

# CHAPTER 4

## MONEY SERVICES

### ⊗ Objectives

After studying this chapter you should be able to understand:

- 4.1 Cash and cash instruments
- 4.2 Cheque – definition, parties involved, endorsement, types of endorsement
- 4.3 Remittance by post:
  - 4.3.1 *Cheque*
  - 4.3.2 *Banker's draft*
  - 4.3.3 *International Money Order*
  - 4.3.4 *International Payment Order*
- 4.4 Remittance telegraphically / electronically
  - 4.4.1 *Telegraphic transfer*
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#### **4.1 Cash and cash instruments**

The cashier's work consists in receiving cash and cash instruments such as cheques and other instruments ("documents of title to cash") in order to credit the customers' accounts.

*Cash consists of:*

- ❑ Banknotes;
- ❑ Coins;
- ❑ Cash instruments such as cheques.

In modern banking practice, the name of the customer and his computer account number are pre-printed in the pay-in books to eliminate any error and to speed up transactions at the counter.

*Procedure<sup>1</sup> used by the Romanian banks:*

- The cashier has to make sure that the name and account number of the customer are clearly indicated;
- Where counter pay-in slip is used by the customer (or non-customer), the cashier should check the correctness of the name and account number of the customer whose account is credited;
- The cashier must count the currency notes presented and sort them into different denominations;
- The cashier ticks against each item on the pay-in slip with a coloured pen or pencil and places the notes in his till.

Cash instruments ("documents of title to cash"):

- Banker's drafts;
- Conditional orders;
- Dividend and interest warrants;
- Bearer bonds;
- Postal orders;
- Unused traveller's cheques.

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<sup>1</sup> Internal norms of each Romanian bank

## **4.2 Cheque – definition, parties involved, endorsement, types of endorsement**

A *cheque*<sup>2</sup> represents an unconditional order in writing addressed by one person to another who must be a banker, signed by the person giving the order, requiring the banker on whom it is drawn to pay on demand a certain sum in money to or to the order of a specified person or to the bearer.

*More clarifications:*

- ❖ The person who draws the cheque is called the drawer;
- ❖ The bank through the cheque is drawn, is the drawee bank (paying bank);
- ❖ The person to whom the cheque is drawn payable is called the payee or beneficiary;
- ❖ When the drawer draws a cheque payable to himself, both the drawer and the payee are the same person.

The following items need to be verified by the receiving cashier:

- ❑ *If the Date* is correct: Is the cheque post-dated or stale?

Post-dated: it means the cheque has been presented before the cheque date.

Stale: it means the cheque has been presented after six months of its date.

In both situation the cheque should not be cashed.

- ❑ *Payee (beneficiary):*

When the cheque is crossed “A/C payee” or crossed to a particular account, such instructions must be implemented.

- ❑ *Content of the instruments:*

When there are differences between the amount written in words and the amount written in figures, the amount payable is the one mentioned in words. Anyway, the bank is entitled to return the unpaid cheque marked “words and figures differ”. The paying bank has the right to ask its clients that their cheques are filled in clear and unambiguous terms.

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<sup>2</sup> Kirişescu Costin - Relații valutare-financiare internaționale, Ed. Științifică și Enciclopedică, București, 1978, p. 237

□ *Signature of the drawer:*

The signature should be verified to ensure that it is complying with the copy of the signature card which is kept in the banker's safe. The signature is a genuine one.

□ *Endorsement*<sup>3</sup>:

The endorsement of an instrument is the placing of a signature thereon by a person who thereby becomes a party to the instrument.

There are two types of endorsement:

1. *Blank endorsement*: no endorsee is indicated. Such blank endorsement converts the order cheque into a bearer cheque;
2. *Special endorsement*: the endorser specifies the person to whom the cheque is endorsed.

Usually, endorsements are written on the backside of the order cheque. Endorsement of part of the sum indicated on the cheque is irregular and invalid. An endorser can endorse the cheque payable to the order of more than one person.

## **4.3 Remittance by post**

### ***4.3.1 Cheque***

The simplest and most obvious method is merely to send a cheque to the beneficiary in the other country. This has advantages for the drawer of the cheque who only incurs the postage costs and bank charges when the cheque is debited.

However, if the cheque is used in payment for goods, their delivery may be delayed while the payee of the cheque waits for it to be cleared. It is possible to issue a cheque in the relevant currency if the drawer maintains an account in that currency.

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<sup>3</sup> Palfreman David – Banking: the legal environment, Pitman Publishing, London, 1994, p.242

Now let's try to be in the position of the payee who suffers the following:

- ❖ The cheque will often be drawn in the drawer's currency, thereby imposing an exchange risk on the payee;
- ❖ The payee's bank may insist on collecting the proceeds of the cheque before crediting the bank account, thereby delaying the receipt of the funds by as much as a month. This delay, of course, favours the drawer;
- ❖ The payee will also incur some, if not all, of the expenses of the collection process;
- ❖ The cheque may not be paid.

The process of a cheque is represented in the *Annex no 1*.

In order to avoid some of these problems, beneficiaries can insist that:

- *Cheques are drawn in their own currency.* This transfers the exchange risk back to the drawer but does not really solve any of the other problems highlighted;
- *Payment be made by means of Banker's draft.*

#### **4.3.2 Banker's draft**

*This requires*<sup>4</sup> the remitter to give instructions to a bank to issue a draft, which is a type of cheque, drawn in the appropriate currency on a bank abroad. So, *a bank draft is in effect a cheque drawn by one bank on another.* This may be one of its own subsidiaries or associates or a correspondent bank. For the payee this method solves the exchange risk problem, guarantees payment as the draft is drawn on a bank, and removes the delay in the collection process.

