

42 Banking Correspondence

Various functions of banks:

1. Primary Functions

The service of accepting deposits from public or institutions

a. Savings bank deposits

Most common deposit by any customer or private institutions, colleges etc. Pays 3% or 4% interest. Customer has to maintain 500rs as minimum balance if he needs a cheque book. Main purpose: to save money for future expense, to keep money safe from theft, fire or other damages, to earn more money from interest for a minimum period of 16 days.

b. Current deposit

Opened mainly by business customers to use bank as a medium of transaction. Bank do not provide any interest. Customer can withdraw money any time, even within one or two hours

c. Period of deposit fixed by banks- one month to many years. Customer can choose the time period from these. Bank pays more interest(5-8%) because bank can use the money to earn a higher interest rate through:

I. Recurring deposits and time deposits

II. Deposit credits like cash credit, over draft, loans

III. Discounting bills of exchange

IV. Carrying out secondary functions

2. Secondary functions

a. Services rendered to borrowers and depositors

b. Ancillary deposits

i. Collection of cheques, demand drafts, bills of exchange, letters of credit, Hundi, promissory notes

ii. Purchasing local and foreign currency at exchange rates, negotiation of bills, carrying out standing instructions

Ancillary services

1. Provision of safe deposit vaults

2. Personal tax assistance in preparing tax returns, providing credit cards
3. Providing traveller's cheque, gift cheques, giving financial guarantees
4. Purchase and sale of securities, accepting them as valuables for loans
5. Sending funds through bank draft, mail transfer
6. Collection of interest from securities, pension bills
7. Acting as executors, trustees, and underwriters of shares
8. Sale of units issued by UTI

Letters written in banking correspondence

1. Letters written between bank and its customers
2. Letters written between the head office and the branches
3. Letters written between one bank and another like the Reserve Bank of India(RBI)

All these letters will have the following characteristics:

Brevity: letters should be brief, to the point but not ambiguous

Clarity: should be clear, complete and precise

Accuracy: carefully worded to be accurate in figures, dates, names of parties as small mistakes may result in serious consequences

Tactfulness and courteousness: especially when reminding about loans, overdraft or replying to complaints, will help to maintain good relationship with customers.

Secrecy: utmost secrecy should be maintained about customer's transactions and cash and credit dealings, letters to the customer should be kept secret from others, should not disclose any information about his financial position over phone to himself.

43 Letters written by customer to bank

Letter from a customer to a Bank for opening an account

A customer opens a bank account to:

1. earn more money from savings interest
2. to save regularly through monthly savings
3. to safeguard money from risks
4. to use bank as a medium of transaction
5. to avail other services

The bank allows a customer to open an account only after verifying his identity, signature and after introduction. Writing a letter a customer can reduce his trips to bank and get the details and forms needed for opening an account. The letter should include these details:

1. the desire to open an account and type of account
2. details like name, address, profession etc.
3. Details like other formalities like introduction
4. ask about rates of interest and various services
5. other documents needed for account opening
6. type of deposit account needed

Letter from customer to a bank asking for overdraft facility

Overdraft means the amount drawn above the credit balance. In times of emergencies, a bank provides overdraft facility to a longstanding, financially sound customer after an coming to an agreement. The customer has to pledge his assets and pay an interest to the bank. It is treated as a temporary loan and is issued after the bank inspects the assets. Overdraft can be drawn one or many times up to the limit fixed.

Letter for stopping payment

The customer can stop payment to a cheque by writing to the bank. If the cheque is issued to a wrong payee or for a higher amount or if a duly filled cheque is lost, payment can be stopped by immediately writing to the bank. The letter should include these details:

1. whether the cheque is lost
2. the cheque number, account number, type of account
3. name of the payee

4. whether it is a crossed cheque, a bearer cheque or a self cheque

Letter from a customer to a bank regarding non-payment (dishonour of a cheque)

The bank makes payment to a customer if there is sufficient balance in the account and there is no mistake in the drawing of the cheque. Issuing a check without sufficient balance in the account is a punishable offence. Whenever a situation arises that causes the bank to refuse payment to a cheque, the bank returns it with the memorandum mentioning the reason for it. This is called the bouncing of a cheque. The reasons may be:

1. insufficient balance
2. post dated cheque/ date is wrong
3. cutting or correction not attested by drawer's signature
4. the amount written in words and figures are different
5. drawer's signature is different from specimen signature
6. validity period has expired(six months for pay order)
7. cheque is torn or crumbled

The drawer may take corrective measures if he is convinced of the reasons given, if not he should write to the bank inquiring in to the reason for dishonouring a cheque. In case of insufficient funds, bank returns the cheque and the reason 'Refer to Drawer' is given by the bank.

