

Money and banking
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Lecture - 21

This topic called commercial bills and commercial bills are known as negotiable post dated cheques. And the and the context in which they are created, are when there is real goods transaction I buy something from somebody else often I cannot make the payment now, I do not have the cash or the money in my account. So, I request the seller to create a bill, which I would endorse counter sign and accept to make the payment in future.

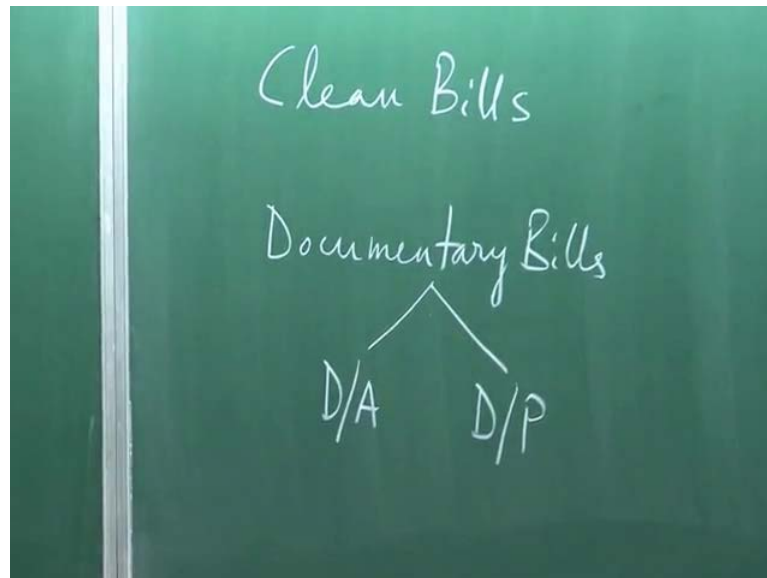
Once this paper is ready it can be a stamp paper, it can be some other mode in India unorganized sector uses a lot of commercial bills very informally on a piece of paper, like a writing pad paper, they would just write something put a rubber stamp sign it that becomes a commercial bill because, they know each other, so much, so well. In old markets, like in Delhi, Bombay, luck now anywhere Kanpur, where for generation after generation they are in business and those shops are known and commercial bills are created and these bills are very informal bills.

It cannot be backed by any rule of law, cannot be backed by any court proceedings, they are very simple. And you can make it formal also, like big companies, organize sector companies, create a commercial bills very formal I have not seen a commercial bills I wish I get a photograph of commercial bill, I will show that to you if I get one. Now, this post dated cheques they this consider drawer of the bill, drawee of the bill I told you. The drawer of the bill is the one who sells the goods and expects the payment, but he cannot get it now you will have to wait.

And the drawee of the bill is the, person who purchases the goods and suppose, to make the payment is the drawee of the bill. And then what happens was this bills gets circulated often in the secondary market. The drawer of the bill can hardly wait once the bill is ready it goes to the bank and say cash this for me, bank knows him, bank knows the drawee of the bill also probably. And bank cashes it, but at a discount and that discount rate is the banks income because, it will have to wait out, that period till the drawee of the bill makes the payment al right. Now, I come to classification of

commercial bills. The first important classification of commercial bills, they are various kinds of commercial bills, the terminologies used by this kind of subject, is commercial bills can be either clean bills or documentary bills, now let me explain them to you.

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So, clean bills or documentary bills, commercial bills can be clean bills and documentary bills. Again documentary bills are of 2 types and there are popularly known as, D A bills and D P bills, there are two types documentary bills D A and D P bills. Now, let me explain this to you. First, let me explain the documentary bills and then I will go to clean bills.

Documents are of various, kinds that become unnessicity in the process of creating the bills and the payments to be made etcetera. Let me give you an example, suppose goods are getting shift from a seller in madras to a buyer, some producer in Kanpur has bought them. So, when the good are coming, certain documents are essential to claim those goods for instance the railway receipt, the railway booking, they can be some insurance cost associated with the goods, often goods are insured.