Consider the following example that illustrates the process of a draft:

“Mrs. Roberts wishes to send FF 100,000 to a property developer in the Dordogne as a deposit on a holiday cottage she wishes to purchase. She

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<sup>4</sup> Davies Audrey & Kearns Martin – Banking Operations, Pitman Publishing, London 1994, p. 35

banks with the North Bank, whose correspondent bank is the Left Bank in Paris. The developer banks with the Perpignan branch of the Bastille Bank.

1. Mrs. Roberts gives instructions to the North Bank and requests the issue of a draft.
2. North Bank draws a draft for FF 100,000 on the Left Bank in Paris.
3. North Bank debits Mrs. Roberts' account with the sterling equivalent of FF 100,000 plus charges, accounts to Left Bank for FF 100,000, and hands the draft to Mrs. Roberts.
4. Mrs. Roberts sends the draft to the developers who pay it into their account with the Bastille Bank.
5. Bastille Bank collects the proceeds by remitting the draft to the Left Bank for payment.

This process is represented in the *Annex no. 2*.

**Despite the obvious benefits, drafts are relatively expensive and can be delayed or lost in the post, causing considerable inconveniences and additional costs to all concerned, particularly as the customer will be required to give an indemnity to the bank. It is because of such problems that quicker, more efficient and less costly ways of transferring funds internationally have been developed.**

Analysing the process of the bank drafts, we consider that there are major disadvantages in using the drafts for large transfers, such as the following:

- The remitter is debited at the time the draft is issued, but there is a delay before the beneficiary can pay the draft into his bank account and obtain cleared funds.
- If the beneficiary does not bank at the bank on which the draft is drawn, the funds will be treated as unclear.
- The draft could be lost or stolen, and banks are reluctant to “stop” a bank draft because it amounts to dishonour of the bank's own paper.

### **4.3.3 International Money Order**

One of the most popular alternatives to the cheque or banker's draft is the *International Money Order* (IMO). It has the advantage of being immediately available once the customer has completed the application form and is often the cheapest method of sending money abroad. The *bank draws the International Money Order* on itself and the payment is, therefore, guaranteed.

In the United Kingdom, International money orders are usually issued either in sterling pounds or US dollar and are used for relatively small amounts e.g. GBP 1,000 or USD 2,500, but can be used for as much as GBP 5,000/USD 7,500. As they can be encased throughout the world they represent a simple and effective way of remitting funds abroad, particularly as the beneficiaries can obtain the funds immediately on presentation to their own bankers.

You can see in the *Annex no. 3*, the process for an International Money Order.

If the remitter wishes to meet a commitment for an amount greater than the limit imposed by the bank for an *International Money Order*, then more than one *International Money Order* can be purchased, although it is likely to become impractical to use more than two. For the larger amounts it may be better to use an alternative method and particularly an international payment order.

### **4.3.4 International Payment Order**

An *International Payment Order* (IPO)<sup>5</sup>, also known as an *Airmail Transfer*, is simply an authority by a customer or non-customer to a bank to remit funds abroad in any available currency, by airmail.

Banks recommend its use for non-urgent transfers where the amount that requires remitting is above the limit of *International Payment Orders* or the currency required is one other than sterling pounds or US dollars. For example, if a customer wishes to send to Spain the equivalent of GBP

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<sup>5</sup> Davies Audrey & Kearns Martin – Banking Operations, Pitman Publishing, London 1994, p.25

10,000 as a stage payment in respect of the building of a villa, and there is no urgency, then an *International Payment Order* is the best method.

The relevant instructions on a pre-printed form will be given to the bank in the United Kingdom. These instructions will be then sent to the bank in Spain nominated by the remitter or, failing this, chosen by the remitting bank. The Spanish bank will ensure that the beneficiary receives the funds as instructed and in the nominated currency.

The way the funds are transferred between the banks will depend upon which currency the payment is in.

You can see in the *Annex no.4*, the process of an International Payment Order.

An *International Payment Order* is a relatively cheap method of sending funds abroad but generally should be used for non-urgent payments. It is possible that some payments will be received if the SWIFT system is used, but a more normal period would be three to four weeks, instructions being sent by airmail.

There are several ways in which the beneficiary can receive payment. Instructions can be given as follows:

- (a) *Notify and pay* – used if the beneficiary's bankers are not known. The beneficiary, once advised, will have to call the bank to collect the money.
- (b) *Advise and credit* the beneficiary's account.
- (c) *Pay the beneficiary upon application* – used when the beneficiary wishes to collect the funds personally from a specified branch of a bank abroad.
- (d) *Place to the credit of a new account* to be opened in the beneficiary's name – used when the beneficiary wishes to have a new account opened. In this case references and a specimen signature may be required by the bank abroad.

Whether the remitter or the beneficiary pays the costs involved will depend on the agreement between them. If the beneficiary pays some or all of the costs, then they will be normally deducted from the amount received.

## **4.4 Remittance telegraphically / electronically**

### **4.4.1 Telegraphic Transfer**

*A Telegraphic Transfer* (TT) is the quickest way of sending money abroad and as such will often be used where the payment is urgent.

As with International Money Orders and *International Payment Orders*, an order form is completed with the remitter's instructions, enabling the bank to authorise the bank abroad to make the funds available to the beneficiary. The beneficiary can receive the funds in most of the ways described for *International Payment Orders*, i.e.