Letter from a customer to a bank regarding loss of cheque (cheque book)

A customer who opens an account can get a cheque book if he so wishes, he will have to keep a minimum balance in the account, Rs.500 for savings account and Rs.1000 for current account. A cheque book may contain 50 leaves(current account) or 20 leaves(savings account). MICR(Magnetic Ink Character Recognition) cheque books contain the details like a serial number to identify the cheque and related transactions, and a requisition slip for a new cheque book. The details of the customer are entered in a cheque issue register before issuing the cheque book. A cheque book should be kept safe. If a bearer cheque with the account number of the customer or a signed cheque is lost the customer should call and inform the bank about it to prevent encashing of the cheque.

A letter informing the bank about loss of cheque book includes:

1. Account number and type of cheque
2. The fact of the loss
3. The serial number of the cheque
4. Name of payee, amount and date on the cheque
5. Whether crossed or bearer cheque

Letter from a customer to a bank issuing standing instructions

Standing instruction means instruction which will be in force until it is changed. Banks offer services like making a regular payment to a third party (like LIC policy payment or rent) on behalf of the customer before the due date. The customer has to give standing instructions and maintain sufficient balance; the bank will make payment and issue an interim receipt. The payee will send the pucca receipt to the customer.

Letter from customer to bank regarding instruction for transfer of funds from one account to another

The customer who already has an account may open another account and ask the bank to transfer a specified amount regularly to that account. If a customer opens a Recurring Deposit Scheme or a Janta deposit scheme, he will have a second account. To avoid going every month to the bank for depositing cash in it, he can give a standing instruction. The letter should contain:

1. Name and address
2. Name of account
3. Number of both accounts
4. Amount to be transferred and the date
5. The period for which amount is to be transferred
6. The length of the period

Sufficient funds should be maintained in the account to carry out standing instructions.

44 Letters written by bank to customer

Letter from bank to customer regarding advice on consignment

When a buyer places an order with a seller living in a different place, the goods will be sent on credit. One way to ensure payment is by depositing the Railway Receipt or Railway Parcel Bill in the bank. The goods are safely packed and deposited at the parcel office in the railway station. The parcel clerk, after getting all the details will issue a RR. It is of two types, 'paid' and 'to pay' and is made in three copies. The original is given to the consignee. It is a negotiable instrument, and only the holder can get the parcel. The consignor sends the RR by post to the consignee or if he needs money immediately, deposits it with the consignee bank. The bank makes the payment to the consignor and sends a letter to the consignee asking him to deposit the money and to collect the RR. This letter is known as consignment advice.

An RR contains the following information:

1. Name and address of the consignor and the consignee
2. The place of booking and destination along with the distance in kilometres.
3. Weight of the parcel/s
4. Value of the goods inside
5. The nature and types of goods inside
6. The total freight charges
7. Whether the freight is paid or to be paid

Abbreviations and Phrases used in Banking Correspondence

Certain terms and phrases are used by banks in their daily clerical routine. Some of these used in ledger entries are printed on the back side of their pass books. They should be understood by the customer to correctly deal with the bank.

1. CHRG – Charges
2. Chq. – Cheque
3. Cash – Cash
4. T Fr. – Transfer

5. Com. – Commission
6. Div. – Dividend
7. Int. – Interest
8. Clg. – Clearing of Cheque
9. Remitt. – Remittance
10. D.D. – Demand Draft
11. T.T. – Telegraphic Transfer
12. M.T. – Mail Transfer

The following terms and phrases are used by the bank while doing correspondence with customers, especially when dealing with cheques:

1. Refer to Drawer
2. Not arranged for
3. Payee Account cheque
4. Effect not cleared (present again)
5. Exceeds arrangements
6. Drawer's signature differs/incomplete
7. Alteration requires full signature of drawer
8. Cheque is out-dated
9. Amount in words and figures differs
10. Crossed cheque must be presented through a bank
11. No advice
12. Payment stopped by drawer
13. Cheque mutilated
14. Bank discharge irregular
15. Cheque crossed to two banks
16. Crossed cheque account payee only
17. Full cover not received.

Refer to Drawer

Bank will return a cheque with this remark if there is insufficient funds in the drawer's account.

Effect not cleared

Please present again. A customer can encash a crossed cheque only through his bank. The bank will credit the amount and will send the cheque for clearance to the drawee bank. If the drawee's account has insufficient funds, the bank will return it to the payee bank. The procedure may take ten to fifteen days for an out station cheque. If the payee tries to withdraw the amount before it, the bank will refuse payment and return the cheque with the remark, "Effect not cleared, please present again". It means if cleared, the bank will make payment when the cheque is presented again.