Even in a small packet I have seen in post offices, when the sell when the sender is sending of a packet containing some items, somehow the goods may be, to somebody often they insured. And then there are tax documents, these are vat system in the country today value added tax, what it means is at every stage of the production, there is a value added tax that has to be paid. And therefore, the amount of tax you would pay, would

depend also that you have a copy of the tax receipt, from the previous producer who has produce the good up to some point and sold it to you and now you are going to take it to the final stage.

If you cannot show those papers, they will ask you to pay the tax on the entire amount and also tax evasion issue is there. So, the previous one you make sure that he has paid all the necessary taxes, otherwise the tax authority comes to you and he say, my this amount of value you have created already, all right are an or. At the raw stage when it is mine it has some value, but then when it is processed and going through a steel plant, at various kind of steel is getting created very a value are created, where is value when it is created, is this tax that is imposed.

So, tax receipt various kinds of papers or documents, become important in this normal business transaction railway, freights roly the truck on roadways for instance booking that you have done the papers, insurance then these indirect taxes. I am talking about vat etcetera, often the income tax is becoming important that person was sold a goods, as he paid all his taxes. Somebody may ask you and you pay often it is across different states and different states has different rules and different kinds of tax obligations are there or requirements.

Now, what happens is, these are all kinds of can we called title to goods, like if you do not have them you do not have a claim on those goods. Now, deliverable against acceptance, is a kind of a bill these are documentary bills I am talking about, is that the documents are withheld by that drawer of the bill, till goods have been negotiated all right. Maybe you have also made an advance payment, but goods will come to you until because, you have said that you cannot make the full payment now. So, bill has to be withdrawn.

So, the drawer of the bill will withhold all the documents and wont hand it over to you, who is the Kanpur buyer of the goods, till I fully accept and endorse that bill. So, when a till the bills becomes final, completely safe for the seller if the goods, he will not release the documents and without the documents I also cannot claim the goods or I will be in trouble all right. So, deliverable against acceptance D A bill is essentially I accept the bill properly, just not mockick not telephonic conversation not email.

Formally when the paper is ready called commercial bill, then that fellow in madras will hand over the essential documents to me all right. Another one is that deliberate documents against payments, this often banks to; banks will withhold all the documents and not give it to or most of the documents, not give it to the buyer of the goods, who is the drawee of the bill, who is suppose to make the payment. In future often banks do that, they will withhold all the documents still the payments are made once the payments are made, that guy in Kanpur will receive all the documents.

So, what has happen in the between secondary market has created, the bill has been withdrawn, it is deliverable against payment agreement is there. The goods may have arrived also, minimum documents require to clear the goods, take the goods of the railways go down into my shed has, but not all documents have with me. In the mean time the drawer of the bill I sold the goods, sold the bill to the bank and intermediate has come bank now, has taken position of all the documents, because bank has made the payment to the drawer of the bill.

Now, the bank waits for the drawee to make the payment 1 months later, 2 months later, 3 months later and the drawee of the bill does not have excess to the documents. It is like a security deposit like a mortgage when I give you a loan I take a security deposit or a mortgage which, is got collateral I sometimes keep collateral, physical goods or some papers.