- *Notify and pay*
- *Advise and credit the account*
- *Pay on application*

The exception is the opening of an account, which is unlikely to be urgent. Furthermore, because instructions are sent by cable or telex it is not possible to send references or specimen signatures.

It normally takes two working days for the processing of TTs from receipt of instructions to payment to the beneficiary, unless payment is being sent to a remote part of the world, in which case it may take a little longer. The speed of payment is achieved by using cable or telex to transmit the payment instructions rather than sending them by airmail as with *International Payment Orders*. The disadvantage is that this method makes the TT more expensive.

Payment can be made in sterling pounds or most foreign currencies, and TTs are particularly appropriate where large sums need to be transferred quickly to reduce interest charges or improve interest income.

### **4.4.2 Girobank / post office**

Girobank offers several ways of sending money abroad, some of which are similar to those, described already. Not all the services are available to all countries, but if you wish to send money to a country not on the Girobank

list, payment will be made by means of a bank cheque in US dollars, sterling, or an appropriate alternative currency at Girobank's discretion. *The three main methods* are:

- 1) Payment by cheque;
- 2) Payment in cash;
- 3) Payment direct to a Giro account overseas;

There is a fixed charge for each method, but if the remitter has a Girobank account and the beneficiary overseas has a Giro account, then a transfer can be made between the two, free of charge.

Finally, it is also possible to remit funds overseas by means of a postal order but there is a limited number of countries to which the system is applicable.

#### **4.4.3 Standing orders**

There are certain payments, which have to be made regularly. Missing a payment for an essential item or service could cause problems.

A Standing Order service provided by the banks is a way of ensuring that specific payments are made to certain people or organisations on the date that are due (The payments can be once a year, quarterly, monthly – whenever required).

This means that the customer only has to arrange essential regular payment once. The customer has to inform the bank the necessary details concerning who the payment is to, the amount of money to be paid out –when and how often the payment is to be made.

After that, the bank will take on the responsibility of ensuring that the payments are made:

- Out of the customer's account;
- Into the account of the person/organisation named.

Because standing order payments are made automatically through the banking system, the customer is saved the bother and potential cost of writing and sending off cheques.

The customer can make as many payments as he likes through standing orders. Details of each standing order payment will appear in the customer's bank statement.

In order to make a standing order arrangement the customer just fills in a form –which in England can be obtained by asking the “Enquiries” counter of any bank. The main information that the customer has to fill in is:

- Details of the customer's account;
- Details of bank account of the person/organisation the customer is paying;
- Name of the person/organisation the customer is paying;
- Amount of each regular payment, etc

Table 1 summarises the advantages and disadvantages of the methods we have covered so far.

**Advantages and disadvantages of different forms of payment:**

METHOD	ADVANTAGES	DISADVANTAGES
Cash	Small amounts can be sent in note form very easily.	Impractical and expensive if in large amounts. Can be lost or stolen.
Cheque	Remittance is quick and simple. <i>Can be inexpensive for the remitter where recipient covers collection costs.</i> Attachments are possible.	Exchange risks unless issued on appropriate currency account. Delay in receipt of proceeds by beneficiary where bank insists on collection. Collection costs. Cheque may not be paid.
Banker's draft	Issue process is straight-forward. Remittance is quick and simple. Available in most major currencies – exchange risks for recipient can be avoided. No limit on amount. Payment is guaranteed and quick if drawn on a bank in beneficiary's country. Attachments are possible.	Relatively expensive to purchase. Can be lost or stolen – involves lengthy formalities including giving an indemnity to the bank. Encasement overseas may be costly.

*Money Services*

METHOD	ADVANTAGES	DISADVANTAGES
International Money Order	<p>Cheapest method, widely available and accepted.</p> <p>Issue process is quick and straightforward.</p> <p>Refunds/replacements available with little formality.</p>	<p>Only appropriate for smaller amounts up to GBP 1,000 or USD 2,500, say, but possible up to GBP 5,000/USD 7,500.</p> <p>Only available in sterling or USD.</p>
International Payment Order	<p>Instructions can be given in most currencies – exchange risk for recipient can be avoided.</p> <p>No limit on amount.</p> <p>Documents can be attached, e.g. specimen signatures.</p> <p>Several payment instructions available.</p> <p>Payment is inter-bank, therefore secure.</p>	<p>Not appropriate for urgent transfers.</p> <p>Relatively expensive.</p>
Telegraphic Transfer	<p>Quickest method of transfer.</p> <p>Interest income on large sums can be saved – interest charges reduced.</p> <p>No limit on amount.</p> <p>Instructions can be given in most currencies – exchange risk for recipient can be avoided.</p>	<p>Most expensive method.</p>
Giro cheque	<p>Relatively inexpensive.</p> <p><i>Issue process is straightforward.</i></p> <p>Remittance is quick and simple.</p>	<p>Possible collection costs.</p> <p>Can be lost or stolen.</p>
Giro transfer	<p>Simple and quick.</p> <p>Free if from one Giro account to another.</p>	<p>Recipient has to have a Giro account.</p> <p>Number of countries limited.</p>
Postal order	<p>Purchase is simple and inexpensive.</p> <p>Attachments are possible.</p>	<p>Exchange risk for the recipient.</p> <p>Can be lost or stolen.</p> <p>Number of countries limited.</p>

## **4.5 Electronic Banking Services**

Electronic banking (see Chapters 6 and 7 for more information) – essentially automated payment by computer – will increase in importance and volume. The main forms of electronic banking services are:

### **Telephone Banking**

Such a service represents a competitive area and it may be either voice-activated (i.e. the computer is expected to react to customer's voice and comply with his or her instructions accordingly), or electronically activated (i.e. the client speaks over the microphone of their telephone and dials certain numbers meaning a certain transaction). The telephone banking can offer transfers of funds, payments of regular bills, applications for loans and overdrafts etc.

