receiving cheques by banker from customers for the purpose of proceeds and crediting them to the respective customer’s account. In other words, the banker who is deputed to collect the amount of cheque from another banker, is called collecting banker.

Collecting banker can be described as a link between the payee of a cheque and its drawee (paying banker). Collecting Banker is the one who accumulates the proceeds of a cheque for the customer.

Collecting banker means the banker who collects the cheques and bills on behalf of the customers.

In other words, every crossed cheque is necessarily to be collected through any bank, which is known as collecting banker.

Collecting banker accepts the cheque, bills of exchange and other negotiable instruments issued or endorsed in favour of his customer and forward them to the paying banker to collect the amount specified therein and credit the respective accounts with the proceeds thereof.

While collecting the cheques of a customer, the banker may act in the capacity of either-

(a) as a holder for value, or

(b) as an agent of the customer.

**Holder for value:** A collecting banker becomes a holder for value if he has paid the value of the cheque to the customer before the cheque is already collected.

**As an agent:** A collecting banker acts as an agent of the customer on crediting the account of the customer only after realising the payment from the paying banker (drawee bank).

### **Duties & Responsibilities of Collecting Banker**

**1. Due Care and Diligence in the Collection of Cheques:** As an agent of the customer, Collecting banker is bound to show due care and diligence in the collection of cheques presented to him.

In case a cheque is entrusted with the banker for collection, he is expected to show it to the drawee banker within a reasonable time.

If banker fails in this regard and the customer suffers a loss, then the collecting banker shall be required to compensate that loss.

In case a collecting banker does not present the cheque for collection through proper channel within a reasonable time, the customer may suffer loss.

In case the collecting banker and the paying banker are in the same bank or where the collecting branch is also the drawee branch, in such a case the collecting banker should present the cheque by the next day.

In case the cheque is drawn on a bank in another place, it should be presented on the day after receipt.

(According to Section 84 of the Negotiable Instruments Act, 1881)

**2. Serving Notice of Dishonour:** When the cheque is dishonoured, the collecting banker is bound to give notice of the same to his customer within a reasonable time.

It may be noted here, when a cheque is returned for confirmation of endorsement, notice must be sent to his customer.

If he fails to give such a notice, the collecting banker will be liable to the customer for any loss that the customer may have suffered on account of such failure.

**3. Agent for Collection:** In case a cheque is drawn on a place where the banker is not a member of the 'clearing-house', he may employ another banker who is a member of the clearing-house for the purpose of collecting the cheque.

In such a case the banker becomes a substituted agent.

**4. Advising the Customer about Collection:** Duty of the collecting banker is to inform his customer immediately about the collection, if the cheque is collected through a credit slip. As soon as the proceeds are collected he can debit his customer's account in respect of his commission and credit the gross proceeds to the customer's account.

**5. Remittance of Proceeds to the Customer:** In case a collecting banker has realised the cheque, he should pay the proceeds to the customer as per his (customer's) direction.

Generally, the amount is credited to the account of the customer on the customer's request in writing, the proceeds may be remitted to him by a demand draft. In such circumstances, if

the customer gives instructions to his banker, the draft may be forwarded. By doing so, the relationship between principal and agent comes to an end and the new relationship between debtor and creditor will begin.

**6. Collection of Bills of Exchange:** There is no legal obligation for a banker to collect the bills of exchange for its customer. But, generally, bank gives such facility to its customers.

In collection of bills, a banker should examine the title of the depositor as the statutory protection under Section 131 of the Negotiable Instruments Act, 1881.

In case a new customer comes, the banker should extend this facility to him with a trusted reference.

**Protections-** If the banker is having any objections in the cheque drawn, the information of dishonor must be given to the customer. In cases of both the duties performed at the same time, the banker gets statutory protection under section 85 and collecting banker gets protection under 131 of the Negotiable Instrument Act, 1881.

**Protection to collecting banker** – The protection to collecting banker only available if the following conditions are fulfill.

- The cheque is a crossed cheque.
- The collecting bank collect crossed cheque as an agent from the customer.
- The collecting bank collects the cheque in good faith and without negligence.