

Conditions for Honor of Cheque by Payee Bank

- 1. The paying banker is under an obligation to honor only those cheques which are drawn against the account maintained at that branch of the bank where the cheques are presented.
- Cheques drawn on other branches or even head office cannot be paid unless, specially arranged for [Bank of India v. Official Liquidator].
- Thus, without prior arrangement for transfer, if a cheque drawn on Allahabad Bank, Parliament Street branch, is presented for encashment at Allahabad Bank, Janpath branch, payment shall be refused without incurring any liability thereon.

- **2. On receipt of a notice of customer's death**

- The payment of cheques presented after death of customer must not be made. But, where the payment is made without knowing the fact of the customer's death, bank cannot be held liable.

- **3. On customer's becoming insolvent**

- On a person being declared or adjudicated as insolvent, his properties vest in the official receiver or assignment and, therefore, any cheques presented after the adjudication of a customer as insolvent must be refused payment.

- **4. On receipt of a notice of the customer's insanity**

- A banker should refuse payment on cheques drawn and received after the receipt of notice of the customer's insanity. As to how a banker should believe a customer insane, it is suggested that if the customer has been removed to the lunatic asylum, the banker will be justified in assuming him as insane. Otherwise, a certificate from a competent doctor should be obtained in this regard.

The banker's remarks on the memorandum are very brief. The following abbreviations are generally used.

- 1. R.D. = "Refer to Drawer".
 - The expression is used to convey to the holder that funds in the drawer's account are not sufficient to honor the cheque and, therefore, he should refer to the drawer for payment.
- 2. N.S. = "Not Sufficient"; N.E. = "No Effects" and N.F. = "No Funds" are other abbreviations used for the same purpose.
 - These terms have been declared to have defamatory meaning and therefore, where a cheque has to be returned for reasons other than insufficient funds, the bank should avoid the use of such words, viz., "R.D." = 'Refer to Drawer'; 'N.S.' = 'Not Sufficient', etc.
- 3. E.I. = "Endorsement Irregular".
 - When an endorsement on a cheque is not in order e.g., the spelling of the payee's name appearing in the endorsement from that on the face of the cheque, the cheque is returned with his remark.