### **Bankers Automated Clearing System**

This system is especially used for funds transfers between the participating members and essentially operates standing orders, direct debits, payment of wages, salaries, rentals, trade debts, etc. Bankers Automated Clearing System is supplied with a magnetic tape containing the details of the accounts to be debited or credited. It sorts them into bank orders and, then, it provides each paying bank with the relevant details, a printout being also available.

### **Electronic and Internet -Based Payments**

Internet banking is a banking product, which follows the older solutions like e banking. E-banking represents a solutions which is technologically obsolete, supposing at the client level of that service a phone line and a computer dedicated for such an operation, able to fulfil technical needs requested by the bank and to run (execute) a software program necessary for the optimal communication with the client's bank. In that way, the person which will handle the e-banking application have to work only from that computer which it is not very good for someone with a dynamical job and with many physical places of work even in different localities or countries.

Despite e banking, the I-banking (Internet-banking) supposes the usage of a computer from wide world on which is installed a browser and an Internet

connection. The performances of such a solution are far away better also for the bank and for the end user (the client).

The costs are calculated to a number of 100 banks from the United States of America which are using all the channels, but the costs are represented at a world wide level because they are common to all the banks that promote the electronic payments.

### **World tendencies**

63 % from the great banks<sup>6</sup> are offering Internet banking services and 59 % are offering electronic banking services. Not all Internet banking institutions are charging the services, but most of those, which do, are starting to use a monthly subscription for the base services and supplementary charges for some services. 61 % from the firsts 150-th banks from the United States of America are offering on-line banking services, 15 % don't have included in their strategies for the future the offer of on-line banking service and 19 % already announced their intention to provide such services until the end of 2001.

In May 2000, Forrester Research estimated that by the end of the year 2003 will exist over 20 million of home users in the United States of America which will use the I-banking services, that means around 30 % from the profits obtained from retail.

At the end of 2000, the specialists from Data monitor estimated that at the end of the year 2005, around 20% from the world population would be connected at the Internet.

Regarding Europe, since March 19, 2001 the British group Vodafone has announced that the first transaction pilot project that will use the digital signature using the mobile phone will start in April 2001 together with the Radio Communications Agency. That announcement was made at a short period of time after the British Government announced that it intended to allow all physical persons to pay their taxes throw an electronic environment, using digital signatures.

On July 19, 2001, expired the cut-off time until which all the member states of the European Union had to implement the Directive regarding digital signature. The ending of that period will lead inevitably to a new beginning

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<sup>6</sup> Booz Allen & Hamilton – April 2001

in the development of electronic transactions field and in the e-business area.

As a consequence of that, the banks renounced at their territorially development instead they are concentrating on the new products which are based on new technologies and the Internet development. So, the banks are reorienting their investment politics to new technologies. That supposes the reconsideration of the concept of territorial network of a bank, which is about to become an informational network. At the end, the new technologies allow the banks to be closer to their clients and in the same time to provide them more comfort and a depersonalisation of the services due to the elimination of the classical physical direct relation between the account officer and the bank's customer.

#### 4.6 SWIFT

These initials stand for the *Society for Worldwide Interbank Financial Telecommunication*, which is an international organisation whose members consist of several hundred of the largest international banks. The society, which was created under Belgian Law and located in Brussels, was formed to accelerate the transfer of funds and other messages between the member banks.

The system works by means of a telecommunication link between the computer systems of the banks, which allows the rapid transmission of messages. The system is used to execute telegraphic transfers previously sent by cable or telegraph and may also be used for international payment orders/airmail transfers at the discretion of the bank, making for a much faster execution of a customer's instructions. When instructions are transmitted in this way the bank is said to be sending a *SWIFT message* and for telegraphic transfers the phrase used is *urgent SWIFT message*.

SWIFT<sup>7</sup> processes information (i.e. data, text, or commands) in the form of messages. From the user's point of view, messages are sent either:

- From one user to another (e.g. Normal banking messages such as a customer transfer); or
- From a user to the system (e.g. Requests for information such as a retrieval request); or

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<sup>7</sup> Watson A. – Finance of international trade, 4<sup>th</sup> edition. Chartered Institute of Bankers, London 1992

- From the system to a user (e.g. Responses to requests, such as a retrieved message).

A message can consist of one or more headers, which contain reference information for the message, a body which contains the text of the message, and one or more trailers, which are added for control purposes.

Messages are seen from the point of view of the SWIFT system. All messages introduced into the system by a user are referred to as input messages; all messages, which the system delivers, to a user are referred to as output messages. A three-digit number, e.g. MT 100 represents messages, where the first digit defines the message category, indicating the general usage of the message. There are nine categories of user-to-user messages, identified as categories 1-9, and a separate category for messages exchanged between a user and the system, identified as category 0.

Security at SWIFT meets four objectives:

- Confidentiality – information is only disclosed to authorised persons at authorised locations;
- Integrity – information can be relied upon to be complete, accurate and valid;
- Availability – information and associated services are accessible and usable when needed;
- Accountability – every individual authorised to use the system is accountable.