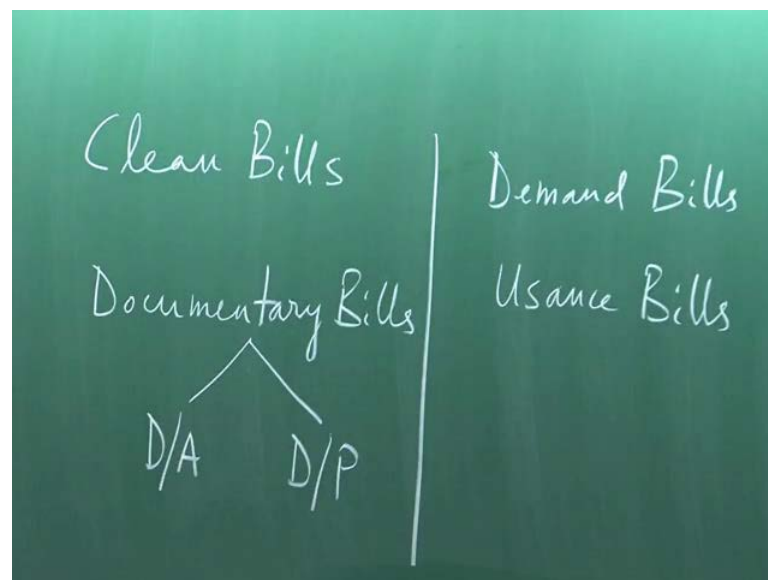
And what happens is that, he would bank with withhold all the documents because, that is a D P bill deliverable against payments; that means, 2 months later, the documents will be handed over to him, say the sales tax receipt of the previous producer, income tax receipts many other, many other things can be the insurance papers also such things. So, documentary bills are, there is this huge importance on documents. And the question is whether the documents are to be received or handed over right now, or you have to wait till the payments, so D A and D P bills are created, once the documents reach all right.

Once the documents have been received by the drawer of the bill. Particularly in case of D A bills deliverable against acceptance D P you have to wait out, deliverable acceptance, then the bill is that that is what the clean bill, is that is what I have gathered clean bill is nothing now, all formalities over. Goods have been shift, all documents have

been received by me in Kanpur it is a clean bill now, all I have to do is the make the payment in future.

But, it is not a clean bill until I receive all the documents, this is what I have gathered what a clean bill is. So, it looks like, incase of D P bills it is never a clean bill because, the payments, documents will be given only at the time of payments. So, I mean the bill matures and it becomes a clean bill only then because, the documents are not with the drawee of the bill all right.

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Then you have just like bank accounts, demand bills is also be of two types depending upon the maturity of the bill, they can be commercial bills can be demand bills and usance bills. Demand bills like demand deposits, the payments have to made on demand. So, it is a very short term bill, essentially very short term bill. Often demand bills are like, goods have been shift from madras all right, along with the documents.

So, as soon as you received the goods, along with the documents all right these is bill in process, I have not made the payment I made the pay make the payment immediately that is the agreement, demand bills. So, payment waits out that shipment period, the transition period for madras to Kanpur may be a week or something or 10 days very short term bills. I receive the goods make the payment immediately and the agreement has been a demand bill. Often when I buy goods in Kanpur city all right, demand bills are getting created.

Goods delivered to my residence, like a refrigerator or almirah and I have given an advance, to gain the confidence of the seller, that I am interested in buying it. Bills come as demand bills, goods received I make a sign that I received the goods and I handover the cash to him, sometimes cheque, sometimes cash. Demand bills are very simple bills.

Usance you understand the word now, it is time; that means, it has a maturity period which is not immediate 15 days later, 1 month later, 2 months later, 3 months later the usance bills, which are the proper or real commercial bills all right. So, commercial bills I hope you have understood by the word real just, told me that this is first time I am going through a bill here. In the money market which is a real bill, all earlier bills that I have discussed, treasury bills or commercial paper or C D or call loans they are all financial bills, if there is any all right.

All market does not have a bill, commercial paper C D treasury bills they are all financial bills. This is the first time I am talking about a real bill; that means, there is a real transaction, physical goods are being sold or transacted just not money. I not like I borrow money from the bank, not a financial transaction only, real transaction is taking place and a financial bill has been created. So, these are called real bills all right. So, when I learn, when I first heard about these commercial bills there used to be this language used real bills, these commercial bills used to be referred to as real bills either.

Now, usance bills and demands bills are, like that demands bills are made on, payment on demand, which is the shop keeper what he tells me in Kanpur city that (()). I make a receipt signature, that I received the goods and I handover the cash and some transport cost sometimes extra that is it. Because, that transporter is a third party, transporter often is not the shop and this often happens.