Full cover not received

Whenever an association, partnership, or office opens an account, special instructions are given to the bank about the operation of the account like, joint operation, joint and several operation, either, or survival etc. The bank instructs the customer to affix the rubber stamp of the designation of the signatory on the cheque. "Full cover not received" means that all instructions specified are not fully followed in the cheque, that one of them like all signatures in case of joint account, is missing.

45 Credit, Financial or Status Inquiries

Asking for information about the financial position, standing or credit worthiness and means of dealings etc. of a person are known as 'status enquiry' in banking language. And letters written on this matter are status enquiry letters.

Credit

Is available to those persons or firms who have the following qualities, the 3Cs:

Character signifies the personal traits like integrity, honesty, fair dealing, truth, moral conduct etc. i.e. the reliability of a person/party regarding the willingness to pay.

Capacity represents the ability to pay i.e. resourcefulness or power.

Capital represents anything a person or firm owns in the form of movable or immovable assets or properties.

Of these, credit and character are the most important. Nobody minds a little delay but everybody minds if the dues are not paid at all. But one should be capable to pay the amount too.

Trade and bank requirements

Before allowing any credit in business, the 3Cs have to be verified. The credit information can be supplied by traders, common business friends, bankers etc. Most commonly used sources are trade or bank references as they can provide most reliable and correct information about the means and liabilities of the person/firm.

Stages

For obtaining credit information, letters are exchanged in four stages:

- (i) Seller or supplier asking the buyer about the names and addresses of the references-traders/bankers
- (ii) Buyer supplying references
- (iii) Seller taking up with reference, i.e. making status enquiries
- (iv) Replies to status enquiries – favourable or unfavourable

First Stage

The seller/supplier asks the buyer of goods to supply him the names and addresses of persons or bankers with whom his financial position could be verified. For such a letter, the opening sentences could be:

We are pleased to receive your order of _____ for goods and welcome you as one of our customers.

The closing sentences could be:

It is our practice to ask new customers for reference and we shall be glad if you kindly furnish the same.

Please send us the information at your earliest.

Second Stage

When the said letter is received by the buyer, he will send the complete name and addresses of references. They are usually traders in the same line of business, suppliers or customers of the buyer or the bank where the customer has an account or enjoys credit facilities.

The buyer replies with a letter to the seller in confidence. The usual opening sentences could be:

We are pleased to furnish you the names of _____

Please refer to your letter No. _____ dt _____

The usual closing sentences could be:

Should you require any additional information, please write to us. We hope you would find the above information satisfactorily.

Third stage: Making status inquiry

When the seller receives the letter containing particulars of the reference, he has to write to them asking for the opinion about the buyer. This is called "making status enquires". The letter is marked "confidential" or "Private and confidential" because it is within the business ethics not to openly ask for anybody's financial position, dealings, worth etc.

The essentials of such a letter are:

- (i) The general information about the prospective customer's dealings, standing etc. Should be asked for.
- (ii) An assurance that the information would be kept strictly confidential be given.
- (iii) An expression of willingness to reciprocate should be there.
- (iv) A self-addressed stamped envelope should be enclosed with the letter for convenience.
- (v) Notations like "confidential" or "private and confidential" should always be marked on letter as well as the envelope.

The opening sentences could be:

We have been informed by M/s _____ that they have dealings with you.

We shall be grateful if you please give us your confidential opinion about their dealings, financial standing etc.

The usual closing sentences are:

Any information furnished by you in this behalf shall be treated as strictly confidential.

We shall be pleased to perform similar service for you should the occasion ever arise.

Fourth Stage: Reply to status enquiry

The reply could be favourable or unfavourable depending upon whether the reputation of the buyer in the market is good or bad and if the referee has a good/bad experience of dealing with the buyer. In both cases, the information is supplied in confidence and without recourse or liability on the part of supplier of the information.

The essentials of the letter are:

1. A reference may be made to the letter making status enquiry.
2. The approximate period of acquaintance or dealing with the concerned party or firm should be generally stated.
3. A general information about experience, dealings, turnover, payments etc. Should be given but without commitment.
4. If known, the present position of the party's assets/liabilities, worth etc. Should be given in general.
5. AN opinion about the limit and period of credit, which could be allowed by seller, may also be stated in case the referee is sure about it.
6. A mention may be made that the information /opinion being supplied is without recourse or liability and that it should be kept confidential.

Mostly the reply to status inquiry is sent with a covering letter and the opinion part of it is not signed by the person supplying the information. In many firms and banks, such letters are specially printed with separate blank space for writing the opinion.

The opening sentences could be:

In reply to your letter dt _____ we recommend that _____

The usual closing sentences are:

We hope that the information would be treated as confidential and without responsibility on our part.