**Confidentiality and integrity are ensured by means of security of transmission, delivery and message storage; by validation of messages; and by user-to-user authentication.**

The various system functions of SWIFT are separated into a well-defined hierarchy, with each level of the hierarchy controlled by a particular computer. A global communications network links all of Swift's computers so that they are in constant communication with each other. All processors have at least one standby processor.

An unique ISO Bank Identifier Code (BIC) identifies financial institutions. BIC's are published in the SWIFT BIC Directory. The first 8 characters of

the BIC, when used for addressing purposes, are called the destination; it is made up as follows:

Bank (Financial Institution) Code	4 characters
Country Code	2 characters
Location Code	2 characters

The bank code, country code and location code are mandatory components of a BIC. In addition, an optional branch code of 3 characters can be used to identify any branch of a user institution. If no branch code is defined, the default of “XXX” is used for addressing purposes.

There are three main types of SWIFT message<sup>8</sup>:

- **System Messages** (MT category 0) – which may relate to either the sending and receiving of messages (e.g. User-to-SWIFT message, Delivery Notification, Retrievals), or to some aspect of an user’s logical terminal (LT) or destination;
- **User-to-User Messages** (MT categories 1-9) – which enable users to perform financial transactions;
- **Service Messages** (or Control Messages) –, which relate either to system commands or to acknowledgements”.

The SWIFT system normally processes user-to-user messages on a First-In-First-Out basis.

User-to-user messages fall into distinct categories to be used for different types of financial transactions. A 3-digit number identifies individual types of messages (MTs). The first digit identifies the category of the message. There are 9 categories<sup>9</sup> of financial messages. Each category referring to a different general usage:

<b>Category 1</b>	Customer transfers Cheques
<b>Category 2</b>	Financial institution transfers
<b>Category 3</b>	Treasury markets & Derivatives Foreign exchange, Forward rate agreement etc

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<sup>8</sup> SWIFT User Handbook Network Acces Guide, August 1998

<sup>9</sup> SWIFT User Handbook Network Acces Guide, August 1998

<b>Category 4</b>	Collections Cash letters
<b>Category 5</b>	Securities
<b>Category 6</b>	Precious metals & Syndication's
<b>Category 7</b>	Documentary credits Guarantees
<b>Category 8</b>	Traveller's cheques
<b>Category 9</b>	Statements, Reports etc.

All SWIFT messages conform to a defined block structure. Each block of messages contains data of a particular type and is used for a particular purpose.

A typical SWIFT user-to user message may consist of:

- {1: BASIC HEADER BLOCK}
- {2: APPLICATION HEADER BLOCK}
- {3: USER HEADER BLOCK}
- {4: TEXT BLOCK}
- {5: TRAILER BLOCK}

Block 1, 2 and 3 relate to header information, block 4 contains the text of the message, and block 5 contains trailer information.

Only block 1 is mandatory for all messages. Block 2-5 are optional and depend upon the nature of the message and on the application in which the message is being sent or received. All user-to-user messages contain blocks 2, 4, and 5.

**SWIFT offers round the world, round the clock expert support to its customers, covering administrative, operational and technical matters. Support is available 24 hours a day, seven days a week and in many languages.**

## **4.7 The process of the Romanian cheque under the Law no. 59/1934 concerning the cheque, with the subsequent amendments**

### **4.7.1 Introduction**

The cheque is an instrument of payment used by the banking accounts holder with available funds into these accounts. The available funds are a result of a bank deposit, collecting proceeds or a credit.

*The cheque* is an instrument of payment, which connects three persons:

- the drawer; It is the person who makes out the instrument, being the holder of the banking account.
- the drawee; It is always the bank where the drawer has an account opened with. It will pay the presented cheque only if the drawer has enough availability in his account.
- the beneficiary (payee). It is the person who will receive the money. This person can be a third person or the drawer himself.

The instrument is made out by the drawer, who by virtue of a deposit in a bank, gives an unconditionally order to that bank (the drawee) to pay a determined sum of money to a third party (or to the drawer himself), who is the beneficiary.

In the process of the cheque the drawer issues the cheque, the legal owner cashes it and the drawee pays the cheque.

In order for the drawer to issue cheques, the bank must deliver to its client a blank passbook.

The owner of the cheques fills in the blank cheque, signs and delivers it to the beneficiary, who will present it to his bank for cashing it.

In order to be valid, the cheque has to contain the following compulsory mentions<sup>10</sup> (see Annex No 5):

- the name “Cheque” written in the text of the instrument;
- the unconditional order to pay a certain amount of money;
- the name of the drawee, respectively the bank where the drawer has an account opened with;

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<sup>10</sup> Cheque Act, 1934, with the subsequent amendments

- the place of the payment, respectively the locality and the address of the bank where the payment is made;
- the date and the place of the issue of the instrument, respectively the day, month, year, as well as the name of the locality;
- the signature of the drawer.

#### ***4.7.2 The transmission of the cheque***

The transmission of a cheque can be:

- a) *by simple remittance*; it is the case of the cheque payable to the bearer, which in the moment of issue doesn't show exactly the beneficiary and bears the mention "cheque payable to bearer". This kind of cheque is payable to the beneficiary, or to the bearer of the cheque.
- b) *by ordinary transfer of debts*; it is the case when the cheque is issued for a specified person and it has the mention "not to order"; only the authorised person can enact the cheque.
- c) *by endorsement* - it is the operation by which all the rights of the cheque are sent with the remittance. It has a special mention on the backside of the cheque in the favour of somebody, including the drawer. The new beneficiary can, on his turn, endorse the cheque.