In international economics, this is a issue macro economics, balance of payments accounts pay, that export, import the way the express between countries, there has to be a shipping arrangement. And often the shipping parties are third party and I used to tell them the story about onosis I do not know whether you heard, onosis is from, power generation or a father generation, he was the famous Greek business man, Greece Greece specializes in transport business.

So, and say the petrol transport, is Japan specializes in that oil tankers, the manufacture them supply them they, were made these are there goods are shift across. And there

companies would do that and Greece used to be famous those days and onassis the famous shipping tycoon of Greece, you know who he was he married after John F Kennedy was killed, his wife.

Jacqueline Kennedy, Onassis married Jacqueline Kennedy after John F Kennedy was killed in the sixties he was that influential imagine and there are books written on him, president of United States, states his wife, he married this business guy from Greece (()). So, then I came to know why, so Greece some countries specialize in certain things, this is international economy, so shipping cost are important all right.

So, you can learn more about that in international economics when you take that course next year. So, balance of payment account has an item there, services account services account all these items go into it. And often the agreement these days whether the exporter would provide for the services or the importer would provide for the services, in that written agreement between contract between 2 parties, say India and Germany. India is buying is some goods manufactured goods who ship them. Often the bill is paid by the importer, but the shipping arrangement is made by the exporting country all right.

Sometime it is importing country who will arrange for the shipping services themselves not only make the payment also arrange for the contract with a shipping company and countries specialize in shipping. This is very important international economics all right. So, now, so commercial bills and demand bills and usance I will come to that because, I have immediately it occurred to me, why I am saying this because, bills are just not domestic bills sorry inland bills.

There are whole lot of external bills, when countries are trading with each other bills are created; that means, the same thing you are buying goods for somebody, you are not going to make the payment today, you are going to make the payment tomorrow the question arises here, within a country even people do not know all the companies, when you are buying goods. So, it is a question of trust. I am coming to that issue.

Internationally a company in India, how would the German company is selling their goods would know, that this fellow in India is a trust worthy company or not, who is buying goods for me and he is asking for a commercial bill to be created, where the payments will be made in future. So, there are enormous amount of issues here, complex

issues. I am going to get into those issues soon. Before I do that I am doing a classification of commercial bills with the names associated with them.

So, this is this internal trade and foreign trade both creates bills. So, far it looks like I am talking about only bills within India, they are getting created or within any country x getting created. But actually they are a whole lot of foreign bills, that are getting created when say a country trade with another country and often the payments in this foreign bills are very interesting.

The payments I sell some goods, to say middle eastern company all right. So, the bill gets created suppose, a commercial bills is getting created. The middle eastern company, will probably make there can be an arrangement will make a payment, in US dollar in a bank somewhere in the middle east may be, not even in India. I will have the responsibility then after that remitting the funds from that bank to my country, this is where corruption comes also.

Because, what happens is, if you makes the payments there and I do not show it to my country and keep the money there, which I may use during vacation, which I may use doing something else I avoid the entire tax payment (()). This is where this is where corruption comes and some countries allow you to keep money, your money, white money or black money whichever very openly, very freely, very open society (()).

Who wants to know, whether you made the money by cheating your government whether you made the money from selling of worms, in the illegal arms market in the world, whether you made this money from something else, I will allow you to open. This is where the Swedish banks and Indian government are tussling. And only U S, so far have the influence on Swedish banks, to force them to release some information about some Americans, holding accounts their, accounts with also, so illegal money.

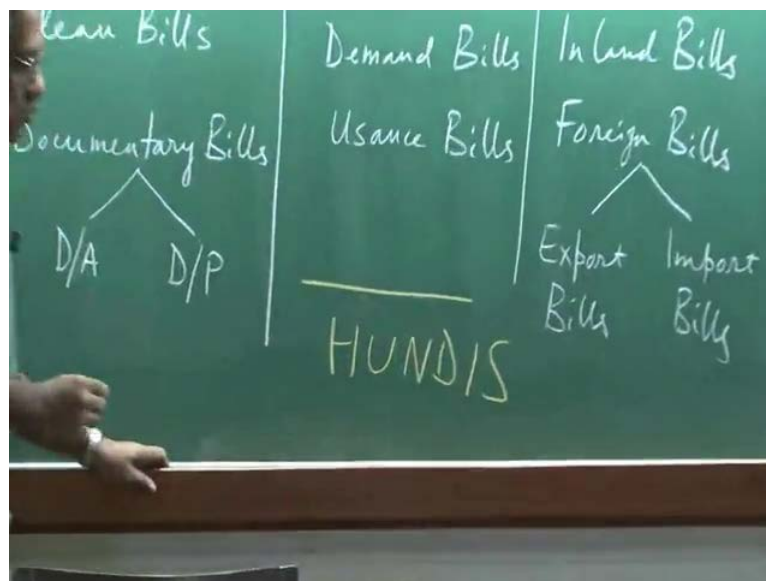
But, India compare to U S does not have that influence, on Swedish, on Sweden, on the government etcetera but the Swedish economy first world economy amazing, has an very important component, which is their banking system, which grew on such illegal transaction unbelievable what a contrast. Sweden is first world country, one of the highest per capital income in the world, has an important sector in there economy the banking sector which is, which deals with whole lot of criminals and illegal money.

Student: Sir it is Sweden or Switzerland.

Sorry Sweden or Switzerland, Switzerland sorry I am very sorry Switzerland I am very sorry Switzerland why I am calling Sweden, Sweden again I confuse this too. So, the Swiss banking system, which is part of a one of the top countries in the world in terms of human development index which we learned, in the previous course, in terms of per capita income and whatever, has that kind of a banking system. They are other countries also, which allow you to root your money, keep your money and all that.

Now, the point of what I am trying to say, this commercial bills have a person has the character where, a bill has been created, but the payment is not made in India or Indians may be sold it, the payments are made somewhere else or you sold some goods and they ask you not to make the payment there, make the payment in some bank somewhere. So, you have to arrange for that, make the payments there, some other country. Sometimes, they specify the currency in which you have to make the payment, not necessary U S dollar maybe something else alright. So, this is what is been going on right now, also Luxemburg many other countries, some islands they have become heaven for illegal money, you park them there. (()) Now, these therefore you have another classification which are called inland bills and foreign bills.

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Another classification of bills are, whether is an inland bill or foreign bills. Foreign bills foreign bills are of 2 types, there can be an export bill or an import bill. The foreign bills

are of 2 types, a bill getting created when I am exporting something, the bill gets created when I am importing something. I mean they are the same you look at it from whose point of view. Export bill is like the seller in madras sold me goods. So, is getting like an inland export bill. And if our if the bill is getting created, when I am importing something, I will have to make the payment later from my point of view it is an import bill or whatever.

So, there are 2 names associated here, export bills and import bills, (()) So, foreign bills can be of export bills and import bills, is called what the work he did was called over invoicing and under invoicing of bills, this is the language, over invoicing and under invoicing of bills, which is an over valuation, under valuation of amounts essentially. Depending upon which one suits you, under valuation of course, to avoid taxes, over valuation it due to get more advantage of government subsidies etcetera. Both are bad, both are cheating the country. So, anyway...

So, examples are export bills and import bills. Export bills are drawn by the exporters from India on any party outside India, to be either in India or outside India remember that and import bills are the same thing. Now, I come to the oldest form of commercial bills, where I used to read a lot on them and I had wonderful books and papers to read in Indian economics these days it is not taught anymore, it is not fashionable I used to learn that and I got fascinated reading that because, they had been some very good research work done on traditional Indian bills.