#### ***4.7.3 The payment of the cheque***

The cheque is payable only at sight/at presentation.

In Romania, the cheques are issued and payable at the following terms:

- 8 days, for the cheque payable in the same place it was issued;
- 15 days, in any other cases.

These terms are calculated from the subsequent day of the issuing date of the cheque.

The presentation of the cheque after the expiring of the legal term will cause the loss of the right for a legal action against the previous endorsers if the cheque wouldn't be paid.

**All the persons who obliged themselves in any way by the cheque (drawer, endorsers) are jointly and severally responsible for paying that cheque, although the obligations had been assumed at different moments.**

#### *4.7.4 Types of cheques*

The main types of cheques used in Romania are:

- a) the *cheque payable to bearer*. It is the instrument, which has in the text the special mention “to bearer” or “ payable to bearer” or is has no mentions.
- b) the *crossed cheque* - the drawer or the owner of a cheque can make a cross by drawing two horizontal or crossed parallel lines on the side of the cheque; meaning that the beneficiary has to ask for a bank’s services in order to cash the sum written on the cheque.

The **cross** can be:

- **general** - there is no special mention between the two lines;
- **special** - between the two lines is specified the name of the bank.

The general cross can be transformed into a special cross.

- c) *certificate cheque* - by this kind of cheque the bank (the drawee) confirms on the cheque the existence of the necessary fund for payment and the person who issued the cheque (the drawer) can not withdraw funds from his account until the end of the submitting period.
- d) *Traveller’s cheque* – in this case, the drawer can condition the payment of this cheque upon the identity between the signature of the person who got the cheque (the possessor) and the signature of the person who cashes it at submitting. In fact, the possessor puts his first signature on the cheque in the moment he buys it; the second time, he signs it in the moment of cashing the cheque, in the presence of the banking clerk, or in the moment of the payment in the presence of the beneficiary. This kind of cheque is an easy and safe mean of payment.

In Annex No 6 you can see different types of cheques.

#### ***4.7.5 The circulation of a cheque***

The Company “Atlas” Inc. purchases from the store of The Company “Star” Inc. electronics, amounting to ROL 5,000,000.

The Company “Atlas” Inc. has a current account opened with The Bank “X”, and The Company “Star” Inc. has a current account opened with the Bank “Y”.

Under the available funds in the current account, The Bank “X” gives a passbook to the Company “Atlas” Inc.

When the representative of the Company “Atlas” Inc. purchases the goods, he fills in a file of the pass book with the necessary dates and the sum which represents the equivalent value of the electronics bought, he signs that file and hands it to the representative of the store.

Since that moment, the Company “Atlas” Inc. has become the drawer, the Bank “X” the drawee, and the Company “Star” Inc. the beneficiary.

The Company “Star” Inc. submits the cheque to the Bank “Y”, and sends it to The Bank “X” in order to cash it.

The Bank “X” puts the cheque to the Bank “Y”.

In this way, the obligation of the Company “Atlas” Inc. towards the Company “Star” Inc. is cleared, as you can see in the Annex no 7.

#### *The role of the banks*

When the clients of a bank (drawers) issue cheques, these have to be presented to the bank (the payee bank) to be paid. The bank has the obligation to pay the cheques in favour of its clients in the following conditions:

- the client has enough money in his account;
- the cheque was drawn correctly and signed by the client (the drawer);
- there is no any other legal reason for the bank not to pay.

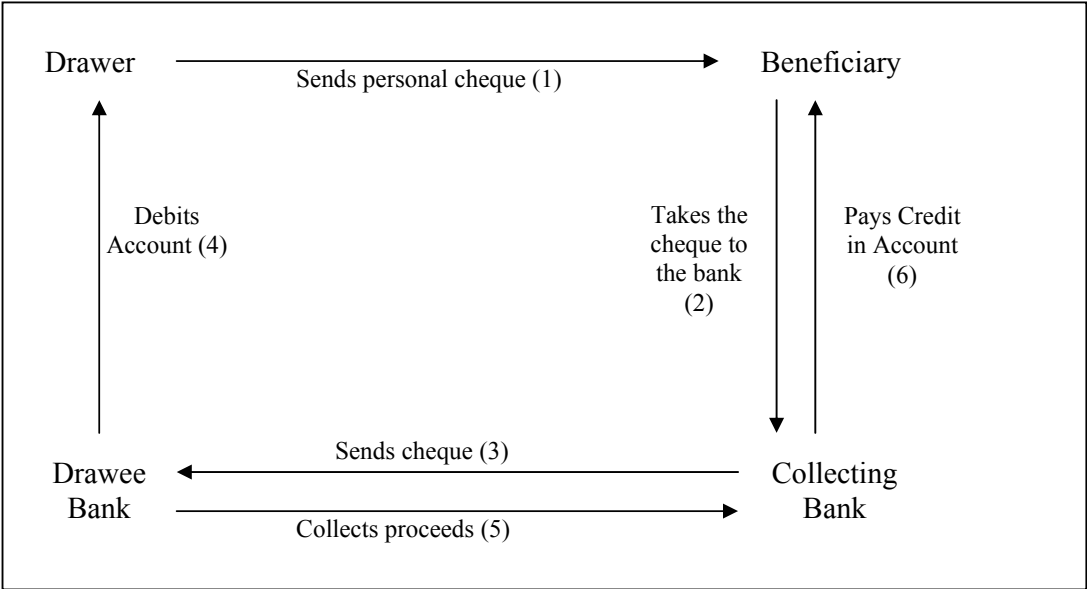
The beneficiary bank has the obligation to collect the cheques from its own clients for encasement. The bank will remit the cheques to payment.



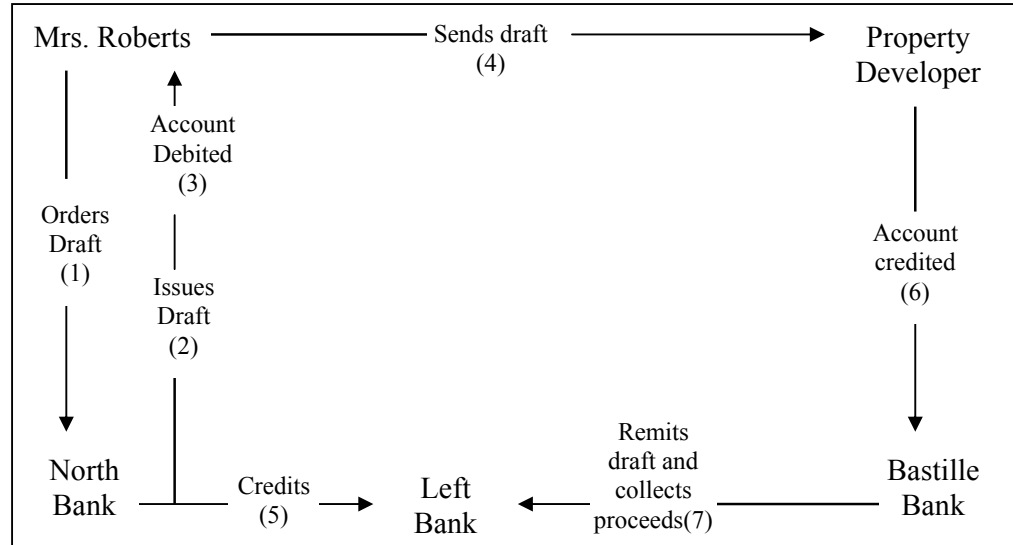
## **Progress test**

1. Enumerate some cash instruments.
2. What is a cheque?
3. What are the items verified by the receiving cashier?
4. Describe the process of a cheque.
5. Define the banker's draft and its process.
6. List some disadvantages of using Banker's draft.
7. Explain the process for an International Money Order.
8. Define the International Payment Order and its process.
9. List a few ways in which the beneficiary can receive payment.
10. What is a Telegraphic Transfer?
11. What is a Standing Order service?
12. List the main electronic banking services.
13. In what consists a SWIFT message?
14. List the three types of SWIFT messages.
15. List at least five categories of financial messages.
16. What does SWIFT represent?
17. Describe the transmission of the cheque under the Romanian law of the cheque.
18. List and define the main types of cheques under the Romanian law of the cheque.
19. A customer wishes to send a birthday present of 50 pounds to her daughter in Canada. Her birthday is not for two months. Which payment method would you suggest?
20. A retiring customer has decided to spend 6 months of the year in Spain and wishes to open an account there prior to departure. What method of transferring the funds would be the most appropriate?