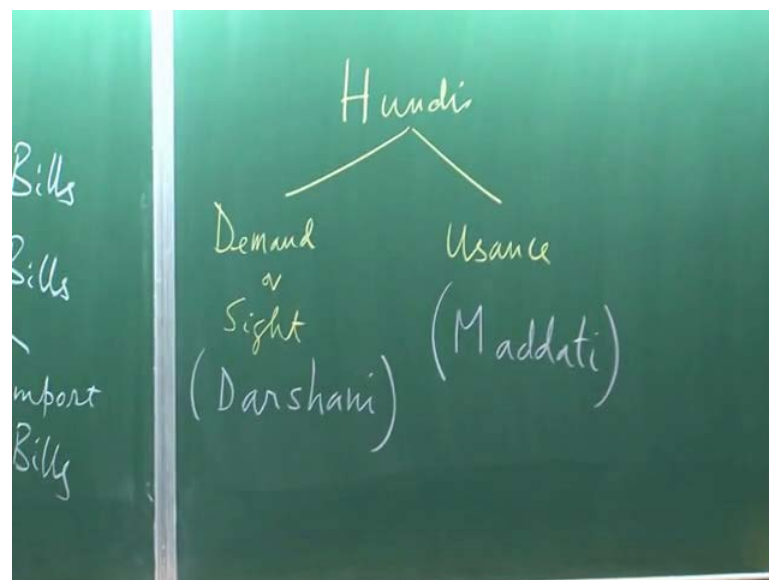
In India, in the agricultural sector in particular, are one industrial sector is post independence period, we did not have much industry. If you want to read up on industries in India before independence, there are some good books around, which you can read what kind of industries existed some of the industries you knew what existed tatas, iron and steel existed for a long time was there, a few industries were there, not much handicraft industries were there.

So, commercial bills in India which has centuries old 100 years, 200 years, 300 years old. May be if you go back to the mughal period 16'th centuries or 15 centuries, we will find they were commercial bills in their economy also which is very interesting to know what kind of bills existed. This agricultural sector in India has age old bills, very old bills. So, let me talk about the bills in the agriculture sector.

I would just mention one name which you know in the agricultural sector you have these very age old bills called HUNDIS many of you know HUNDIS, HUNDIS existed or exist in agricultural sector, these are commercial bills. Where the payment will be made later and HUNDIS are very mobile, very has a excellence secondary market in agriculture sector.

HUNDI gets created in a village in around say Kanpur dehad and the HUNDI was finally, located maybe in a village in Madhya Pradesh. It has travelled all the way to M P secondary market. Unbelievable how mobile HUNDIS are... One village it gets created, one farming community it travelled in the between before it matured and HUNDIS also has 2 types.

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HUNDIS are the demand HUNDIS or sight HUNDIS have the demand type bills or they are also known as sight, that is they are made a payment on sight, as soon you see the bill, it is handed over to you after make a payment Jacob just the way I was talking about the refrigerator when I buy from a shop. The refrigerator arrives at my house and the transporter gives me the bill, on sight I see the bill and I have to make the payment immediately.

So, these are demand bills, they have a name in Indian agricultural system they are known as, have you know, do you know, what they are known. Anybody knows the Indian farmers or agricultural community what name it has given to or what name they

use for demand of sight bills, they are called darshani HUNDIS. And then you have the usance bills and usance bills you understand, it will mature a proper commercial bill, which will mature later, the payment will be made later.

So, the usance one, do you know what it is called in our by our farmers etcetera, the agricultural sector, usance bills they are called maddati, this is a language they use. Usance bills HUNDIS are called maddati and darshani HUNDIS are demand HUNDIS essentially. These are century old. So, in everybody tells you (()) then tell them we have commercial bills in this countries for centuries. We did not have a organize sector may be we did not have a industry sector, but commercial bills exists, today in India for centuries.

And now, I do not have much information about the maturity of these bills, I have to get more to read up more, but this is the this maddati bills in India which are very common, you would not know farming community if anybody is father comes is the farming community, then they would know a lot about these things. I used to have students here, he has to know the maturity is roughly about a month to 4 months. Darsh a maddati HUNDIS the maturity is roughly a from 1 month to 4 months.