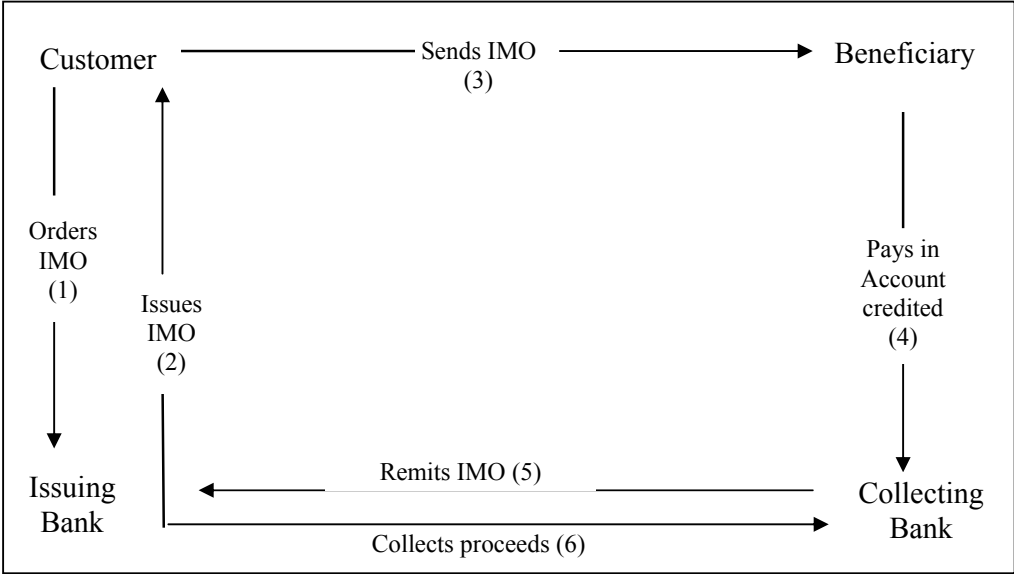
THE PROCESS OF A CHEQUE



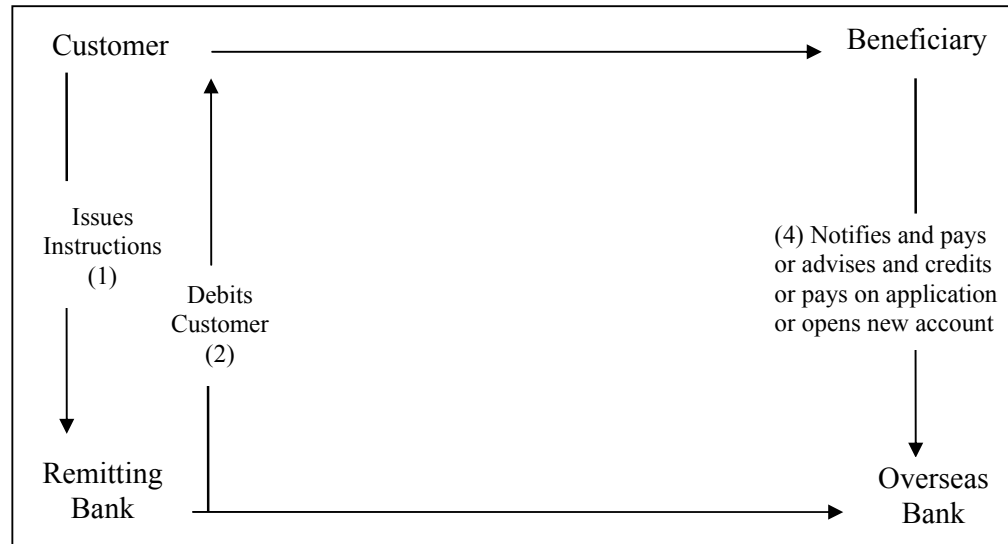
THE PROCESS OF THE BANKER'S DRAFT



**THE PROCESS OF AN INTERNATIONAL MONEY ORDER**



**THE PROCESS OF AN INTERNATIONAL PAYMENT ORDER**















TYPES OF CHEQUES

- ❖ Romanian crossed cheque:

<p>SECRETARAT BANCA YYY BA.302 0000000</p> <p>LEI</p> <p>Titlu nr. _____</p> <p>Valoarea _____</p> <p>Emis la _____</p> <p>Emis de _____</p>	<p style="text-align: right;">ADRESA BANCI YYY</p> <p><b>BANCA YYY</b> BA.302 0000000</p> <p>Plasaj în scris întru contul <b>CEC</b></p> <p>Suma în cifre: _____</p> <p>Suma în litere: _____</p> <p>Locul de plată: _____</p> <p>Adresa beneficiarului: _____</p> <p>Beneficiar: _____</p> <p>Titlu nr. _____</p> <p>Valoarea _____</p> <p>Emis la _____</p> <p>Emis de _____</p>
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<p>1) GIRANT</p> <p>Girat către _____</p> <p>Data _____</p> <p>Semnătura girant _____ L.S.</p>	<p>2) GIRANT</p> <p>Girat către _____</p> <p>Data _____</p> <p>Semnătura girant _____ L.S.</p> <p style="font-size: small;">*Nu se pot utiliza două giranți pe același titlu*</p>
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Money Services

❖ International types of cheques:

Anna Chiasson  
500 Beaverbrook Ct  
Fredericton NB  
E4B 2H8

Cheque # 123  
September 16 20 01

Pay to the NBCC Student Bookstore \$ 343.53  
Order of \_\_\_\_\_  
Three Hundred and Forty-three 53/100 Dollars

Bank  
123 Waters St.  
Fredericton NB  
E2B 4H6

Anna Chiasson

123 456 789 987 654 321

FR064-698-493

€100 Steve Pike 1/3/99 €100

**American Express Travelers Cheque**

KY2 Company  
Steve Pike

4698498 #0200050995264-476469849802#

U.S. \$100 united states dollar travelers cheque U.S. \$100

PE83-528-890 8000-0006

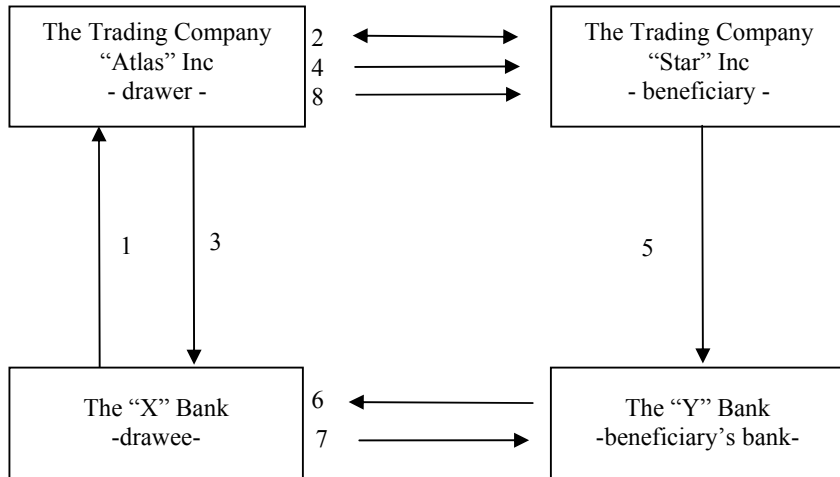
One Hundred U.S. Dollars

MasterCard

Thomas Cook

8000000064:261508352889006#

### THE CIRCULATION OF A CHEQUE



*Explanation:*

1. The issuance of the cheque book;
2. The sales contract is concluded;
3. The "Atlas" Inc. draws a cheque against the "X" Bank;
4. It remits the cheque drawn against the "X" Bank;
5. It submits the cheque to the "Y" Bank;
6. It submits the cheque for paying;
7. The debt is liquidated;
8. It pays the cheque.