And if you go to these indigenious bankers, indigenious bankers again another thing which exist in India banking system, which (Refer Time: 33:35) surprised if you tell a westerner that you have banking system here, which is century old. And they are, so strong and so independent, they are still not part of the organize banking system and RBI has not been able to convince them, come within the main stream.

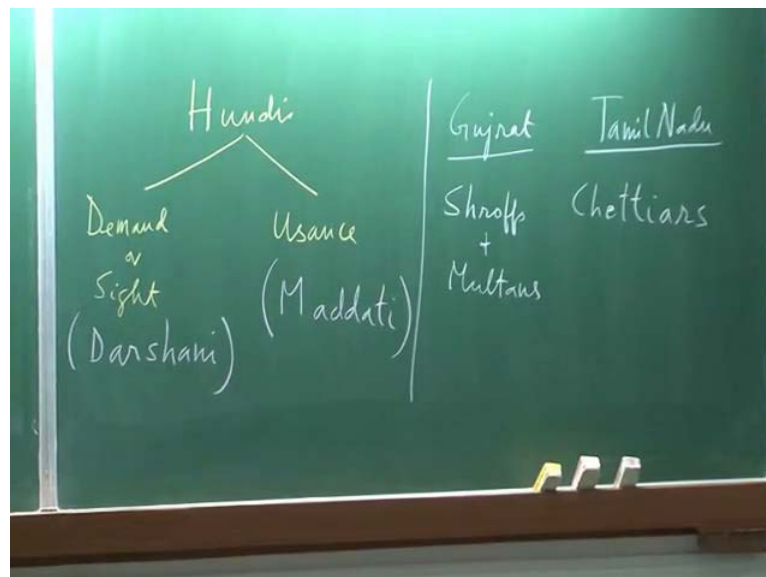
Like our tribal community, they have never coming within main stream, they remaining outside and they have their perfect balance a echo system, in their world where they live. 2 places I have heard they may be other places, do not think that HUNDIS and these are the coexist no, they coexist in some places, but not necessary for 1, 2 have the other one in existence.

The banking system is the banking system and wherever it exist, they deal a lot with this HUNDIS because, that is a source of income. You as a farmer, traditionally farming community, you have created a bill that you cannot make the payment or whatever. So, you do not do the organized banking system, you (()) unorganized banking system. (())

So, they used to go there, they still go there and they serve as a intermediate they buy the bills and wait for the payment to come 3 months later or 4 months later.

That is a huge business, for that banking community, they do a large amount of business in the HUNDI market, wherever banks exist that does not mean that HUNDIS cannot exist without those banks, HUNDIS exist everywhere in country. But, some pockets are there for the rural banks, these indigenous banks and these banks I have found there can be more literature on it and if anybody wants to read up on them they are fascinating. I found two places with specific names of these banks indigenous banks.

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One in Gujarat, they are called shroffs and Multan's making a mistake, anybody has a comment no I may be this is what I have learnt in Gujarat and another one, these they are also famous in Tamil Nadu, they are the chettiars or shettiars. These follows are bank owners or they are bank themselves. And in Tamil Nadu I have been told, these banking sector indigenous banking sector, even issues passbooks and cheques to an account holder.

So, why would they care about RBI, they are there for centuries they doing business. So, well and the local community interacts with them. So, well and there is no lack of confidence, they do not care and even what happens, this banking community offers a higher interest rate, on your deposits, this the where they get the business. Then organize sector banking, the organize banking sector which is under RBI our public sector banks

and the private banks Hong Kong bank, city banks standard chartered etcetera, they are doing. So, well...

Now, these banks deal a lot with these HUNDIS, particularly the maddati. One of the main business is this, they also have a call market I told they operate a call market also unbelievable. So, you think India is India is a very funny country, some of the things institutions exist, which nobody would believe particularly in the western world that they existed here for, so many years, (()).